Oil and Gas News Briefs
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France pressures utility to delay decision on U.S. LNG imports

(Bloomberg; Oct. 22) - One of France's biggest energy companies has delayed a decision on a $7 billion deal to import liquefied natural gas from the U.S. after pressure from the government in Paris to seek cleaner supplies of the fuel. Engie said it has postponed work on a contract to take LNG from NextDecade's proposed Rio Grande project in Texas, which would be fed by shale gas fields using fracking technology. The contract would run through 2045 and is key to launching construction of the terminal.

Engie's board has decided to consider a contract with NextDecade at a later stage as it needs a "deeper" examination, said a spokesperson for the utility. She declined to elaborate. The delay is the latest example of additional scrutiny of the pollution coming from the natural gas and LNG industry. Once touted as a bridge fuel to smooth the transition away from coal, gas increasingly is being targeted by environmental groups and governments for its contribution to climate-damaging greenhouse gases.

Earlier this month, Les Amis de la Terre France, an environmental group, urged Engie not to sign the contract with NextDecade, blaming U.S. shale gas for environmental disasters. The French government owns a 23.6% stake in Engie and has asked the company to refrain from signing the contract on pollution concerns, people familiar with the matter told Bloomberg. France is one of the first nations to adopt a law aimed at making its economy carbon neutral by 2050 in an effort to fight climate change.

U.S. LNG industry nervous over contract delay with French utility

(S&P Global Platts; Oct. 23) - The decision by France's Engie to put off a potential long-term supply contract with Texas LNG developer NextDecade alarmed industry officials who saw it as a sign that U.S. supplies could suffer from concerns over methane emissions. The Washington, D.C.-based Center for Liquefied Natural Gas trade group described the scuttled deal as a result of the European Union moving to strengthen its regulations of methane emissions at a time when the U.S. is working to ease its rules.

"There were bound to be some unintended negative consequences as a result," said Charlie Riedl, the group's executive director. "We've been saying for some time that an apples-to-apples comparison of sources of natural gas is going to be critical for all of us in order to continue to make the case for U.S. LNG," he said. "The fact we are seeing a deal delayed as a result of real or perceived concerns about U.S. extraction methods is something that obviously needs to be addressed and addressed pretty quickly."

The French government's intervention to delay the deal was likely driven at least in part by trade tensions, said analysts at Height Capital Markets. The Trump administration is in a dispute with France over its taxation of large tech companies and has threatened a 25% retaliatory tariff on imports of French luxury goods. "Climate is a key driver, clearly, but the trade context is maybe equally important just given the relationship between France and the U.S. at this point," said Josh Price, a senior analyst at Height.

Oil and gas bankruptcy debt reaches record high

(Houston Chronicle; Oct. 24) - Debt from oil and gas bankruptcies reached a record high this year and will likely rise even higher as more companies file for Chapter 11 during the worst oil bust in decades. North American energy companies have brought $89 billion of debt to bankruptcy court this year, up from about $70 billion during the last oil bust in 2014-16, according to a report published this week by Norwegian research firm Rystad Energy that analyzed data from Dallas law firm Haynes and Boone.

Fewer exploration, production and oil field service companies have filed for bankruptcy this year: 84, compared with the historical high of 142 in 2016. But each bankruptcy filing this year reported significantly higher debt, illustrating the depth of the industry’s financial distress during the coronavirus-driven oil bust. The average bankruptcy debt per company this year is $1.05 billion, almost twice the 2017 level of $576 million.

Rystad warned that it expects another 15 to 21 exploration and production companies to file for bankruptcy by the end of the year, pushing the related debt to more than $100 billion. Although oil prices have climbed back to around $40 a barrel, recovery remains tenuous as coronavirus cases spike anew around the globe and continue to depress economies and crude demand. “While oil and gas market fundamentals have improved significantly … we argue that the North American bankruptcy wave is not over yet,” Artem Abramov, Rystad’s head of shale research, said in the report.

Restored oil flow from Libya puts downward pressure on prices

(Bloomberg; Oct. 26) - Libya is set to restart the last of its major oil fields following a ceasefire in its civil war, a milestone for the OPEC member that’s been largely offline since January. Global oil prices dropped after the state energy firm lifted force majeure on exports from El Feel on Oct. 26. The move will bolster the Tripoli-based National Oil Corp.’s attempt to boost Libyan production to 1 million barrels each day within a month.

