Oil and Gas News Briefs
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Alberta racks up more losses on provincial financing of refinery

(Calgary Herald; Aug. 31) - The Alberta government's petroleum marketing arm lost close to C$1.9 billion last year, primarily as a result of commitments to a troubled refinery that finally began processing bitumen in June. The Alberta Petroleum Marketing Commission (APMC) disclosed Aug. 27 that it posted a $1.88 billion net loss for the year ended March 31, compared with a smaller net loss of $163 million the year before.

The income statement along with the Alberta budget shows the organization's massive net loss for the year was driven by a $1.7 billion provision booked on money-losing processing agreements at the over-budget NorthWest Refinery. The APMC, which manages commitments and contracts involving the province's oil royalty barrels, is now showing a $2.79 billion accumulated deficit as of March 31. The NorthWest Refinery, built near Edmonton, was financed entirely by loan guarantees from the Alberta government in 2013 and from oil producer Canadian Natural Resources.

The APMC annual report called the government commitments to the refinery "onerous," which typically mean that unavoidable costs will outweigh its economic benefits. Both the province and Canadian Natural have completely written off the value of the refinery. The project was initially budgeted in 2013 at $5.4 billion but costs ballooned amid multiple delays. As a result, the cost has now reached $10.1 billion.

The refinery offers the province a cautionary tale about market risks, University of Calgary School of Public Policy executive fellow Brian Livingstone said. "There is no limit to your risk," Livingstone said of the project, which the Alberta government has committed to paying for over 26 years. "Don't open your mouth and close your eyes."

Corporate deals in shale boom don't look so good now

(Reuters; Aug. 31) - Oil and gas companies plunged over $156 billion into corporate takeovers and land deals during the second U.S. shale boom, taking a massive bet that good times would continue and crude prices would rise. But many of those deals have become financial albatrosses and the prospect for relief is limited: The industry is still working through the shock of a historic collapse in fuel demand in such a short period of time, prompted by the sudden impact of the coronavirus on global travel and transport.

Many of the U.S. shale deals between 2016 and 2019 are financially unworkable due to low oil prices, according to six people familiar with the transactions. Of the 50 largest acreage purchases or merger and acquisition transactions between 2016 and 2019, at least 31 add value only if global benchmark Brent crude is above $50 a barrel, or $5 higher than current levels, according to energy research firm Wood MacKenzie.

"People were too focused on growth as opposed to really drilling things that make sense," said Brock Hudson, managing director at investment bank and advisory firm Carl Marks Advisors. "It's hard not to appear that you overpaid when we end up in a situation like we are right now." By July, 32 oil and gas producers filed for bankruptcy, according to law firm Haynes and Boone. An additional 150 North American oil and gas producers could face bankruptcy by the end of 2022 if crude prices remain near current levels, according to global energy analytical firm Rystad Energy.

Elections could make it harder on gas pipelines, LNG projects

(S&P Global Platts; Aug. 31) - A challenging environment for North American interstate natural gas pipelines could get tougher as a consequence of the November elections, according to a range of industry observers. Project applicants could face a new reality in which the federal government is no longer reliably defending its permitting decisions. In addition, if Joe Biden wins and Democrats have a majority at the Federal Energy Regulatory Commission, most analysts foresee an increased focus on environmental issues including climate change and environmental justice.

FERC-watchers disagree on how often there would be outright rejection of projects if the commission comes under Democratic control. "It wouldn't surprise me certainly to see climate be a primary consideration for infrastructure and be a significant hurdle for a lot of major projects," said Katie Bays, of FiscalNote Markets. From Bays' vantage point, the investment community is not expecting new permitting under a Democratic president for LNG terminals or gas pipelines. That means the value of projects in the post-2021 timeframe gets heavily discounted, affecting the cost of capital, she said.

