Oil and Gas News Briefs
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October 29, 2020

U.S. producers hedge 2021 oil at average price of $42

(Houston Chronicle; Oct. 27) - U.S. oil producers are betting that crude prices will stay low well into next year, hedging much of their production at around $40 a barrel in 2021. Exploration and production companies analyzed so far have hedged 41% of their forecasted 2021 oil output at an average West Texas Intermediate price of $42 a barrel, 25% lower than this year's hedged price floor of $56, according to Rystad Energy. The hedge is in line with current crude prices, which are hovering around $39 as of Oct. 27.

Oil companies use various contracts, such as futures contracts, to hedge their production to lower their risk in a volatile commodity market. This ability to lock in a minimum price for their oil in advance of production allows them to weather the boom-and-bust cycles. Rystad, a Norwegian energy research firm, analyzed 20 U.S. oil companies that have shared their hedges for 2021 as of early October. These companies represent about a third of the expected U.S. shale oil production this year.

Most oil companies have hedged between 20% and 60% of their 2021 crude production. Marathon Oil has less than 20% of its 2021 production hedged while Parsley Energy has hedged more than 60% of its production next year. Rystad expects oil companies to increase their share of hedged oil production in the coming months.

North Dakota may use CARES Act money for fracking water disposal

(The Associated Press; Oct. 25) - North Dakota officials voted to repurpose $221 million in federal coronavirus aid to various state agencies, including a $16 million grant to oil companies to support fracking. The North Dakota Emergency Commission approved the plan Oct. 23. The money comes from the $1.25 billion awarded to the state through the federal CARES Act. The Oil and Gas Division plans to award the $16 million to oil companies for acquiring and disposing of water used in hydraulic fracturing, in which water, sand and chemicals are injected underground to crack the rock and release oil.

State Mineral Resources Director Lynn Helms said the grant would help create jobs and help stabilize oil production by leading to an increase in well drilling with the additional water supply and disposal. Officials said higher oil production would stabilize the state's revenue. Helms said oil companies and workers have been hit hard by the oil-price drop resulting from the pandemic. The Sierra Club, however, called it "totally inappropriate" to use money the state received under the coronavirus rescue package for fracking.

Democratic state Sen. Tim Mathern, from Fargo, previously said the proposal was "an incredible misuse of tax dollars that could help small businesses or independent contractors struggling to stay open or working families barely able to afford rent." The proposal will go to the legislative Budget Section for final approval.

Total will avoid multi-year development oil projects

(S&P Global Platts; Oct. 26) - French oil group Total has no plans to shrink its oil production volumes in the coming years but hopes to maintain its current output levels while prioritizing lower-cost, shorter-cycle upstream projects, CEO Patrick Pouyanne said Oct. 26. "It's a bit difficult to grow when you are selective, but maintaining our oil production is part of a strategy. ... When we have opportunities to grow, we'll do it," he told an industry event. "We are proud to be an oil producer."

Like many of its European rivals, Total has signaled a major boost in spending on renewable energy in the coming years as part of its strategy to shift to cleaner, lower-carbon fuels. The company, which has said it expects global oil demand to peak in the 2030s, last month announced plans to grow its overall energy production by a third in the next decade with half the growth coming from LNG and half from electricity, mainly renewables. With a shift in focus to cleaner, low-carbon energy, however, it said it expects its oil product sales will be reduced by almost 30% in the same timeframe.

Pouyanne said Total is being more selective in its upstream oil investments, avoiding projects with multi-year exploration and development cycles such as deepwater offshore given the uncertainties over the future demand for oil and long-term oil prices. "In order to be safe, we want to be sure that the oil that we invest [in] today — when it faces lower demand — continues to be competitive at a lower price," Pouyanne told the India Energy Forum. Total has said its new upstream projects must have a breakeven of less than $25 per barrel, and are able to produce a return of more than 15% at $50.

Russia has big plans for Arctic oil and gas

(S&P Global Platts; Oct. 27) - Russian President Vladimir Putin on Oct. 26 approved a strategy for developing Russia's Arctic and ensuring national security up to 2035. Russia continues to see the Arctic as a development priority, despite growing concerns over the damage from climate change on the region. The strategy acknowledges that temperatures in the region are warming 2 to 2.5 times faster than the global average, admitting that this poses both opportunities and risks for the economy and environment.