The return of Libyan oil is hindering OPEC+ as it tries to prop up crude prices amid a resurgence in coronavirus cases and with many major economies imposing lockdowns again. The oil producers' alliance was set to ease supply cuts by almost 2 million barrels a day in January, but may be forced into delaying that plan. Libya's output has risen rapidly over the past six weeks after Khalifa Haftar, a commander in the long-running war, ended a blockade of most energy facilities. Representatives agreed a permanent truce with the U.N.-recognized government of Prime Minister Fayez al-Sarraj Oct. 23.

The speed of Libya's restored production has put pressure on oil prices, which were down 3% in early trading Oct. 26. Libya's output has risen to 560,000 barrels a day from less than 100,000 in early September. Sharara, the country's biggest field, reopened about two weeks ago, while the last two oil ports still closed — Ras Lanuf and Es Sider — restarted on Oct. 23. The Arab nation won't be able to pump at December's levels of about 1.2 million barrels a day due to damaged infrastructure and budget constraints, according to the National Oil Corp. Libya is home to Africa's largest oil reserves.

Putin says no need to delay OPEC+ plan to boost output in January

(Reuters; Oct. 22) - Russian President Vladimir Putin said Oct. 22 that Russia sees no need for now for global oil producers to change their deal on global supply, but did not rule out extending deep oil production cuts for longer if market conditions warrant. His comments are the clearest signal yet from Russia, one of the world's top oil producers, that it is ready to continue with unprecedented output cuts in the face of a sluggish oil market beset by the coronavirus pandemic and overproduction.

Russia is working with OPEC and other oil-producing allies in a group called OPEC+ to limit oil supplies to drain a glut in the market caused when global demand slumped due to coronavirus lockdowns. The producers this fall are reducing their combined production by 7.7 million barrels per day. OPEC+ is scheduled to relax those cuts by 2 million barrels per day in January, although some producers are concerned demand may not be strong enough to absorb the additional supply.

"We believe there is no need to change anything in our agreements, we will closely watch how the market is recovering. Consumption is on the rise," Putin said. "However, we do not rule out that we could keep existing restrictions on production, and not remove them as quickly as we had planned to do earlier." Industry sources said Russia may support the move to extend the existing cuts beyond December. OPEC+ oil ministers are scheduled to hold an online conference Dec. 1 to discuss supply policy.

World Bank forecasts oil at $44 in 2020

(Bloomberg; Oct. 22) - Oil demand could see "lasting impacts" from the coronavirus while modest gains are projected in metals and agriculture prices as commodity markets recover from the shock of the pandemic, according to the World Bank. The World Bank boosted its projections from April for the average oil price in 2020 and 2021 to $41 a barrel and $44, respectively, as a slow recovery in demand is matched by an easing in supply restrictions. That still leaves prices well below 2019 levels of $61.

The swift recovery in oil prices following April's price rout has stalled as the resurgent coronavirus spurs governments to rethink reopening plans. COVID-19 is a challenge to commodity exporters, as policy makers need to allow their economies to adjust smoothly to a "new normal," the bank said. In addition, in the post-COVID world, these (oil-exporting) countries need to be more aggressive in implementing policies to reduce their reliance on oil revenues," said Ayhan Kose, of the World Bank Prospects Group.

The pandemic could also have "lasting impacts" on oil demand through changes in consumer and employment behavior, according to the report. Air travel could see a permanent reduction, as business travel is curtailed in favor of remote meetings, reducing demand for jet fuel. The main risk to the price forecasts is the duration of the pandemic, including the risk of an intensifying second wave in the Northern Hemisphere and the speed at which a vaccine is developed and distributed, the World Bank said.

Argentina says gas subsidies cheaper than importing the fuel

(Bloomberg; Oct. 22) - Argentina's cash-strapped government says it can find $5.1 billion to give to natural gas drillers in a bid to resuscitate the country's Vaca Muerta shale patch and prevent an increase in gas imports. The four-year subsidy program unveiled last week will cost Argentina more than $1 billion a year, including $1.5 billion in 2021, at a time when the nation is struggling to recover investor confidence following a debt restructuring. The country hasn't posted a monthly fiscal surplus in a year.

Drillers may be wary after previous subsidy programs saw producers encounter difficulties in receiving payments and confusion over the rules. Energy Secretary Dario Martinez said spending on subsidies is still better than the alternative of buying cargoes of liquefied natural gas, even though LNG is cheap at the moment. "We've done the analysis and we really benefit from doing this," Martinez said Oct. 21.