If elected, President Donald Trump is expected to continue his pro-fossil fuel infrastructure, deregulatory push, which has had mixed results thus far at achieving the goal of streamlining the process. Rob Rains of Washington Analysis notes that even if a fossil-fuel friendly Trump administration persists, states will play a pivotal role. "What we've seen the last several years is that if a state official or a state agency denies a key permit to a pipeline or an LNG terminal, in many instances that is fatal," he said.

[Oil and gas starts transition to low-carbon future with heavy debt load]

(Reuters; Aug. 31) - As major oil companies prepare to spend billions on renewable energy assets to stay relevant in a low-carbon future, the industry's patchy track record on takeovers is a red flag for some investors. Ten years ago, the top energy companies were spending billions on major oil and gas assets and costly drilling programs in remote parts of the world in a relentless drive to produce more. Now with European policymakers cracking down on greenhouse gas emissions, that region's major oil companies have promised to reinvent themselves as low-carbon power suppliers.

To hit their goals in time, though, the industry will almost inevitably have to chase a relatively small pool of renewable energy assets in competition with big utility companies at a time that valuations are going through the roof. And some investors worry history will repeat itself. "The majors have been poor capital allocators for the better part of the past 20 years," said Chris Duncan, an analyst at Brandes Investment Partners, which has shares in several European oil firms. "I'm nervous ... Usually when companies transition to a different market, the transition is not a profitable process."

As companies chase renewable assets such as wind, solar and hydro, which generally have lower returns than oil and gas — or invest in green projects from scratch — they'll be starting from an already highly leveraged position. Since 2005, the combined debt of the top five global oil majors has risen fivefold to $370 billion. Some analysts said that with record debts, an uncertain outlook for oil prices and a weak deal-making record, the big oil companies face a tough task getting investors on board.

[Oil industry shift to cleaner energy could leave assets in the ground]

(S&P Global Platts; Sept. 1) - BP's bold August strategic move for a faster pivot to cleaner energy shows the extent to which Big Oil has been forced to consider the financial consequences of climate change on fossil fuels. But BP's shift to become an integrated energy company, facing the transition head-on, took some by surprise.

The industry's push into renewable energy, electrification, and ambitious pledges of net-zero emission targets has been a slow but steady work in progress. However, the COVID-19 pandemic has accelerated fears that oil demand could soon be in terminal decline, and industry moves to cut long-term price forecasts have been a wake-up call. What stands out from BP's new game plan is a target to shrink its oil and gas flows by at least 1 million barrels of oil equivalent per day, or 40%, over the next decade.

It marks the starkest admission yet that the industry will struggle to develop its oil and gas resources without overshooting global emission targets. It has also refocused minds on the risks of future stranded assets. Canadian oil sands and costly offshore projects in places like the Arctic have already been sidelined by many. With clean energy firms becoming stock market favorites for investors, the appetite for marginal oil and gas assets will only weaken. Higher capital costs as more investment funds shun fossil fuels could spell the end for billions of barrels of smaller, remote finds left in the ground.

Mexico's oil production at its lowest since 1979

(Reuters; Sept. 1) - Mexico's oil output hit a record low in July at 1.605 million barrels per day, down slightly for both state-run Pemex and upstart private producers, and putting the country's oil patch on track for its lowest production since the 1970s. Pemex, formally known as Petroleos Mexicanos, produced just 1.548 million barrels per day in July, while private oil companies pumped about 57,000 during the month, both figures down slightly from June, data from oil regulator CNH showed on Sept. 1.

Pemex's July output marks its lowest production since November 1979, when the then-monopoly producer pumped 1.615 million barrels per day, according to energy ministry data. Its production has steadily declined each year since reaching a peak of 3.4 million in 2004, and was most recently hit by an oil price rout earlier this year, budget cuts, as well as a two-month negotiated output cut with other major oil-producing countries.

