Oil and Gas News Briefs
Compiled by Larry Persily
April 21, 2020

Saudis and other OPEC members may move up start date for oil cuts

(The Wall Street Journal; April 21) - Saudi Arabia and other OPEC members are considering cutting their oil output as soon as possible, rather than waiting until next month when the group's recent production agreement with the U.S. and Russia is set to begin, people familiar with the matter said. It comes as U.S. oil prices turned negative April 20 for the first time in history. "Something has to be done about this bloodbath," said a Saudi official familiar with the matter. "But it might be a little bit too late."

Under a multinational agreement forged just a week ago, Saudi Arabia agreed to restrict its output as part of a broad effort to boost plummeting prices. State-run Saudi Arabian Oil Co. said April 17 it would market 8.5 million barrels a day of crude beginning in May, down from 12.3 million a day in early April. Under a proposal being considered, Saudi Arabia could start the cuts immediately. Still a decision would depend on the kingdom's legal obligations and cargoes already agreed upon with buyers, a source said.

The proposal to accelerate the cuts could also be applied across the Organization of the Petroleum Exporting Countries, the sources said. As part of the April 12 OPEC+ deal, 23 countries committed to withhold collectively 9.7 million barrels a day of oil from global markets starting May 1 to the end of June. Despite the unprecedented effort to stabilize prices, the U.S. futures market that serves as the benchmark for crude trading lost all of its value, making an unprecedented plunge into negative territory April 20. The low price reflects uncertainty about what buyers would do with a barrel of crude in the near term. In a world at an economic standstill, there is way too much oil and few places to put it.

Chaotic trading day as futures contracts settle and prices go negative

(The Wall Street Journal; April 20) - U.S. oil futures plunged below zero for the first time ever April 20, a chaotic demonstration of the dwindling capacity to store all the crude the world's stalled economy doesn't need. A barrel of West Texas Intermediate crude to be delivered in May, which closed at $18.27 on April 17, ended April 20 at negative $37.63. That effectively means that sellers must pay buyers to take barrels off their hands.

Trading was exacerbated by the looming expiration of the May WTI futures contract on April 21. Contract expiration flushes out speculators who have no intention to take delivery of oil. Exchange-traded funds, which control a large number of contracts, are among those that must sell at expiration. The forced selling pressures prices downward.

Refineries, storage facilities, pipelines, and even ocean tankers have filled up rapidly since billions of people around the world began sheltering in place to slow the spread of the deadly coronavirus. Despite the April 20 plunge for May futures, prices remain in positive territory for barrels to be delivered in June. In the most actively traded U.S. futures contract, crude for June delivery lost 18% on April 20 to close at $20.43, while oil due for delivery to the U.S. trading hub in Oklahoma in November ended at $31.66.

Those higher prices reflect investors' optimism that the global economy will bounce back later this year, and that sufficient demand for fuel will return to soak up some of the glut that was building even before borders closed, factories idled and billions of people stopped driving and flying. Yet prices around $30 a barrel, which is below breakeven for many producers, still suggest economic worries ahead, some analysts say.

Falling oil prices create energy price parity with natural gas

(Reuters; April 20) - The rapid collapse of U.S. oil futures this year has caused crude's premium over natural gas to drop to near parity on an energy-equivalent basis for the first time since 2008. That could prompt producers to search for more gas in coming months if demand rebounds as expected when the economy begins to recover after governments loosen travel and work restrictions. On an energy-equivalent basis, oil should trade six times over the price of natural gas; it was at that point on April 20.

Both oil and natural gas prices have plunged as the coronavirus causes energy demand to vanish as offices close and factories run at reduced capacities. Since the start of the year, U.S. crude futures have tumbled over 80% to their lowest since 1998 due to the combined impact of coronavirus demand destruction and a price war between Saudi Arabia and Russia. Gas futures, meanwhile, were down less than 20% so far this year due primarily to the pandemic's demand loss, resulting in the unusual oil-gas parity.

Over the past several years, U.S. energy firms have focused their drilling on finding more oil in part because crude was much more valuable than gas. In some shale oil basins, crude has come out of the ground with more associated gas than pipelines could handle, causing some local gas prices to turn negative and energy firms to flare unwanted gas. Now that crude prices have dropped, analysts expect U.S. producers to cut oil drilling in shale basins, which should make output from gas wells in other basins, like the Marcellus and Utica in Pennsylvania, West Virginia, and Ohio, more valuable.

Natural gas falls to about the same cost as coal in East Asia

(The Wall Street Journal; April 19) - Natural gas in East Asia costs about the same as coal for the first time, a milestone that is likely to accelerate the region's U.S.-style energy transformation. Even before the coronavirus rocked markets, governments in South Korea, Taiwan, and China were pivoting to cleaner-burning gas. Since February the pandemic has pushed the price of liquefied natural gas imports to record lows, enabling them to move faster to displace coal in power plants.