Vaca Muerta in Patagonia is the world's second-biggest shale gas formation. Production there was floundering even before COVID-19 roiled markets because of oversupply and pipeline restrictions. The latest subsidy program hopes to lure $5 billion of investments and a dozen drill rigs, Martinez said. Gas producers that compete in an auction next month for three-year sales contracts can receive a maximum of $3.70 per million Btu with the government covering the gap between the winning bids and prices currently paid by consumers of $2.30. Other gas basins, not just Vaca Muerta, are eligible.

Open access to pipelines helps boost LNG demand in China

(Reuters; Oct. 21) - A group of niche Chinese natural gas firms is set to make waves in the global market with plans to invest tens of billions of dollars and double imports in the next decade as Beijing opens up its vast energy pipeline network to more competition. The companies, mostly city gas distributors backed by local authorities, are ramping up purchases of liquefied natural gas as newly formed national pipeline operator PipeChina begins this month leasing third-party access to its lines, terminals and storage facilities.

The acceleration in demand in what is already the world's fastest-growing LNG market is a boost for producers and traders that face an oversupply and depressed prices. Just last month, U.K.'s Centrica signed a 15-year binding deal to supply Shanghai city gas firm Shenergy Group with 0.5 million tonnes per year of LNG starting in 2024. China could buy a record 65 million to 67 million tonnes of LNG this year and is expected to leapfrog Japan to become the world's top buyer in 2022. Imports could surge 80% from 2019 to 2030, according to Lu Xiao, senior analyst at consultancy IHS Markit.

State-owned Guangdong Energy, Zhejiang Energy, Zhenhua Oil and private firms like ENN were quick to take advantage of the market reforms and low spot prices for LNG, said Chen Zhu, managing director of consultancy SIA Energy. Such companies have worked for years to expand their reach among households, shopping malls, and factories such as ceramic makers, but had to rely on state majors for supplies. With greater access to distribution networks, they are incentivized to build their own import terminals that could account for 40% of China's LNG import capacity by 2030, he said.

Pew Center survey finds 69% favor expanding use of natural gas

(Pew Research Center; Oct. 22) - As governments around the world debate the mix of fossil fuels and renewables to meet their energy needs, public attitudes about natural gas are mostly positive, according to a recent international survey by Pew Research Center. A median of 69% of adults favors expanding the use of natural gas. The survey was conducted between October 2019 and March 2020 in the United States, Canada, Brazil, Russia, and other places in Europe and the Asia-Pacific region.

Public support for expanding use of gas stands in contrast to the much smaller shares of adults who express support for expanding oil (median of 39%) and coal (median of 24%). And it comes even as many people say the priority for energy production should be increasing renewable sources. A median of 93% of adults support using more solar power, for example, and a median of 87% say the same about wind power.

Demand for gas has grown internationally in recent years, in part because it has a smaller carbon footprint than coal and other fossil fuels. Amid these trends, however, some renewable energy advocates worry that increased use of natural gas will slow adoption of renewable energies like wind and solar. In most countries surveyed by the Pew Center, there's a significant divide by political ideology in views of natural gas, with those on the right usually more supportive than those on the left.

Sempra still waiting for Mexican government permit for LNG exports

(San Diego Union-Tribune; Oct. 22) - Sempra Energy's plan to add a potentially lucrative export facility to the liquefied natural gas import plant that its subsidiary in Mexico operates in Baja California is getting tricky. The subsidiary, IEnova, has been waiting for months to receive a permit from the Mexican government that would give the company the green light to expand its Energía Costa Azul plant near Ensenada.

At this time last year, Sempra and IEnova officials said they expected to receive the permit in the first quarter of 2020. That was pushed back to the second quarter and then the third quarter. During an earnings call with analysts Oct. 22, company officials said they now anticipate making a decision on the LNG export venture by the end of the year. The permit would be the first of its kind in Mexico. The novelty of the permit has been cited as one of the reasons for the delays. In addition, the effects of the COVID-19 pandemic have slowed down some administrative work by the Mexican government.

Energia Costa Azul opened in 2008 as an import facility but since then, gas production in the U.S. has boomed and a burgeoning LNG export market has sprung up, with San Diego-based Sempra Energy investing billions to become one of the industry's global leaders. If the project moves forward, the natural gas would come from the Permian Basin in West Texas and southeastern New Mexico via pipeline to Energía Costa Azul.