Since the beginning of this year, Mexico's crude oil production has dipped nearly 7%, according to the CNH data. President Andres Manuel Lopez Obrador has pledged to revive Pemex and grow its crude production, but he has shown no interest in allowing foreign and private oil companies to grow their footprint, canceling competitive oil auctions that would have been open to them.

Saudi Aramco delays petrochemical, LNG projects to save cash

(Bloomberg; Sept. 3) - Saudi Aramco has delayed multibillion-dollar petrochemical and liquefied natural gas projects as it looks to save cash and preserve its dividend after this year's crash in energy prices, according to people familiar with the matter. The world's biggest oil company is scaling back plans to construct a $20 billion crude-to-chemicals plant at Yanbu in eastern Saudi Arabia, according to one person, who asked not to be identified because they aren't authorized to speak to the media.

The company is also reviewing an earlier decision to buy a 25% stake in Sempra Energy's proposed Port Arthur, Texas, LNG terminal — which would cost several billion dollars — and has already taken some staff off the project, according to another person. The about-turns come as the Saudi state oil firm tries to maintain its pledge to pay a $75 billion dividend annually for the next several years. All of Aramco's major greenfield projects — which involve building plants from scratch — are under review, and the company is likely to invest in existing assets instead, said another person.

The new plan for Yanbu is to integrate some existing refineries and add petrochemical facilities to them, said one of the people. “There is excess supply in the oil market, and full recovery may not happen until 2022,” said Mazen Al Sudairi, head of research at Al Rajhi Capital in Riyadh. “It makes sense to cut capital expenditure.” Delaying the chemical and gas projects is a blow to Aramco’s plans to diversify from pumping oil.

China’s oil and gas majors cut spending for first time in 4 years

(Nikkei Asian Review; Sept. 1) - China's major state oil companies are keeping up their dividend payments despite incurring large losses as the coronavirus pandemic has undercut the prices and sales of their products. For China Petroleum & Chemical (Sinopec) and PetroChina, the net losses — a combined 52.86 billion yuan ($7.72 billion) for the first half of 2020 — are their first as listed companies and compare with posted profits of 59.76 billion yuan a year earlier.

Together with CNOOC, half-year revenues for the trio fell 27%. With sales receipts tumbling, the trio have cut capital investment and other spending significantly. Sinopec is facing "unprecedented difficulties and challenges," Chairman Zhang Yuzhuo told investors in an online results briefing Aug. 31. Yet his company and the other two will continue to pay substantial dividends to stockholders, with most of the cash going to the Chinese government, which maintains a majority stake in the companies.

Sinopec said it will cut capital spending 10% compared with last year, implying this year's figure will come in around 132 billion yuan. PetroChina earlier revealed its annual investment budget this year as 228.5 billion yuan, down 23%. The smallest of the trio, CNOOC, has cut its capex for this year to 75 billion to 85 billion yuan from an original range of 85 billion to 95 billion yuan. All in all, investment by the Chinese big three will be around 440 billion yuan, 16% lower than last year and the first decline in four years.

China cuts back on crude oil imports

(Bloomberg; Sept. 2) - China’s record haul of crude is poised to end as state-issued allowances for imports dwindle, potentially taking the wind out of the uneven recovery across global oil markets. The world’s biggest importer will take in much less crude in September and October than it did in May and June, with private refiners seeing their purchases drop as much as 40%, according to analysts from ICIS-China and FGE.

The reduction will test the resiliency of the global oil market, which has seen prices recover from the lows of April but is still contending with virus lockdowns in major markets and OPEC+ members adding supplies after cutbacks. China’s independent refiners were the first to recover from the virus and have been among the most active buyers supporting oil’s rebound. “Some active buyers have used up the import oil allowance,” said Li Li, an analyst with commodities researcher ICIS-China. “That could shut the channel for them to further process imported oil for rest of the year.”