As gas became consistently competitive with coal in the U.S. over the past decade, propelled by new discoveries of shale gas, it eventually put many coal-mining companies into bankruptcy and generated opportunities for their gas rivals to fuel more power generation. Now with little fanfare, East Asia's biggest economies are going through the same upheaval. Taiwan plans to generate half its power from gas by 2025 and reduce coal's proportion to less than a third from nearly half in 2017.

"In the past we got power from coal because it was the cheapest, but now the situation is changing," said Fran Tseng, chief of public utility Taipower's oil-and-gas section. In South Korea, the government last month temporarily shut down 28 of the country's 60 coal-fired power plants. Further shutdowns may follow this year if the price of gas keeps falling, said officials at state-owned and private companies that operate power plants. At about $2.43 per million Btu — a measure of a fuel's energy content — LNG dipped below the $2.56 price for an equivalent amount of Australian coal at the end of March.

World's top LNG buyers in Asia seek to postpone deliveries

(Bloomberg; April 16) - The world's top buyers of liquefied natural gas are seeking to defer shipments as the coronavirus pandemic cripples demand and forces more of the heating and power fuel into storage that is nearing capacity. The move signals that efforts to contain the spread of the virus may hit energy consumption far into this year and possibly 2021, worsening an oversupply of gas and oil that has punished prices.

LNG buyers in South Korea and Japan, including Korea Gas and Tokyo Gas, are in discussions with term suppliers to postpone cargoes slated for delivery as far out as October, according to people with knowledge of the matter. The delay requests vary from just a few days to as late as next year, the sources said. A KOGAS spokesman said April 16 that the company has delayed or reduced some supplies contracted for delivery this year, including from Malaysia and Qatar, without providing details.

KOGAS has asked Qatargas to delay as many as 18 cargoes originally scheduled over the next six months, a source said. The company is asking some of the cargoes to be delivered in 2021, the person said. It isn't clear how many cargoes in total KOGAS has requested to delay from all of its suppliers. Japanese firms, which include Tokyo Gas, JERA Co., Kansai Electric, and Osaka Gas, have sought deferrals of cargoes for April, May, and June, people familiar with the plans said.

Price collapse will delay investment decisions on new LNG projects

(The Peninsula; Qatar; April 19) - In response to the market downturn and to minimize the impact of the rapid decline in global oil and gas prices, a large number of producers have announced deep cuts in capital and operational spending. Citing global data, the Doha-based Gas Exporting Countries Forum reported that over $50 billion in capital expenditure have been slashed by oil and gas companies through the end of March.

North American exploration and production companies plan to reduce spending in 2020 by 36%, or $24.4 billion, relative to 2019, Hussein Moghaddam, senior energy forecast analyst at the forum said in his latest research note. Investment decisions and the economics of liquefied natural gas export projects across the world also will be affected by declining oil prices since most of the long-term LNG contracts are linked to oil prices.

Thus far, the majority of final investment decisions planned for LNG projects in 2020 and to some extent 2021 will be postponed, delaying supply start-ups planned for 2023-2025, Hussein said. It was a record year for LNG project FIDs in 2019 with six projects totaling nearly 71 million tonnes per year in new capacity approved in the U.S., Mozambique, Russia, and Nigeria, all aiming to come online between 2023 and 2025, reflecting confidence about mid- to long-term LNG demand growth.

Nova Scotia LNG developer delays investment decision

(Reuters; April 16) - Pieridae Energy said on April 16 it has delayed a decision to build the Goldboro liquefied natural gas export plant in Nova Scotia until after Sept. 30 as efforts to curb the coronavirus outbreak have cut global economic growth and energy demand. The Calgary-based company previously said it expected to make a final investment decision to build the $10 billion project in the third quarter of 2020, which would allow it to start producing LNG between November 2024 and May 2025.

“Market conditions and the global fallout from COVID-19 have impacted our ability to make a final investment decision this fall, but we are confident it will happen once conditions improve and we can better analyze the landscape,” Pieridae CEO Alfred Sorensen said in the company’s fourth-quarter earnings release. Goldboro would have two liquefaction trains capable of producing a total of 10 million tonnes per year of LNG.

Pieridae has a 20-year agreement to sell all of the first liquefaction train’s output — about 5 million tonnes per year — to German utility Uniper. Pieridae said it expects construction could take just under five years. It is one of several companies developing

North American LNG export plants that have delayed projects as global gas prices dropped to their lowest in years in an oversupplied market. Pieridae plans to move Western Canadian gas across the country by pipe to its terminal on the Atlantic Ocean.

