Is the worst behind or ahead for oil and gas industry

(CNBC; Aug. 12) - The coronavirus pandemic has exposed some hard truths for the world’s largest oil and gas majors, energy analysts say, with many reeling after historic second-quarter losses. The devastating economic impact of the coronavirus outbreak has prompted energy majors to slash shareholder distributions, rack up increasing amounts of debt, and sell or write-down the value of their assets.

Saudi Aramco CEO Amin Nasser sought to reassure markets about the outlook for the energy industry earlier this month. Speaking in an earnings call with investors shortly after the world’s largest oil company posted a 50% fall in profits for the first half of its financial year, Nasser said: “The worst is likely behind us.” Yet others are not so sure. “The picture has been bleak for this industry for a decade,” said Kathy Hipple, an analyst at the Institute for Energy Economics and Financial Analysis (IEEFA).

The sector has consistently disappointed investors since 2010, Hipple said, with oil and gas companies finding it “increasingly hard” to raise enough cash from their operations to cover shareholder distributions. Instead, many cash-strapped companies have opted to dig themselves further into debt or sell their assets to cover dividends or share buybacks. “That is financially unsustainable,” she said. “You might be able to get away with that from time to time, but that is certainly not a long-term strategy.”

The “Asian tooth fairy” is another myth thought to have been exposed by the pandemic. It refers to the idea that producers, particularly in the U.S., would always be able to rely on a relentless appetite for energy from Asia. “The U.S. fracking build-out and the LNG build-out, in particular, were premised on this unlimited demand from Asia,” said Clark Williams-Derry, an analyst at IEEFA. “LNG prices are now far too low for U.S. exporters to make any profit, prompting many to simply shut off,” he said. “The ‘new normal,’ post-COVID, may be one in which the U.S. LNG export dream seems out of reach.”

Phillips 66 joins Western refiners converting from crude to biofuel

(Bloomberg; Aug. 12) - Oil refineries across the western U.S. are being converted into biofuel plants. Phillips 66 is the latest, as it is converting an oil refinery in California into a biofuel plant as gasoline loses its luster to fuels derived from agricultural and waste products. The company said Aug. 12 its 120,000 barrel-a-day Rodeo refinery near San Francisco will become the world’s biggest plant that makes so-called renewable diesel, as well as gasoline and jet fuel, out of used cooking oil, fats, greases and soybean oils.
The announcement came about a week after fuel giant Marathon Petroleum said that it may convert two refineries into renewable diesel plants. In June, HollyFrontier said it would turn its Cheyenne, Wyoming, refinery into a renewable diesel plant by 2022. As refiners across the U.S. struggle with depressed fuel demand and an uncertain future amid the pandemic, California’s fight against global warming is offering a pathway to survival. Demand for so-called renewable diesel is surging in the Golden State where fuel suppliers buy credits from clean-energy producers to make up for their emissions.

“There is overcapacity on the refining market,” Marijn van der Wal, biofuel adviser at Stratas Advisers in Singapore, said Aug. 12. “Are we going to shut down our refineries or are we going to repurpose them?” The Rodeo plant is well suited for conversion because of its dock and rail access for receiving the tallow, vegetable oils, and used cooking oils that will feed into plant, said Nik Weinberg-Lynn, manager of renewable energy projects at Phillips 66. “The California market for the renewable diesel product is certainly the largest in the world,” he said.

Phillips 66 plans to invest up to $800 million in the conversion, Weinberg-Lynn said. The Rodeo plant could start operating as early as 2024, producing 680 million gallons a year of about 70% renewable diesel, 10% gasoline, and 20% jet fuel, the company said.

**Low oil prices threaten stability of ‘shaky six’ OPEC members**

(Bloomberg; Aug. 11) - From Baghdad and Algiers to Caracas, many of the world’s oil capitals are experiencing a summer of discontent. It could be a glimpse of their future. Iraq has seen fatal protests as its electricity grid buckles amid searing heat, while Venezuela’s oil production has sunk to a 75-year low. In Algeria’s capital, tension is simmering as the hardship of virus lockdowns brings the risk of renewed demonstrations and riots.

