Oil and Gas News Briefs
Compiled by Larry Persily
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Pandemic gives BP opportunity to accelerate energy transformation

(Bloomberg; Aug. 1) - As Bernard Looney took to the stage in London in February to announce his plan to transform BP for a low-carbon future, the U.K. capital confirmed its first case of COVID-19. The oil giant's chief executive officer couldn't have known then how much the virus would shake the foundations of his industry: Since the start of the pandemic, BP has said it will write off as much as $17.5 billion of fossil-fuel assets, slash 10,000 jobs, and exit the petrochemicals business.

Despite the pain for shareholders and employees, the crisis is giving Looney the opportunity to accelerate the big changes needed to fulfill his vision. The global spread of coronavirus "only reaffirms the need to reinvent our company," Looney now says. The pandemic has created a world that uses less oil, gets more of its energy from renewable sources, and emits less carbon dioxide — exactly what he says BP should do.

The measures BP has taken so far aren't unique, either in the current slump or in the periodic downturns that have afflicted the industry over the decades. But there's a symbolism that wasn't there before. Quitting a core business like chemicals is a good way to show that the future looks different. Difficult decisions like this have been made easier by the coronavirus crisis, said JPMorgan Chase's head of Europe, Middle East, and Africa oil and gas, Christyan Malek. "What you're seeing BP do is getting its house in order" before announcing a detailed transformation plan in September, Malek said.

Marathon will permanently close refineries in California, New Mexico

(Bloomberg; Aug. 1) - Marathon Petroleum, the largest U.S. independent oil refiner, said it won't restart two refineries in California and New Mexico amid concerns that demand for fuels is unlikely to return to pre-pandemic levels this year. Marathon said in a statement it will convert its 166,000-barrel-a-day Martinez, California, refinery near San Francisco into a terminal facility and may add a renewable diesel plant to align with California's Low-Carbon Fuel Standards and Marathon's greenhouse gas-reduction targets. It will also close the 26,000-barrel-a-day Gallup refinery in New Mexico.

Both refineries were idled in April as COVID-19 decimated demand for gasoline and jet fuel. Marathon said May 5 in its first-quarter earnings call that Martinez and Gallup were targeted because they are the highest-cost facilities among its 16 refineries. It assumed product demand would improve enough to restart them before the end of the year. Subsequently, gasoline demand briefly improved after a slew of states attempted to reopen their economies around Memorial Day, then stalled as COVID-19 raged anew.

London consultancy Energy Aspects says there is too much global refining capacity and existing refineries will be pressured by new facilities coming online that can operate more efficiently, forcing some shutdowns of older sites. It projects global demand won't return to pre-coronavirus levels until 2022. "U.S. gasoline demand may never go back to normal," Amrita Sen, chief oil analyst and co-founder of Energy Aspects, said in an interview. "Demand is trending low and, if anything, COVID is accelerating that." Marathon acquired the refineries in 2018 when it bought rival Andeavor for $23.3 billion.

Oil companies rack up losses, prepare for continued weak demand

(The Wall Street Journal; July 31) - Big oil companies endured one of their worst second quarters ever and are positioning themselves for prolonged pain as the pandemic continues to sap global demand for fossil fuels. ExxonMobil posted a quarterly loss for two straight quarters for the first time this century on July 31, reporting a loss of $1.1 billion, compared with a profit of $3.1 billion a year ago. Exxon, the largest U.S. oil company, hadn't reported back-to-back losses for at least 22 years.

Chevron said July 31 it lost $8.3 billion in the second quarter, down from $4.3 billion in profits during the same period last year, its largest loss since at least 1998. It wrote down $5.7 billion in oil and gas properties, including $2.6 billion in Venezuela, citing uncertainty in the country ruled by strongman Nicolas Maduro. Chevron also said it lowered its internal estimates for future commodity prices.

The dismal results are ratcheting up the problems for the oil giants, which were already struggling to attract investors even before the pandemic, as concerns over climate-change regulations and increasing competition from renewable energy and electric vehicles cloud the future for fossil fuels. Crude has stabilized at around $40 a barrel, providing modest relief, but none of the large oil companies foresee a rapid recovery as countries continue to struggle with containing the coronavirus.