Opportunities include further development of oil and gas reserves in the offshore zone, which Russia says holds more than 3,000 trillion cubic feet of natural gas and more than 125 billion barrels of crude and condensate. The strategy includes plans to increase the Arctic's role in overall Russian crude and condensate output from 17.3% in 2018, to 20% in 2024, 23% in 2030, and 26% in 2035. Russia plans to increase liquefied natural gas production in the region from 8.6 million tonnes in 2018 to 64 million tonnes in 2030.

Russia also plans further development of the Northern Sea Route, which is set to become a more significant global transport corridor as temperatures rise. The strategy envisages state support for investment in energy, transport and infrastructure as well as oil and gas technology.

Russia's higher oil taxes could make it easier to hold back production

(Reuters analysis; Oct. 25) - Higher taxes imposed on Russia's energy sector could make prolonged output curbs by OPEC and its allied producers easier to stomach for Moscow's energy majors. The new system of taxes, approved by President Vladimir Putin earlier this month to help Russia weather the economic fallout from the COVID-19 pandemic, make it more expensive for energy companies to boost production from mature oil fields and produce more heavy crude.

The higher taxes could make Russia's energy sector more willing to accept tighter production policies from the Organization of the Petroleum Exporting Countries and its allies, known as OPEC+, rather than engaging in a tussle with other oil-producing countries such as Saudi Arabia over oil market share, analysts say. OPEC+, of which Russia is a member, has been reducing oil output to the tune of 7.7 million barrels per day, or over 8.5% of global consumption, in order to help the sluggish oil market.

The tax reforms scrap some breaks given to output from older oil fields and on highly viscous oil. The financial incentive to pump less could make for smoother discussions with Russia's energy giants over continuing to keep a lid on production to support the market, analysts say. OPEC+ was planning to start raising output in January but concerns a second wave of the COVID-19 pandemic will hobble demand could see that plan jettisoned.

LNG prices forecast to stay lower for longer

(S&P Global Platts; Oct. 28) - LNG prices are expected to stay in a lower-for-longer phase over the medium to long term on the back of strong supply, which will benefit buyers and support the growth of gas demand against competing fuels, analysts and executives said at the S&P Global Platts LNG & Hydrogen Conference. Lower prices will reassure buyers of the availability of gas, leading to fewer long-term deals.

Meanwhile, sellers will struggle to find off-takers for projects awaiting investment decisions.

"If you start to look now, mid to long term ... customers and the global market should feel confident that LNG is going to remain abundant, secure and flexible," Doug Wharton, of U.S. supplier Cheniere Energy, said at the conference, held as part of the Singapore International Energy Week. "The days of LNG being a premium priced fuel — I think those days are behind us," he said.

Low prices have stimulated demand in the past, there is a lot of regasification capacity under construction, and new countries are looking to take advantage of lower LNG prices, Wharton said. Over the past few years, spot prices in Asia have slipped from a range of $7 to $12 per million Btu to a $4 to $9 range in 2019. Meanwhile, about one-third of active LNG supply contracts are due to expire 2020-2025, while liquefaction capacity is set to grow by 20% in the same period, thus quadrupling the amount of uncontracted LNG on the market, according to the International Energy Agency.

LNG market changes could become permanent, researcher says

(S&P Global Platts; Oct. 27) - LNG market disruptions caused by COVID-19 are expected to result in permanent changes in sales-and purchase agreements between buyers and sellers, Agnieszka Ason, visiting research fellow at the Oxford Institute for Energy Studies, said at the S&P Global Platts LNG & Hydrogen Conference. The changes will be part of the new generation of deals signed amid a rapidly transforming LNG marketplace that is seeing the emergence of viable spot and short-term markets.

Key changes to LNG contracting will include a more widespread adoption of cargo-cancellation clauses that was previously limited to U.S. LNG contracts, and the ability to reopen contract terms for renegotiations in order to encourage the signing of more long-term deals, Ason said on Oct. 27 at the conference, held as part of the Singapore International Energy Week 2020.