OPEC has revived oil from its historic drop but prices near $40 per barrel are still far too low for most members as they grapple with weak economies, unstable governments, restless young populations, and the ravages of climate change. As the legacy of the pandemic and the switch to cleaner energy threatens to keep crude prices lower for longer, there are profound consequences for the way oil-rich countries are run.

“The shaky six of OPEC — Algeria, Iran, Iraq, Libya, Nigeria, Venezuela — are facing a very precarious political and economic outlook,” said Helima Croft, head of commodity strategy at RBC Capital Markets. OPEC’s revenue is down about 50% from a year ago, and members’ long-running financial ailments are coming to the fore. Even Saudi Arabia isn’t immune, rolling out a slew of austerity measures last quarter while contending with the tripling of its budget deficit to 109.2 billion riyals ($29 billion).

The prospects for petrostates have dramatically shifted from just a decade ago, when oil prices were near $100 a barrel and consumers were worried about supplies running out.
Now OPEC is increasingly having to reckon with the prospect of peak demand, when consumption starts to decline as wind and solar power become more popular.

**OPEC forecasts 9.1% decline in global oil demand this year**

(The Wall Street Journal; Aug. 12) - The coronavirus pandemic will have an even bigger impact on the global economy and its demand for oil than previously expected, the Organization of the Petroleum Exporting Countries said Aug. 12. OPEC estimates that worldwide demand this year will amount to 90.6 million barrels a day, 9.1 million barrels less than 2019. The 9.1% decline is deeper than OPEC forecast in last month's report.

OPEC also said it expects a 4% contraction in the global economy this year, worse than its earlier estimate of 3.7%. The Vienna-based organization expects economic recovery in all major economies now that lockdowns have eased, but wrote that “the latest surge of infections in the U.S. will need to be closely monitored, as a continuation of this trend may lead to an erosion in rebounding consumer confidence and spending behavior.”

Rising coronavirus cases in India, Brazil, and some Eurozone countries, such as Spain, also could derail economic growth and oil demand, OPEC said. The recovery’s vulnerability has kept oil prices stuck in neutral. Brent crude futures, the global benchmark, and West Texas Intermediate, the main U.S. gauge, have traded in narrow bands the past two months in the low $40s. Despite the risk of another round of lockdowns, OPEC left intact its forecast for a record-breaking demand rebound in 2021.

**IEA reduces global oil demand forecast**

(The Wall Street Journal; Aug. 13) - High coronavirus case numbers in several major economies will blunt the recovery of an oil market already beleaguered by low demand, the International Energy Agency said Aug. 13. In its monthly oil market report, the IEA forecast a sharper contraction in global demand for 2020 for the first time in several months. The agency expects global demand to fall by 8.1 million barrels this year, or more than 8%. That's a bigger drop — 140,000 barrels more — than in July’s report.

The IEA said the downgrade reflected the stalling recovery in transport activity and stubbornly high COVID-19 infection rates. Aviation activity was down by two-thirds last month from its normal mid-summer levels, while “the virus continues to impact road transport as people avoid nonessential trips and working from home remains the norm in much of the West,” the Paris-based organization added.

Crude prices have traded within a narrow range in the low $40s in recent months, with declining inventories and recovering economic activity on the one hand, and rising coronavirus cases and localized lockdowns on the other. However, the price recovery
appears to be at risk of stalling given increases in supply. Global supply increased by 2.5 million barrels a day in July with Saudi Arabia ending its voluntary additional cuts. In addition, U.S. and Canadian production is starting to rise again, the report said. At the same time, OPEC+ nations agreed last month to soften production cuts starting Aug. 1.