Refiners operated by state-owned companies such as Sinopec and PetroChina do not require import quotas. China’s oil imports hit a record 13 million barrels a day in June, customs data showed. However, purchases are poised to fall in the coming weeks as oil-laden tankers continue to wait off major ports and as refiners work through the overhang of crude and fuels in storage.

Saudi Arabia cuts back on crude oil deliveries to U.S.

(Bloomberg; Sept. 2) - Saudi Arabia is continuing to divert its oil away from America’s shores. The kingdom last month loaded an average of 5.6 million barrels a day aboard tankers, a small increase from July, vessel-tracking information compiled by Bloomberg show. Within that, an ever-smaller share went to the U.S., as cargo data show that deliveries in the week ended Aug. 28 dropped to what could be the lowest in decades.

For Saudi Arabia, cutting oil shipments to the U.S. is the quickest way to telegraph to the wider market that it is tightening supply. Saudi crude exports to the U.S. dwindled to about 177,000 barrels a day in August, tracking data show. Although that number could rise as more vessels indicate their final destination, it’s still a fraction of the 1.3 million barrels a day the kingdom shipped to America in April, when the heavy flow threatened to upend the U.S. oil market.

Coming in far below the average for the entire month of August, the U.S. imported just 355,000 barrels of Saudi crude, about 51,000 barrels a day, in the week through Aug. 28, customs data compiled by Bloomberg show — all of it arrived on the West Coast.

Colorado considers ‘environmental justice’ in new drilling rules

(S&P Global Platts; Aug. 31) - As Colorado implements and defines a slate of new rules for the state's oil and gas industry, officials are also looking to include "environmental justice" issues, forcing companies seeking well permits to take into account the proximity and number of minority and low-income residents living nearby, which would make it the first major oil-producing state to do so.

The Colorado Oil and Gas Conservation Commission plans to study proposed oil and gas drilling projects more closely when the sites are near minority and low-income communities under rules being considered to more comprehensively protect public health. The commission began holding hearings last week to finalize new rules affecting the industry, based on sweeping mandates set in legislation approved last year.

The legislation shifted the focus of the commission, the state's oil and gas regulatory agency, from prioritizing production to protecting public safety and health, wildlife, and the environment. The commission also has to start considering the cumulative effects of oil and gas field development rather than a single well or drilling pad. Commissioner Karin McGowan said during the hearings last week she considers it important for the state to infuse environmental justice into its regulations. The hearings on the proposed rules will continue throughout September. A final decision is expected in October.

Large-scale dredging in Russian Arctic could hurt fish stocks

(The Barents Observer; Norway; Sept. 1) - The arctic summer season is short and there is plenty of drilling, digging and construction work to be done before ice again covers the far northern waters. The Gulf of Ob has in recent years become the centerpiece in Russia's oil industry drive toward the north — Gazprom and Novatek are building their future bases for oil and gas development. Hydrocarbon reserves are enormous, big enough to fuel export markets for decades to come. But the stakes are high.

The extensive development of the area could have fatal consequences for marine life, and environmentalists are sounding the alarm. They especially fear that ongoing dredging ultimately could eliminate rare fish stocks. Over the next two years, more than 20 million tons of ground are to be removed from the seabed in order to make way for the new Utrenneye LNG shipping terminal. This could mean death for the precious local fish stocks, researchers from the Ural Institute of the Ecology of Flora and Fauna fear.

"It means death for the semi-anadromous stocks of the Ob," Institute research leader Vladimir Bogdanov told the newspaper Pravda URFO. "Neither the sturgeon, whitefish, smelt, nor freshwater cod will be no more. The precious kinds of fish in the Ob will vanish. It will be a huge loss, which actually cannot be restored. The ecosystem will be completely changed." Figures from the Northern Sea Route Administration show that more than 15 dredgers from Belgium and the Netherlands are engaged this summer in the area, plus several more vessels from a Russian company.