Slower demand recovery puts oil market into surplus

(Reuters; July 30) - Rising OPEC and U.S. oil supply, coupled with stalled economic and crude demand recovery, have pushed the futures market back to indicating a surplus, last observed during oil's collapse in April and May amid the coronavirus pandemic. The development is a headache for OPEC, which had been hoping demand would recover quicker after a round of record oil output cuts. The group will either have to consider further production cuts or tolerate lower oil prices for longer.

The surplus market structure, when prices for prompt delivery are weaker than future prices, is also a boon for traders, as they can store crude in the hope to resell it later at a profit. Shell, Total, Eni, and Norway's Equinor have all reported bumper trading profits over the past week. Front-month September Brent futures in the past week have been trading at a discount of $2 per barrel to March 2021, the steepest discount since May, when lockdown measures against the virus outbreak cut global oil demand by a third.

The structure is known as contango and usually indicates an immediate oil surplus and hopes for a demand recovery and higher prices in future months. "OPEC's experiment to increase production from August could backfire as we are still nowhere near out of the woods yet in terms of oil demand," said Bjornar Tonhaugen, Rystad Energy's head of oil market research. Howie Lee, economist at Singapore's OCBC bank, said the market is unconvinced global oil demand is recovering in the short term.

Reuters survey puts Brent crude at $49.85 next year

(Reuters; July 31) - Oil prices are set for a slow crawl upwards this year as the gradual easing of coronavirus-led restrictions buoy demand, although a second COVID-19 wave could slow the pace of recovery, a Reuters poll showed on July 31. The survey of 43 analysts and economists forecast benchmark Brent crude to average $41.50 a barrel in 2020, up slightly from the $40.41 consensus in last month's survey. It is expected to average $49.85 in 2021.

Oil is "caught-up in a step-wise rebalancing process" with the "pieces moving in the right direction" on the supply side, said Harry Tchilinguirian, head of commodity research at bank BNP Paribas. "It's in demand recovery where the uncertainty lies, with COVID-related developments generating concerns that the pace of reopening may be impeded." The poll projected overall global demand to contract between 7.2 million and 8.5 million barrels per day for the full-year average by the end of 2020.

A promising vaccine for the virus could, however, fast-track economic recovery and in turn boost oil prices, analysts said. "A breakthrough of the $40 to $45 range is possible if the comeback of the global economy will be faster and stronger than expected," LBBW analyst Frank Schallenberger said.

LNG exports in July down 9.4% from a year ago

(Bloomberg; Aug. 3) - The liquefied natural gas market contracted for a third month in July as countries continue to struggle with the economic fallout from the coronavirus pandemic. Global LNG exports dropped 9.4% from the previous July, the steepest year-over-year decline since at least December 2017, according to ship-tracking data compiled by Bloomberg. The biggest drops in exports came from the U.S. and Australia.

The pandemic has thrown cold water on the fastest-growing fossil fuel, with demand seen possibly extending its decline through 2021. Several once-promising export projects are struggling to find financing as the LNG market's breakneck expansion stalls, threatening a worse supply glut over the next decade. Meanwhile, some of the world's biggest buyers of LNG have struggled to make room for contracted shipments this summer as COVID-19 stalled economic activity and left stockpiles near capacity.

This has forced exporters to make the difficult decision to lower output and withhold cargoes from the market in a bid to balance global supplies. U.S. exports fell about 40% from a year earlier due to customers potentially canceling more than 50 cargoes slated to load from Gulf Coast projects. Spot prices in Asia, the biggest demand region for the fuel, have started to recover from record low levels amid speculation that onset of the winter heating season will boost consumption. However, a steady stream of exports from cornerstone suppliers like Qatar and Nigeria have so far capped the rebound.

Hydrogen could be the next energy for the future

(Bloomberg Green; July 29) - For a glimpse into the future of a hydrogen-fueled world, look no further than natural gas and the technology that rapidly transformed it into a global commodity. Following the lead of natural gas, Japan is preparing for trial imports from Australia of super-chilled liquid hydrogen. German energy utility RWE is promoting hydrogen for a planned liquefied natural gas import terminal, while Britain's National Grid is exploring options for the fuel at its LNG receiving port near London.