This year’s U.S. oil and gas industry job losses near 100,000

(Houston Chronicle; Aug. 10) - Job losses related to the coronavirus pandemic are approaching the 100,000 mark for U.S. oil field service companies as layoffs continued to mount in July. U.S. oil field service companies laid off an additional 9,300 employees in July, bringing this year’s number of pandemic-related job losses to 99,253 people, according to new figures from the Petroleum Equipment & Services Association.

The pandemic has created a global supply glut and lowered demand — cutting prices for crude oil, natural gas and other related products, and causing large financial losses for oil companies, equipment manufacturers and service providers. Employment in the service sector is down more than 118,000 jobs since July 2019 and is now at its lowest point since March 2017, the industry association reported.

As the largest producer of oil and gas in the United States, Texas made up more than half of the job losses. Oil field service companies have laid off 59,200 people in Texas since the beginning of the year, the association reported. Colorado was second with an estimated 10,200 jobs lost so far this year, the association reported. The 99,253 jobs lost so far this year represent $12.7 billion in annual wages.

U.S. oil and gas bankruptcy count passes 50 since March

(Reuters; Aug. 11) - Another 16 U.S. energy firms filed for protection from creditors last month, reflecting crude oil prices below levels that are profitable for many companies, according to a report by law firm Haynes and Boone on Aug. 11. More than 50 oil and gas firms have filed for bankruptcy since prices crashed in March, led by exploration and production companies with 29 filings. The amount of debt held by these companies, $49.69 billion, is nearly twice the debt held by energy bankruptcy filers all of last year.

Prices have fallen by about a third from above $60 a barrel at the start of the year as the COVID-19 pandemic crushed fuel demand. They briefly turned negative in April. Energy companies this year rushed to slash spending by laying off workers, paring executive salaries and scaling back drilling, but producers still posted large losses. “This latest downturn not only affects smaller recently hatched shale producers, but July saw two of the largest filings involve well-established oil companies,” lawyers wrote in a note.
Last month, oil and gas producers California Resources and Denbury Resources both filed for Chapter 11. Together they accounted for $7.7 billion in debt. Shale gas giant Chesapeake Energy filed for Chapter 11 in June, listing $9.17 billion in debt. Some 21 oil field service firms have filed for bankruptcy since the start of the downturn. In July, according to the report, filers included driller Noble and fracking companies BJ Services and Calfrac Well Services. Hi-Crush, a fracking sand supplier, also filed for Chapter 11.

**BP will need large investments to reach renewable energy target**

(Reuters; Aug. 9) - BP will need to invest tens of billions of dollars over the next decade and may have to accept lower returns than it can get from oil if it is to meet its target of becoming one of the world’s largest renewable power generators. The oil and gas company wants 50 gigawatts of renewables such as wind, solar and hydropower in its portfolio by 2030, up from just 2.5 GW now and more than the total renewable capacity in the United Kingdom at the moment.

European oil firms are under pressure from activists, banks, investors, and some governments to shift away from fossil fuels and are trying to find business models that offer higher margins than the mere production of renewable energy would generate. Last week BP followed Eni in committing to cut its oil production over the coming decade and set a bigger target for reductions than the Italian company.

Analysts say large offshore wind farms probably offer the quickest route for BP to scale up. But as they can take years to develop, and have high start-up costs, it may have to turn to acquisitions — and they will not come cheap. BP already has debt of $41 billion, and as investors increasingly turn away from fossil fuel producers to green energy firms, BP’s shares have halved over the past two years, cutting its market value to under $80 billion. By contrast, shares in Denmark’s Orsted, one of the world’s biggest offshore wind developers, have surged 135% in the same period, reaching a value of $60 billion.

**Norway’s Equinor names new CEO as it turns to renewables**

(Reuters; Aug. 9) - Equinor has appointed Anders Opedal as its new chief executive as the Norwegian oil and gas group looks to speed up a move into renewable energy. The new CEO, who had been Equinor’s head of technology, projects and drilling and is the first engineer to lead the company, replaces Eldar Saetre, who will retire after more than 40 years at Norway’s biggest company. Opedal’s appointment is effective Nov. 2.