U.S. plastics industry sees market opportunity in Africa

(The New York Times; Aug. 31) - Confronting a climate crisis that threatens demand for fuel, oil companies are racing to make more plastic. But they face two problems: Many markets are already awash with plastic, and few countries are willing to be dumping grounds for plastic waste. The industry thinks it has found a solution in Africa.

According to documents seen by The New York Times, an industry group representing the world's largest chemical makers and fossil fuel companies is lobbying to influence U.S. trade negotiations with Kenya, one of Africa's biggest economies, to reverse its strict limits on plastics — including a tough plastic-bag ban. It is also pressing for Kenya to continue importing foreign plastic garbage, a practice the nation has pledged to limit.

"We anticipate that Kenya could serve in the future as a hub for supplying U.S.-made chemicals and plastics to other markets in Africa through this trade agreement," the American Chemistry Council wrote in April to the U.S. Trade Representative Office. The countries are in the midst of trade negotiations, and Kenya President Uhuru Kenyatta has made clear he wants a deal. The industry lobbying effort concerns environmental groups in Kenya and beyond that have been working to reduce plastic use and waste.

Kenya, like many countries, has wrestled with the proliferation of plastic. It passed a law against plastic bags in 2017, and last year signed on to a global agreement to stop importing plastic waste — a pact strongly opposed by the chemical industry. After China closed its ports to most plastic trash in 2018, exporters have been looking for new dumping grounds. Exports to Africa more than quadrupled in 2019.

Berkshire Hathaway buys stakes in 5 Japanese trading companies

(Natural Gas Intelligence; Aug. 31) - An affiliate of Warren Buffet's Berkshire Hathaway said Aug. 31 that it has taken stakes in five of Japan's biggest trading companies, which have significant oil and natural gas holdings worldwide. Subsidiary National Indemnity Co. has acquired more than 5% of the outstanding shares of Itochu, Marubeni, Mitsubishi, Mitsui, and Sumitomo in an investment valued at more than $6 billion.

Berkshire said in a statement that it intends to hold the Japanese investments for the long term. Depending on price, the firm said it could increase holdings in any of the five trading houses by up to 9.9%. The announcement marked Berkshire's latest foray into commodities, particularly in oil and gas. In July, an affiliate acquired Dominion Energy's natural gas transmission and storage assets, including a 25% stake in the Cove Point liquefied natural gas export terminal in Maryland, in a transaction valued at $9.7 billion.

The Japanese trading houses hold significant equity stakes in companies worldwide. Among other things, their energy businesses include trading desks across the world, interests in oil and gas production, and stakes in LNG facilities. For example, some of the companies have holdings in unconventional U.S. oil and gas assets that help feed stakes in North American infrastructure projects. Mitsui and Mitsubishi hold interests in Sempra Energy's Cameron LNG export terminal in Louisiana and Sumitomo has a stake in Cove Point in addition to holdings in other export facilities under development.

LNG supplier sends tanker truck delivery 1,600 miles to Inuvik

(Bulk Transporter; Aug. 31) – Liquefied natural gas supplier Cryopeak recently completed its longest haul so far — a 1,608-mile, 35-hour journey from Dawson Creek, British Columbia, where the twin trailer was loaded, to Inuvik in Canada's Northwest Territories. The LNG shipment went to the Northwest Territories Power generating plant, which uses the fuel as the primary power source for the arctic community.

"It is an extremely challenging supply chain because in the summer we have to use multiple ferries, which cross swiftly moving rivers, and actually our first delivery was delayed by about a week because the river levels were so high, and there was so much debris flowing through on the rivers, that the ferries were inoperable," said Aleksandar (Sasa) Cook, Cryopeak's senior vice president for business development. "And then in the winter these trucks are crossing over ice bridges across frozen rivers."