With the COVID-induced market disruptions, the past few months have seen notices of force majeure, requests for cargo diversions, delays, cancelations, and deferrals during the pandemic, which exposed the weaknesses of current contracting mechanisms, she said. "On the basis of the lessons learned it is likely that in future contract negotiations, more attention and more scrutiny will be afforded to operational terms that allow for adjustments, in response specifically in the context of market disruptions."

Chevron sees natural gas future in Middle East

(Reuters; Oct. 25) - After years of focusing on U.S. shale, Chevron is staking its gas future on the Middle East, a divided region where energy majors have long tread warily. CEO Michael Wirth's pivot away from home is underpinned by a bet that the Mideast is entering an era of reconciliation that will make it ideal for tapping gas, as demand for the cheaper and cleaner fuel is forecast to outstrip oil. The strategy is seeing Chevron pitch gas deals in Egypt, Israel, and Qatar, while cutting spending on U.S. shale exploration.

The plan is anchored by Chevron's $11.8 billion purchase this month of U.S.-based Noble Energy, which holds a 40% stake in the Leviathan gas field in the Mediterranean Sea, off the coast of Israel. "Five years ago, the Eastern Med wasn't viewed as endowed from a resource standpoint as I think most people would say today. That's a fundamental shift," Wirth said. Commercial and diplomatic relations "are becoming more codified and stronger, that's a trend that we think augurs well for the region," he added.

Chevron also made a courtesy call about the Noble deal to officials in Saudi Arabia, a key partner in several Chevron oil projects and a nation with historically strained relations with Israel, according to a source at the U.S. company. The regional political and security risks that have deterred some companies in recent years still exist. Despite risks, Chevron is moving ahead with efforts across the region. The Leviathan field and others nearby have the potential to become major factors in regional fuel supplies.

France's Total considers investments in Iraq's natural gas

(Bloomberg; Oct. 24) – French oil and gas major Total is considering natural gas investments in Iraq, according to the Middle Eastern nation's government. The two sides held talks this week about projects in western Iraq and near the southern energy hub of Basra, the Iraqi oil ministry said in a statement. They hope to reach an agreement soon, the statement said, citing Oil Minister Ihsan Abdul Jabbar.

Jabbar met Total officials this week in Paris. He was with Iraqi Prime Minister Mustafa Al-Kadhimi's delegation to the U.K., France, and Germany, which was partly aimed at attracting European investment. Iraq's economy, which derives almost all of its income from oil, is under severe strain due to this year's coronavirus-induced collapse in crude prices. The government is pushing to develop its vast gas reserves to diversify from oil.

Total, one of the world's biggest energy companies, has operated in Iraq for almost a century, having been part of the consortium that discovered the giant Kirkuk Field in the late 1920s. Today, it holds stakes in the southern Halfaya oil deposit and the northern Sarsang exploration block in Kurdistan.

Total says Mozambique LNG on track for 2024 start-up

(Reuters; Oct. 27) - A massive $20 billion liquefied natural gas project in Mozambique is on track to produce its first cargo in 2024 despite coronavirus pandemic disruptions globally, an executive from the project operator said Oct. 27. Construction at the Mozambique LNG project is underway with the first cargo expected to be delivered on schedule in 2024, said Rajnish Goswami, general manager of LNG Marketing at French oil and gas major Total, lead partner in the development.

"As of now, the focus is on engineering and procurement and much of this stuff can be done through remote work so ... we have been able to navigate the challenge of COVID pretty well and we are still maintaining the timeline of the project," Goswami said, speaking at the annual LNG and Hydrogen Gas Markets Asia virtual conference during Singapore International Energy Week. Total, as operator of the Mozambique LNG project, obtained a $14.9 billion debt financing package in July to fund its roll-out.

The project includes development of the Golfinho and Atum gas fields in the Offshore Area 1 concession, and construction of a two-train liquefaction plant with a capacity of 13.12 million tonnes per year. About 11.1 million tonnes of the capacity has been sold through various long-term contracts, and the project will require 17 LNG carriers to deliver the cargoes, Goswami said.