European oil companies are pushing ahead with plans to develop emissions-free sources of energy with some, such as BP and Eni, promising to cut their oil and gas production. Equinor is maintaining a target of expanding its oil and gas output by 3% a year until 2026, Opedal told Reuters. After that, things could change. “I am willing to
reallocate capital between oil and gas and renewables,” he said. “It will depend on the opportunities we will have at that point in time.”

“Equinor is entering a phase of significant change as the world needs to take more forceful action to combat climate change,” Chairman Jon Erik Reinhardtsen said. In 2018, Saetre changed the majority state-owned company’s name from Statoil to Equinor and promised to increase investment in renewable energy. Opedal said the company would also seek to build new business within hydrogen, carbon capture, and storage as well as other low-carbon solutions.

**Canadian producers need to reduce emissions to attract investment**

(Reuters; Aug. 11) - Canada needs to sharply reduce greenhouse gas emissions from oil and gas production if the country expects to attract investment necessary to expand output, Canadian Natural Resources Minister Seamus O’Regan said Aug. 11. The world’s fourth-largest global oil producer has been weakened in recent years by multinational producers scaling back and investors pulling out due to poor economics and a tarnished environmental image.

Even so, production grew until the Alberta provincial government ordered output curtailments last year to cope with congested pipelines. This year’s pandemic further reined in production. “This industry has time and time again shown its resilience and every time there’s a forecast of its demise, it has overcome,” O’Regan said. “I think you’ll see an industry that is, before our eyes, changing.

That change must include working toward the globe’s lowest-emitting oil barrel, he said. Canada in 2018 produced the most upstream carbon dioxide intensity per barrel of oil equivalent among the world’s top 10 producing nations, according to consultancy Rystad Energy. “If you do what is required to lower emissions, you will be rewarded with increased investment. If you don’t, you’ll be punished,” O’Regan said. Canadian producers have reduced emissions intensity per barrel, but overall emissions are rising.

**Wyoming increasingly reliant on oil, gas and coal revenues**

(Casper Star Tribune; WY; Aug. 8) - On June 26, Wyoming’s oil and gas rig count sank to zero for the first time in more than 136 years. Events this spring and summer have devastated the U.S. oil and gas business. “It’s unprecedented,” said Nathan McLeland, who followed his father and grandfather out to the oil fields and now runs M&K Oil Co., based in Gillette with operations in northeastern Wyoming. “In all this time, I’ve never seen anything like this. It’s terrifying. Oil, gas, and minerals are the backbone of our economy. It’s hard to know how this will affect things overall,” McLeland said.
Low prices and weakened demand this year forced him to lay off about half of his staff and stop production. Wyoming is among the top 10 oil and gas producers nationwide, and holds some of the country's largest coal mines. With those resources, Wyoming is one of few states able to rely almost exclusively on revenue from fossil fuels to fund public services. For years the public has called on lawmakers to diversify the state’s economy. Nonetheless, Wyoming continues to rely heavily on minerals for funding.

In recent years, the state’s budget has become increasingly dependent on oil and gas for income as the coal sector contracts. Last year alone oil and gas producers provided $1.67 billion to state and local governments, according to the Petroleum Association of Wyoming. But a preliminary report presented to Wyoming lawmakers in May revealed the state could face a $1.5 billion revenue decline between March 2020 and June 2022 in light of the COVID-19 pandemic and the collapse in oil prices.

**Cameron LNG in Louisiana reaches full production capacity**

(LNG Global; Aug. 10) - Sempra LNG announced Aug. 20 the third liquefaction train for Phase 1 of the Cameron LNG export facility has started commercial operations. Cameron LNG, in Hackberry, Louisiana, started commercial operations of Train 1 in August 2019 and Train 2 in February 2020. The $10 billion facility has shipped almost 100 cargoes totaling more than 6 million tonnes of LNG the past year. At full production of all three trains, the plant has capacity to make 13.5 million tonnes per year of LNG.