Novatek says it is ahead of schedule on Arctic LNG-2

(High North News; April 16) - Russia's largest private natural gas producer, Novatek, reports that it is "slightly ahead of schedule" for opening its second liquefied natural gas terminal in far northern Siberia, Arctic LNG-2, by the end of 2022. The facility will consist of three liquefaction lines, designed to produce a total of 19.8 million tonnes a year of LNG. The project is located across Ob Bay from the Yamal LNG plant that opened in 2017. Arctic LNG-2 had been estimated at $27 billion, which Novatek hopes to reduce.

Last month, the Arctic LNG-2 construction site on the Gydan Peninsula received 20,000 tons of construction material. The world's sole nuclear-powered ice-breaking cargo ship Sevmorput delivered reinforced concrete and metal structures, large pipes and construction and electrical equipment from Arkhangelsk. Sevmorput made two similar deliveries last summer and several more are scheduled for 2020. The nuclear icebreaker Vaygach assisted in creating an approach channel for unloading.

Offices, housing, and storage facilities have been constructed and major earth work is underway. Arctic LNG-2 relies on gravity-based structure platforms preassembled off-site at a yard near Murmansk. The platforms will be towed into place and sunk in shallow waters to serve as the foundation for the plant. Novatek holds a 60 percent stake in the project, while its partners Total, China National Petroleum Corp., China National Offshore Oil Corp., and a Japanese consortium each hold 10 percent.

Russian government will help pay for Arctic LNG terminal

(Barents Observer; Norway; April 16) - The Russian government this week approved further financial participation as costs have risen for a natural gas project on the coast of far northern Gydan Peninsula. The government assistance, lobbied by project operator Novatek, will cover 60% of the shipping terminal's total cost of 164.1 billion rubles (US$2.17 billion), which is up 14% from the original estimate. The state budget will cover 103.2 billion rubles, while Novatek will account for the remaining 60.9 billion.

The Utrenneye terminal will be a crucial part of Novatek's development of gas resources in the area. Located on the banks of the Gulf of Ob, it will house key parts of the Arctic LNG-2 production facilities, including the gravity-based structures currently being built in a yard near Murmansk, and also shipping facilities. Utrenneye will primarily serve the

Arctic LNG-2 project. However, according to Novatek, the updated plan includes capacity to handle gas from another potential LNG export project in the area.

Construction in Utrenneye will proceed in seven stages, the first three of which will include building of state-owned infrastructure, a major ship channel through the nearby shallow waters of Ob Bay and installation of marine navigation equipment.

China instructs companies to build more natural gas storage

(Independent Commodity Intelligence Services; April 16) - Key Chinese authorities this week gave guidance and instruction on the need to expand the country's limited gas storage capacity, according to documents issued by the National Development and Reform Commission and other ministries. China's gas storage infrastructure development has been slow. Its gas storage capacity is currently only around 350 billion cubic feet, accounting for less than 4% of China's total gas consumption in 2019.

By the end of 2020, gas suppliers should have set a target for their gas storage capacity to meet 10% of annual gas sales, authorities said. Local governments should set gas storage capacity targets so that they can cover three days of demand, according to the document. Beijing will encourage existing LNG terminals to expand storage tanks and will encourage urban areas to build shared gas storage facilities.

Priority will be given to construction of underground gas storage facilities, coastal LNG terminals in the north and large-scale LNG storage tanks in key areas. And priority will be given to areas that see a large difference between winter demand and lower summer demand that could support summer injections into storage, and where there's a risk of winter shortages. By the end of 2020, a subsidy will be granted to certain storage facilities with capacity to supply an average of three days of demand in key local areas.

Shell and Chinese partner decide to proceed on Australia gas project

(Reuters; April 16) - Shell said April 17 it had taken a final investment decision to develop the first phase of Australia's biggest coal-seam gas resource in Queensland state. The first phase of the Surat Gas Project would bring as much as 90 billion cubic feet per year of gas to market at peak production, Shell said in a statement. The project is being developed by a Shell and PetroChina joint-venture called Arrow Energy. Construction will start this year and the first gas sales are expected in 2021.

Shell did not provide a figure for the investment, though Queensland State Premier Annastacia Palaszczuk pegged the project at A$10 billion (US$6.4 billion) in a joint press conference with Arrow CEO Cecile Wake. Authorities are eager to see the project start up as Australia's southeastern states face gas shortages by the mid-2020s.

In addition to meeting domestic needs, there are three LNG terminals in Queensland, with total capacity of over 25 million tonnes a year. Shell is a partner in one of the projects.