Bangladesh a growth market for LNG

(Independent Commodity Intelligence Services; Oct. 27) - A newcomer to the liquefied natural gas market, Bangladesh added 7.5 million tonnes in annual import capacity between August 2018 and April 2019. It rose fast to become the second-biggest growth market in Asia in 2019, second only to China, absorbing close to 4 million tonnes in its first year as an LNG importer. The country is now moving into its second stage of LNG imports, taking its first spot cargo in September and planning to take two additional cargoes each month from December 2020.

With domestic gas production moving into decline in the coming years, Bangladesh is expected to continue to increase LNG imports to cover supply shortages amid rising gas demand. The government is also putting the brakes on plans to build coal-fired power plants and calling instead for LNG-based projects. The 800-megawatt Rupsha combined-cycle power plant will be the first to be built on the basis of LNG imports, with several other projects in the pipeline.

Bangladesh has the eighth-largest population and is one of the most densely populated countries in the world. Its fast-growing economy is also shifting from agriculture to manufacturing and services with energy security a focal point in the government’s ambitions to sustain growth. Longer-term, the country is planning to double its LNG import capacity with an onshore terminal, though progress is unclear.

Norway’s LNG plant could remain offline for a year after fire

(Reuters; Oct. 25) - Equinor’s Melkoeya liquefied natural gas plant in Norway could remain closed until October 2021 as extensive repairs are carried out following a fire last month, the company said Oct. 26. The 13-year-old plant, also known as Hammerfest LNG, had previously been scheduled to reopen on Jan. 1. The fire on Sept. 28 started in one of the plant’s electricity-generating turbines.

“In addition to damage caused by the fire on the air intake on one of the plant’s five power turbines, large amounts of sea water from the extinguishing have damaged other auxiliary systems such as electrical equipment and cables in the plant,” Equinor said in a statement. “It is the scope of work of these consequential damages that are considered the most extensive and the duration of the shutdown will depend on the delivery time of necessary equipment,” Equinor said.

Europe’s only large-scale LNG plant is located outside the Arctic town of Hammerfest and can process more than 600 million cubic feet of gas per day. The gas is piped in from the offshore Snoehvit field some 100 miles away in the Barents Sea. Unlike other Norwegian gas fields, which export their output to Europe by pipelines, Snoehvit is only linked to the LNG plant and unable to produce if the plant is offline. Snoehvit is owned by Equinor, Total, Neptune Energy, Wintershall Dea, and Norway’s state-owned Petoro.

Japan’s new prime minister pledges carbon neutrality by 2050

(Bloomberg; Oct. 26) - Japan on Oct. 26 set an ambitious pledge for becoming carbon neutral by 2050, but without laying out a clear plan for reaching its target. Concrete goals to promote hydrogen, battery storage, carbon recycling and wind power will be identified in a report released by the end of the year, Minister of Economy, Trade and Industry Hiroshi Kajiyama told reporters. Few details were provided, such as how or when Japan may wean itself off its reliance on coal plants.

Prime Minister Yoshihide Suga unveiled the goal in his first policy speech to Parliament since taking office last month. The 71-year-old had not been known for prioritizing environmental policies. “We will put all possible efforts into creating a green society,” he said. The climate-change target for the world’s fifth-largest greenhouse gas emitter brings it into line with other major economies, including the European Union and China.

Suga’s climate plan was met with cheers from lawmakers, but he gave few details beyond saying the key would be innovations such as next-generation solar cells and carbon recycling. He added that nuclear power would remain an element of the energy mix, and the country’s policy on thermal power would be overhauled. Kajiyama said the government may revise its 2030 power-mix goals in order to meet the 2050 pledge. Current targets for 2030 are for renewables to account for up to 24% of total power generation, a maximum 22% share for nuclear, a 26% share for coal, and 27% for LNG.

B.C. grants 5-year extension to proposed LNG plant near Vancouver

(Natural Gas Intelligence; Oct. 28) – British Columbia regulators have approved a five-year construction deadline extension for the proposed C$1.6 billion (US$1.2 billion) Woodfibre liquefied natural gas export project just north of Vancouver. The provincial Environmental Assessment Office set a new permit expiration date of October 2025. The agency noted that the developer already has spent C$13 million ($9.8 million) on preparing for Woodfibre's construction at the site of a former pulp mill.