Cameron LNG is jointly owned by affiliates of San Diego-based Sempra, Total, Mitsui, and Japan LNG Investment, a company jointly owned by Mitsubishi and Nippon Yusen Kabushiki Kaisha. Sempra Energy indirectly owns 50.2% of Cameron LNG. The company has plans to add two more liquefaction trains to the terminal, but is taking more time to decide on the expansion project. Cameron is one of six liquefaction and export plants in operation in the United States.

**U.S. natural gas production in 2021 forecast at 9% below 2019 level**

(Reuters; Aug. 11) - U.S. natural gas production and demand will drop in 2020 and 2021 from record highs last year as coronavirus lockdowns cut economic activity and energy prices, the U.S. Energy Information Administration said Aug. 11. EIA’s Short-Term Energy Outlook projected dry gas production will drop to 88.65 billion cubic feet per day in 2020 and fall further in 2021, down to 84.02 bcf a day, down almost 9% from the all-time high of 92.21 bcf a day in 2019.

That would be the first time demand has fallen for two consecutive years since 2006. One bright spot is exports. The agency forecast U.S. liquefied natural gas exports would reach 5.54 bcf per day in 2020 and 7.28 bcf per day in 2021, up from a record
4.98 bcf per day in 2019. Though even at 7.28 bcf a day in 2021, U.S. LNG exports would be short of capacity to liquefy and ship the fuel. Weakened global demand is cutting into LNG exports from the U.S. and other suppliers.

**BLM keeps ANWR leasing plan under wraps**

(E&E News; Aug. 10) - The Trump administration may have a road map for holding the first oil and gas lease sale in the history of the Arctic National Wildlife Refuge, but it's keeping the plan under wraps, current and former Interior Department staffers say. Buying oil and gas development rights in the refuge would be perhaps the biggest oil industry breakthrough on Alaska's North Slope since the trans-Alaska pipeline started carrying crude in 1977. The administration finalized its environmental review of an ANWR leasing plan last September, promising a sale by the end of 2019, then 2020.

By late March, the coronavirus pandemic had set in and oil prices plummeted. The Bureau of Land Management, the Interior agency tasked with carrying out oil and gas auctions, delayed several lease sales in Western states due to the COVID-19 crisis. Now several former BLM officials who speak regularly with current staffers say employees are being kept in the dark on the politically charged ANWR drilling plan. "It does not appear that staff are being kept in the loop," one source said.

That's because the issue "is being handled at the political level," said another former senior Interior official who talks frequently with bureau leaders. Meanwhile, no one is revealing what happened to a widely expected record of decision approving the oil and gas leasing program, which appears to be in "close hold" among political officials in Washington, one former senior BLM official said. "Folks at the bureau level haven't seen [the record of decision] in either BLM or the Fish and Wildlife Service, assuming it has been drafted," the source said. Interior declined to answer questions last week.

**Insurgents take control of Mozambique port town near LNG project**

(Bloomberg; Aug. 12) - Fighters linked to Islamic State took control of a northern Mozambique port town that's been a key logistics link for a $23 billion natural gas project that Total is building, according to Risk Advisory Group (RAG). It's the third time this year the insurgents have seized Mocimboa da Praia, located about 37 miles south of the LNG project and the closest harbor. About three months ago, fighters that first pledged allegiance to IS in 2018 occupied the town for as long as three days.

The site of Total's liquefied natural gas project is in the preparations stage, with the company having recently finalized an initial $15 billion of financing. The town is among several access points to bring in supplies, including a port and airport to serve the
development. The fighting, though, shows an escalation of insurgent attacks in the region that authorities are battling to contain.

“The capture of Mocimboa da Praia, as well as the previous assaults on district capitals since March, shows that the capabilities of IS militants has improved,” Tristan Gueret, an analyst at RAG in London, said Aug. 12. “Although it is another indication of the fast deterioration in the security environment in Cabo Delgado, the success of the attack … does not necessarily have major or immediate implications for LNG operations,” Gueret said. The Total project area is “currently secured by a dedicated force, and this means that mounting a successful raid there would be much more challenging for the group.”