Cryopeak also has delivered long-distance loads to Coeur's Silvertip mine near the British Columbia/Yukon Territory border. Cryopeak, based in Richmond, B.C., uses what it calls the "Super B-Train," a twin trailer that can haul 20,700 gallons of LNG, almost 2 million cubic feet of natural gas. "Transportation costs represent often the largest cost of LNG supplied to our customers," said CEO Calum McClure. The company said it is building an LNG production facility in Fort Nelson, B.C., the center of the province's gas-producing region, to better serve customers in the Far North.

World LNG regasification capacity continues to grow

(Reuters; Sept. 2) –The amount of regasification capacity — plants that bring super-cooled liquefied natural gas back to a gaseous state — under construction globally will rise to a 10-year high in 2020, research and consultancy firm Wood Mackenzie said Sept. 2. Additional annual regasification capacity built this year may reach 144 million tonnes, led by projects in China, Wood Mackenzie said. That would be a gain of about 15% over 2019 capacity levels. The list includes 33 new terminals totaling 92.8 million tonnes under construction and 51 million tonnes of capacity added to existing terminals.

China, the world's second-largest LNG importer, accounts for over one-third of the new capacity, with 10 new terminals. India is building five terminals with total capacity of 20 million tonnes, while Europe could add 13 million tonnes of capacity from expansion projects through 2025 across the Netherlands, Poland, France, Greece, and the U.K. The world's LNG importing nations maintain far more regas capacity than they use — the import terminals operated at an average just under 40% capacity in 2019.

Nuclear power plant restarts will cut into South Korea's LNG imports

(S&P Global Platts; Sept. 2) - South Korea is on track to restart operations at eight nuclear power plants that were shut down for maintenance and start a newly built plant over the next two months, in a move that will dampen demand for gas-fired power generation and put pressure on liquefied natural gas imports. The nuclear restarts come very close to North Asia's buying period for winter LNG and while inventories are high at South Korea's gas storage facilities, and as LNG demand for power production already has suffered from the economic slowdown and coronavirus pandemic this year.

Some of the reactors are restarting from an extended maintenance of two to three years, while others were idled for only a few months. They have a combined capacity of 8,650 megawatts and account for 37.2% of South Korea's overall combined nuclear capacity of 23,250 megawatts from 24 plants. Nuclear power accounts for about 30% of South Korea's electricity mix, LNG-fired power plants are responsible for around 25%, and coal-fired power plants satisfy around 40% of demand.

"As the set of nuclear reactors will be connected to the grid over the next two months, the country's demand for LNG for electricity generation is expected to decline later this year," an official at the Ministry of Trade, Industry and Energy said. LNG sales by state-owned Korea Gas, which has a monopoly in domestic natural gas sales, fell 9.1% year on year to 17.945 million tonnes in the first half of this year.

Oil and gas companies invest in technology to track methane leaks

(Houston Chronicle; Sept. 2) - U.S. oil and gas companies are investing millions of dollars into technology to curtail the methane that escapes into the atmosphere even as the Trump administration rolls back regulations aimed at curtailing releases of the potent greenhouse gas. Methane-detection technologies can be found on the ground, where workers use hand-held monitors to sniff out methane leaks; in the skies, where drones carrying sensors locate trouble spots in drilling and pipeline operations; and with satellites scanning entire oil basins to identifying the largest plumes.

The array of technologies is needed to capture the massive volumes of the greenhouse gas that escape into the atmosphere, said Daniel Zimmerle, director of Colorado State University methane emissions program. The EPA estimates that about 570 million metric tons of methane, the primary component of natural gas, are released in the atmosphere annually, with about 60 percent coming from manmade sources.

The relaxing of methane regulations, which the Environmental Protection Agency finalized in August, has split the oil and gas industry. Small to mid-sized independents, citing the costs of compliance, largely support easing methane monitoring requirements. But international majors and large independents oppose the rule change, as many are under pressure from governments and shareholders to adjust their businesses to the realities of climate change. In addition, growing awareness of methane pollution is undermining natural gas as cleaner fuel to bridge the transition to renewable energy.