The plant would produce up to 2.1 million tonnes of LNG per year. The COVID-19 pandemic, project revisions and equipment delivery interruptions prompted Woodfibre to cancel a planned construction start this summer and seek the permit extension. The developer now plans to start work mid-2021. Singapore-based owner Pacific Oil & Gas has secured a gas supply with a corporate takeover of Calgary producer Canbriam Energy, and has sales agreements with BP Gas Marketing and Chinese buyer.

Opposition to Canadian agency split of LNG plant and pipeline review

(CBC News; Canada; Oct. 27) - The Canadian government agency responsible for reviewing a C$9 billion liquefied natural gas project in Saguenay, Quebec, received a clear mandate from the province: Look into the environmental, economic and social impact of Energie Saguenay locally. But the agency was not asked to study the pipeline that will be needed to supply the plant with natural gas. And it won't take into account the greenhouse gas emissions created when the natural gas is extracted in Alberta.

Those questions have nonetheless been front and center from the onset of Quebec's Environmental Review Board (BAPE) review of Energie Saguenay. The public hearings began in October, resumed this week, and will continue online until Nov. 4. The fact that the pipeline will be analyzed separately at a later date has been at the core of criticisms from citizens and environmental groups presenting briefs this week.

Having to navigate two separate BAPE procedures goes against the interest of citizens for whom the BAPE was created, said Mauricie resident Genevieve Richard. "It represents twice the effort and time from citizens who want to participate," he said Oct. 26. GNL Quebec wants to build an LNG terminal on the Saguenay River, where tankers would fill up and carry the fuel to European and Asian markets. The investment group behind the project has set up a separate company that is going through the steps to have a 485-mile pipeline approved to carry the gas from northern Ontario to Saguenay.

India needs to build more storage to handle growing LNG demand

(S&P Global Platts; Oct. 27) - Enthusiasm about the potential for boosting India's consumption of U.S. liquefied natural gas should be tempered by insufficient storage and cheaper coal, industry executives said Oct. 27. The outlook expressed during the second day of the India Energy Forum by CERAWeek reflects the uncertainty about how significantly LNG can penetrate some emerging markets in Asia.

The executives from state-run gas utility major GAIL, India's biggest buyer of U.S. LNG, and Xcoal Energy and Resources, a Pennsylvania-based coal marketing and logistics firm that sells to the Indian market, acknowledged that LNG's share of the country's overall energy mix would continue to grow, considering policy reforms favoring gas.

"We can definitely bring down the prices," GAIL Chairman Manoj Jain said of LNG during a panel discussion at the conference, which was webcast. "That is going to help the Indian market grow." He cautioned, however, that there was not enough storage serving the region, limiting the upside for LNG import growth. "People are not having that much interest in building the storage from a commercial point of view," Jain said.

Still, for U.S. LNG developers, India presents one of the biggest demand opportunities. S&P Global Platts Analytics forecasts the country's consumption will nearly double by 2024 from 2018 imports due to economic expansion, declining domestic reserves and the government's determination to expand the share of gas in the country's energy mix.

Exxon, Japanese company will build LNG power plant in Vietnam

(Reuters; Oct. 27) - ExxonMobil and Japan's biggest power generator, JERA, have agreed to build a power station and import facilities for the liquefied natural gas to fuel it in the Vietnamese city of Haiphong, the companies said on Oct. 28. LNG is growing more popular as a power-generation fuel in Southeast Asia as coal falls out of favor because of its impact on the climate, while plentiful supplies of gas have sent prices tumbling in recent years.

Exxon and JERA said they had signed a pact with city authorities in the industrial center of Haiphong, about 50 miles from the capital, Hanoi, to build the LNG-to-power project. "Haiphong is industrializing at a fast pace with an annual growth rate of over 20%. Therefore, our annual power consumption is growing and is expected to double between 2020 and 2030," Nguyen Van Tung, chairman of the Haiphong People's Committee, was quoted in the companies' statements.

The project is subject to government approvals, the companies added, but they did not provide plant cost, size or estimated annual imports of LNG. JERA, which is owned by Tokyo Electric and Chubu Electric, is the world's largest individual buyer of LNG.