Merger creates Canada's 3rd-largest oil and gas producer

(S&P Global Platts; Oct. 25) - Cenovus Energy and Husky Energy on Oct. 25 announced an all-stock agreement to combine their operations and create Canada's third-largest oil and gas producer with output of about 750,000 barrels per day of oil equivalent as the merger wave in North America sweeps into Alberta. It will rank as the second-largest Canadian-based refiner and upgrader. The merger will create a combined 660,000 barrels per day of North American refinery capacity.

"We will be a leaner, stronger and more integrated company, exceptionally well-suited to weather the current environment," Alex Pourbaix, Cenovus president and CEO, said in a statement. "The diverse portfolio will enable us to deliver stable cash flow through price cycles, while focusing capital on the highest-return assets and opportunities."

The Canadian merger follows a series of tie-ups in the U.S. of companies mainly operating in the Permian Basin shale patch. ConocoPhillips scooped up Permian-pure play Concho Resources for $9.7 billion on Oct. 19 and, one day later, Midland Basin leader Pioneer Natural Resources snagged Parsley Energy for $4.5 billion. Chevron closed on its $5 billion acquisition of Noble Energy early in October, and last month Devon Energy agreed to buy WPX Energy for $2.56 billion.

Alberta at risk on pipeline investment if Biden shuts down Keystone

(Reuters commentary; Oct. 22) – Alberta Premier Jason Kenney is losing popularity as the pandemic deepens the province's economic woes, highlighting the big bet that he has riding on the U.S. election. Kenney said in March that Alberta would invest C$1.5 billion (US$1.14 billion) in TC Energy's Keystone XL oil line and back the company's C$6 billion credit line. The Alberta-to-Nebraska project would widen the province's often-constricted oil export channels and boost producer prices, but TC has failed for over a decade to build it over objections from U.S. tribes, landowners and activists.

The pipeline faces a potentially fatal blow if Democratic presidential nominee Joe Biden, leading in polls, wins the White House on Nov. 3. President Donald Trump revived the project in 2017 after his predecessor Barack Obama had cancelled it on environmental grounds. Biden will stop Keystone XL by rescinding the project's presidential permit if elected, said Stef Feldman, policy director for Biden's campaign team.

The pipeline's rejection would compound Kenney's woes, said Mount Royal University political science associate professor Lori Williams. "People are going to say, 'why on Earth would you put this kind of money down on a bet that had probably more than a 50% chance of losing?'" she said. The province's pipeline commitment, which aims to help restore the sector's fortunes, has left Albertans in the dark about their financial exposure if it fails, said Rachel Notley, leader of the opposition New Democratic Party.

Alberta lifts cap on oil production

(Bloomberg; Oct. 23) - Alberta's two-year experiment with OPEC-style crude production curbs is coming to an end after a COVID-driven collapse in demand led the province's battered oil sands industry to idle more output than required by the government. A cap of 3.81 million barrels a day will no longer be in effect in December, following months of output below that limit, the provincial government said Oct. 23. An increase in pipeline capacity and rail also means the province is no longer struggling to store stranded oil.

Home to the world's third-largest crude reserves, the Canadian oil sands have been hit hard by this year's virus-driven market crash after years already struggling with insufficient pipeline capacity and competition from U.S. shale. Alberta imposed output limits on large oil producers at the beginning of 2019 after a storage glut formed due to a pipeline capacity shortage, causing local oil prices to plummet. The move was controversial — welcomed by some oil sands companies, while criticized by others.

The government said experts don't expect production in Western Canada to be above pipeline capacity before the middle of 2021 at the earliest, and storage levels are expected to remain low. As of the end of last week, inventories were at about 20 million barrels, according to data-provider Genscape. When production limits were introduced in 2019, inventories had been approaching 40 million barrels.

Canadian oil earns higher prices as Mexico, Venezuela cut back sales

(Bloomberg; Oct. 21) - Canadian oil prices are poised to strengthen next year as Mexican heavy crude exports to U.S. Gulf Coast refineries dwindle, according to BMO Capital Markets. Heavy Western Canadian Select's discount to the U.S. benchmark could narrow to $5 to $7 a barrel next year, BMO said in a report Oct. 21. Oil sands producers will benefit from less output of competing crude as Petroleos Mexicanos expects to cut exports and Venezuelan supplies remain off-limits due to U.S. sanctions.