**Delta Air Lines' refinery purchase has not gone as planned**

(The New York Times; Aug. 10) - Jet fuel is known as the Steady Eddie of the refinery business, a predictable profit maker that balances the seasonal gyrations of gasoline and diesel sales. But for airlines, fuel is a big and unpredictable expense. So, Delta Air Lines tried a bold experiment: It bought a refinery in 2012 outside Philadelphia, the first such purchase by a major U.S. airline. When jet fuel prices were high, Delta figured the refinery could offset some of its expenses and perhaps even make some money.

But the refinery made only modest profits some years and lost money in others. This year, as the coronavirus hammered demand for air travel, it has become a liability for Delta, widely considered by analysts as one of the best-run airlines in the country. Today, airlines and refineries face their biggest crises in modern times. Tens of millions of people are working from home and the number of people flying is down about 75% from a year ago. Delta’s refinery, Monroe Energy, has been one of many casualties in an industry that is working well below capacity, idling plants and losing money.

Monroe lost $114 million in the second quarter and its future appears bleak. In 2018, Delta said it was interested in finding a partner to jointly own and operate it, but did not find any takers. “The refinery may not even be a live albatross,” said Tom Kloza, global head of energy analysis at Oil Price Information Service. Though a relatively small slice of total output, jet fuel is crucial for most refineries. While gasoline is profitable during the summer driving season and diesel is profitable in the fall and winter, jet fuel is high-margin year-round. As Delta’s fuel demand dropped, Monroe switched to making more diesel. But diesel inventories are growing in the Northeast, potentially limiting sales.

**Companies start storage drawdown from Strategic Petroleum Reserve**

(Reuters; Aug. 10) - Energy companies have begun taking back millions of barrels of oil from the U.S. government's emergency stockpile after renting storage in the facility to help manage a glut of crude this spring after energy demand collapsed during COVID-
19 lockdowns, a Department of Energy website showed on Aug. 10. Since Aug. 1, companies have taken back 2.2 million barrels of oil of the 23 million barrels they agreed to store in the Strategic Petroleum Reserve.

The companies have until March 31, 2021, to take back the oil after renting the space for a small fee. Nine oil companies including ExxonMobil, Chevron, and Alon USA rented space from the reserve, a series of underground salt caverns on the Texas and Louisiana coasts, an Energy Department official said in April. An oil trader said that at least two companies, Exxon and Atlantic Trading & Marketing, a U.S arm of French oil major Total, had taken back the 2.2 million barrels.

Taking back oil from the SPR might slow other commercial inventory drawdowns as companies prioritize selling the barrels, market sources said. Exxon had won the lion's share of the total space at the nation's reserve, while ATMI had won about 600,000 barrels of storage space, another trade source said.

**U.S. shale producers cut 20% from last year’s well costs**

(Bloomberg; Aug. 10) - U.S. shale producers are at a crossroads as they find themselves more efficient than ever. They can keep drilling and producing, and potentially dent oil prices, or use the money to pay down debt. Producers across the Permian Basin are saving about 20% on well costs compared to last year, Macquarie Group analysts including Vikas Dwivedi said in a note last week. This could be bearish for oil prices if it means that shale producers have found a way to keep producing oil below the $40-a-barrel level, Macquarie said.

In years past, savings from efficiency improvements led producers to boost production, but this time it's likely they'll use extra cash for dividends and to pay off debt, according to BloombergNEF analyst Tai Liu. Oil drilling dropped to a 15-year low last week, signaling a fundamental shift in the industry that once was obsessed with growth but is now drilling to just ward off production declines. Still, lower prices and apparent high-grading, or focusing on drilling their most profitable acreage, could mean “improving well productivity as the industry settles in at lower activity levels,” according to Macquarie.