"In the future, many LNG import terminals will almost certainly allow for the import of both LNG and liquid hydrogen," said Rob Butler, a global projects partner at law firm Baker Botts. Nations around the world are advocating cleaner energy, and hydrogen has gained in popularity as its emissions are far less than fossil fuels. The European Union wants to be a hub for the fuel, much as it is for natural gas. The EU this month adopted a hydrogen plan calling for an estimated investment of $500 billion by 2030.

But a transition to hydrogen isn't straightforward. The smaller molecules can pass through valves and seals designed for natural gas, and hydrogen is notoriously volatile. Hydrogen and natural gas cannot mix as a liquid, so separate storage facilities and tankers would have to be built. Europe is watching trials in Japan, where the world's first liquefied hydrogen carrier was introduced in December. In addition, hydrogen is much colder. LNG is chilled to minus 260 Fahrenheit for transport. Liquid hydrogen is minus 423 Fahrenheit, requiring tankers with more sophisticated insulation to keep chilled.

U.S. oil-and-gas industry jobs down 30% since October 2018 peak

(Reuters commentary; July 31) - Slumping oil and gas prices as a result of the pandemic and the volume war earlier in the year between Saudi Arabia and Russia have slashed employment in U.S. oil and gas fields at some of the fastest rates on record. Oil and gas-related employment is split across several different categories in the federal government's statistical system, making it hard to precisely track changes in total oil field and gas field employment.

One of the largest and most visible categories is "support activities for oil and gas operations," covering a wide range of activities from exploration, site works, casing and tubing to cementing, fracking and acidizing. Total employment at support firms fell by 54,000 jobs (20%) in just three months between February and May, according to the U.S. Bureau of Labor Statistics. The combined impact of the coronavirus epidemic and price slump have produced the industry's worst job losses in more than 30 years.

Employment has shrunk by 86,000 (30%) compared with its recent peak in October 2018 and is now back to the low level reported in the aftermath of the previous volume war in 2014-2016. Even more job losses are likely to have occurred in June and July given the continued drop in the number of active rigs reported by field services firm Baker Hughes since the end of May. Some rigs will likely be dismantled and scrapped; drilling, fracking, and site preparation crews disbanded; and smaller businesses closed.

Shell and Total make money on oil trades, speculation

(Bloomberg; July 30) - The secretive oil-trading businesses of Shell and Total saved both majors from posting losses in the second quarter, bringing a torrent of cash that countered the impact of the coronavirus crisis. Investors had already been warned that the pandemic hammered almost all parts of the energy giants' businesses. But that was offset by gains from speculating on energy markets, the companies said July 30.

In keeping with tradition, Shell and Total didn't disclose exactly how much money their trading operations made, but acknowledged they were able to exploit extreme price volatility during April's record supply glut. The quarter was "the best on record" for Shell's trading unit, Chief Financial Officer Jessica Uhl said on a call with reporters. Shell took advantage of its sprawling infrastructure, allowing it to capitalize on market volatility — from storing oil cheaply to adapting refineries to meet changes in demand.

When asked by investors on a separate call about how much money the traders made, Total CEO Patrick Pouyanne responded: "The oil trading is a secret." He would only say it made about $500 million more than usual, but refused to disclose what's usual. With trading floors in cities from London to Singapore, the European majors have an edge over their main American rivals, which market their own energy production but largely eschew pure trading as a means of generating profits.

Oil cargoes bound for China fall to lowest since May

(Bloomberg; July 31) - The volume of crude bound for China has plunged to its lowest level since early May, hinting at faltering demand in contrast to the buying bonanza that took place only a few months ago. The number of supertankers expected in the Asian nation during the next three months fell by 12 this week to 111, ship-tracking data compiled by Bloomberg show. The decline underscores faltering demand as global infections of COVID-19 rise and the world braces for a second wave of the virus.

Back in May, Chinese oil demand soared to around pre-coronavirus levels, and more tankers than at any other time raced to the world's largest crude importing nation to discharge their cargoes. China's thirst outpaced both Europe and the U.S., and a buying binge buoyed the physical price of crude in Asia and underpinned a rebound in oil.