Western Canadian Select's discount to West Texas Intermediate strengthened to less than $10 a barrel since mid-April, after more than a million barrels a day of oil sands production was shut in due to the COVID-19 pandemic. The strong differential has remained near $10 even as oil sands supplies have returned to the market. The Canadian crude had been selling at a $24 discount to the U.S. benchmark in January.

U.S. Gulf Coast and Midwest refiners invested billions of dollars in recent decades to process heavy crude, of which Canada is among the world's biggest producers. The country's oil, produced in the oil sands mines and wells in northern Alberta, has only become more valuable as supplies of alternative grades from Latin America have diminished, a trend that's poised to continue in the coming years.

Oil field service companies eye possible future in low-carbon work

(The Wall Street Journal; Oct. 22) - It was one thing when oil field services companies slashed costs alongside their struggling customers. It is quite another to court industries that could replace them. In the second quarter of 2020 — when oil prices briefly plunged below zero — oil field services giants Schlumberger, Halliburton, and Baker Hughes told a common story centered on sizable cost cutting, many of them permanent. Now that those moves are bearing fruit, third-quarter results from all three show them considering the next low-carbon step, including hydrogen, carbon capture, and geothermal energy.

That pivot seems apt, as they face worse rig-count declines in North America and turn their focus toward their more resilient international operations with customers such as Shell and BP, which are taking big steps toward the clean-energy business. By Halliburton's count, the U.S. rig count fell 35% sequentially in the third quarter, while international rig count edged down 12%.

The companies' forays into saving the planet are largely aspirational so far: Halliburton emphasized on its earnings call Oct. 19 that most of its capital expenditures will still be in its core oil-service business. In an earnings call Oct. 21, Baker Hughes clarified that its hydrogen ambition is more of a long-term goal. Symbolically, though, it is quite a big step — outside of geothermal energy, much of the companies' business is focused on carbon-intensive activities.

Russian minister says Arctic shipping target will be met

(The Barents Observer; Norway; Oct. 22) - Only few weeks after the leader of Rosatom's Northern Sea Route Directorate made clear that Russian President Vladimir Putin's super-ambitious target for Arctic marine shipping will not be reached, the minister of the Far East and Arctic sent out a clear counter-message: Shipping on the Northern Sea route will reach 80 million tonnes in 2024 and the government has a plan to make it happen, Minister Aleksandr Kozlov said in Murmansk this week.

Rosatom's Vyacheslav Ruksha in early September sent a letter to the Ministry of Transport where he called for a 25% reduction in target Arctic shipping volumes for 2024. Only 60 million tonnes of goods can be shipped on the Russian Arctic route that year, Ruksha explained, adding that original target volumes will be met in 2025. But Kozlov sees the issue otherwise. Rosatom operates Russia's nuclear icebreakers.

In a government meeting on Northern Sea Route developments in Murmansk this week, Kozlov underlined that the magic 80 million-tonne-target will indeed be reached in 2024, and he listed the commodities and companies that will be involved in the effort: LNG producer Novatek, oil company Rosneft, oil from Gazprom, coal from AEON's project in Taymyr along with cargoes from Nornickel's polymetallic projects in Taymyr.

Maine residents enjoy heating oil prices as low as $1.50 a gallon

(Portland Press Herald; Maine; Oct. 22) – Maine residents who warm their homes and businesses with oil are heading into a winter featuring prices that — with the exception of a sudden, global collapse in 2016 — haven't been this low since 2004. The average, statewide cash price for fuel oil earlier this week was $1.89 a gallon, according to the most recent survey by the governor's office. But poking around online, it's not hard to find no-frills heating oil delivered in the more populated regions for $1.50 a gallon.

Low oil prices are helping down the cost of heating fuel. Last year, with statewide prices averaging roughly $2.60 a gallon, the cost of heat and hot water at the Charles Wallace home in Portland would have been close to $2,000. In a typical year, Wallace said, he'd burn 700 to 800 gallons to warm the family's 100-year-old, two-story home. And that's after upgrading doors and windows and installing a new furnace. Last winter cash prices peaked at $2.74 a gallon in January, according to energy office survey figures.

However, oil heat has fallen out of favor among government officials in Maine. To help meet aggressive goals to combat climate change, the state is actively encouraging homes and businesses to convert to high-efficiency electric heat pumps and other devices with lower carbon emissions. But households still are more dependent on oil in Maine than in any other place in the country. Roughly six of ten homes rely on it as the primary heat source, according to federal energy data.