Now, a resurgence in virus outbreaks and significant flooding along the Yangtze River have forced people to remain in their homes. China's demand for oil seems to be slowing, with prices slipping. The reduced number of tankers bound for the country underscores that buying weakness and suggests a drop in imports by China is coming.

BIA orders shutdown of North Dakota pipeline over land trespass

(Bismarck Tribune; ND; July 31) – A federal agency has ordered the shutdown of a pipeline that delivers oil to Marathon Petroleum's Mandan Refinery in North Dakota, seven years after an easement allowing the line to cross part of the Fort Berthold Indian Reservation expired. The Bureau of Indian Affairs is billing Marathon $187 million for damages associated with the trespass by the company's Tesoro High Plains Pipeline. The facility is the largest in the state with capacity to refine 71,000 barrels per day.

Marathon has vowed to appeal the BIA order, which requires that the company "immediately cease and desist" using the segment of its High Plains pipeline system deemed to be trespassing. The line remains operational, according to a statement Marathon posted to a website. The shutdown order comes after several years of negotiations and litigation over the pipeline, which was built in 1953 and has undergone easement renewals every 20 years until the most recent one expired in 2013.

The BIA is involved because it holds some of the land where the pipeline crosses in trust for individual allottee landowners, members of the Three Affiliated Tribes. The landowners seek compensation for "years of trespass" during which time the pipeline operated across their land with an expired easement, according to a lawsuit filed in 2018. Negotiations between the parties on the terms of a new easement had stalled. A former tribal chief said the company has made lowball offers for compensation.

[Developer writes off $2.8 billion for canceled Atlantic Coast gas line]

(Reuters; July 31) - U.S. energy company Dominion Energy said July 31 it took a $2.8 billion charge in the second quarter related to the cancellation of the Atlantic Coast natural gas pipeline from West Virginia to North Carolina. Atlantic Coast was the most expensive U.S. gas pipeline under development when Dominion and partner Duke Energy exited the $8 billion project earlier this month due to regulatory uncertainty following years of delays and billions of dollars of cost overruns.

Atlantic Coast is just one of several U.S. oil and gas pipelines mired in legal and regulatory battles with local and environmental groups that have found numerous problems with U.S. permits issued by Trump administration agencies. When Dominion started work on the 600-mile pipe in the spring of 2018, the company estimated it would cost $6 billion to $6.5 billion and be completed in late 2019.

In the weeks before canceling the project, however, Dominion said it could finish the project in early 2022 only if it received new federal permits soon that would survive court challenges. In addition to regulatory delays, Atlantic Coast was also hurt by a short-term hit to natural gas demand from the coronavirus and a longer-term hit from growing consumer interest in more clean-energy projects. Virginia is one of several states seeking to achieve 100% carbon-free power over the next two decades.

[Construction at Pennsylvania LNG plant on hold]

(The Citizens' Voice; Wilkes-Barre, PA; Aug. 1) - Construction at a natural gas liquefaction plant in northcentral Pennsylvania that could send tanker trucks through the Back Mountain or the Abingtons is on hold, but concerns persist over how the plant could eventually ship millions of gallons of LNG. New Fortress Energy began work on an approximately $800 million facility in Bradford County last year. The plant would ship LNG by rail and tanker trucks to a proposed export terminal outside of Philadelphia.

New Fortress has not publicly stated what routes it will use, nor have potential routes been included in public documents. Members of Protect Northern PA, a small group formed in April in opposition of the project, believe there are only two feasible routes for tanker trucks, both of which snake through populated areas, said group facilitator Diana Dakey. However, work at the site is suspended until at least next year. New Fortress Energy told investors in May there is no guarantee the plant will be completed, blaming COVID-19 restrictions for work delays and weak markets for the project uncertainty.

With plans to produce up to 3.6 millions of gallons of LNG each day (almost 300 million cubic feet of gas per day), New Fortress would require a large volume of train cars or tanker trucks. Delaware River Partners, a subsidiary of New Fortress' parent company, would operate the marine terminal. The project is under review by the Delaware River Basin Commission, which includes Pennsylvania, Delaware, New Jersey, and New

York. The commission initially approved plans in 2019 before opting to hold a hearing for more public feedback. The commission held the hearing in May; a decision is pending.

New gas-linked LNG pricing in China could start a trend

(S&P Global Platts analysis; July 30) - Gas supply contracts agreed to this month by Chinese buyers with BP could kick-start a trend of gas-on-gas pricing in the country to solve the disconnect between oil and gas pricing fundamentals, market sources said. China's Foran Energy on July 21 signed a contract for BP to supply and regasify liquefied natural gas for delivery into the pipeline system at up to 29 billion cubic feet of gas over two years, local media reported. The deal was first announced in April.

The contract price was linked to the Japan-Korea Marker (JKM), the benchmark price for spot LNG in Northeast Asia, with a premium attached, although further could not be verified, according to multiple trading sources. This comes after BP and China’s ENN signed a deal July 9 for 14 bcf of regasified supply over two years via the Guangdong Dapeng LNG terminal, in which BP holds a 30% stake. The deal was widely heard to have been linked to JKM as well, with an approximate premium of $2 per million Btu.

While contracts based off LNG prices are a new phenomenon in China, there have been instances in other Asian markets. Multiple trading sources said the ENN deal was the first time a regasified LNG supply contract was priced against an international LNG benchmark. Most contracts in China are typically priced off oil, but low LNG prices due to a global oversupply have made it cheaper than traditional oil-linked pricing. Several Chinese end-users noted that the signing of spot LNG-linked contracts could be a new trend in the domestic market, especially with LNG prices holding at record low levels.

BP may sell share of Oman gas field to Chinese company

(Bloomberg; July 30) - China National Petroleum Corp. is in talks to acquire part of BP’s stake in a key gas field in Oman, according to people familiar with the matter. China’s state-owned oil giant is having advanced discussions with BP for a 10% stake in the Khazzan natural gas field, the people said. The minority stake could fetch about $1.5 billion, said the sources, asking not to be identified as the matter is private.

No final decisions have been made and others have also expressed interest in the asset, the people said. Representatives for BP and CNPC declined to comment. BP owns a 60% stake in the project, while its partner Oman Oil Co. has a 30% stake after it sold a 10% share to Malaysia’s state oil company in 2018.

China has been stepping up its presence in the Middle East as Beijing wants to increase its global influence and revive ancient trading routes under the Belt and Road initiative. Last year State Grid Corp. of China agreed to acquire a 49% stake in Oman's state-owned power transmission company in the first major privatization by the Middle East's largest non-OPEC oil producer.

Environmental justice guidelines not legally binding on FERC

(E&E News; July 31) - In April, the Federal Energy Regulatory Commission gave the green light to turn on a natural gas compressor station in the southwest Georgia city of Albany as the area emerged as one of the worst coronavirus hot spots in the country. Now the rural and predominantly county has recorded more than 2,500 coronavirus cases and 167 deaths, accounting for more than 40% of all COVID-related fatalities in the state, according to Georgia Department of Public Health data.

"This is such an alarming situation," said Tosh Sevier, a community liaison for the local nonprofit Albany Cares. "To increase the pollution in this area in the middle of a pandemic is a travesty." Studies show that Black, indigenous, Latino, and low-income White communities are significantly more likely to bear the brunt of environmental pollution as compared with their more affluent, predominantly White counterparts. For example, more than 60% of African-Americans and 40% of Latinos live within 30 miles of a coal-fired power plant, according to the NAACP.

A 1997 guidance from the White House Council on Environmental Quality lays out best practices for agencies to address environmental justice in their reviews, though they are not legally required to act on their findings. While FERC endeavors to examine environmental justice impacts, it's not required to follow a checklist, said Glenn Benson, with the law firm BakerHostetler. "If a project is required for the public convenience and necessity, which is the statutory standard, then the fact that it disproportionately impacts environmental justice communities is not going to block the project from getting built."

Trump authorizes bump in Canadian oil line capacity into U.S.

(S&P Global Platts; July 30) - The Trump administration issued a new permit for TC Energy's existing Keystone pipeline network, allowing the company to boost cross-border shipments by as much as 170,000 barrels per day. President Donald Trump on July 29 issued the authorization, required for pipelines that cross U.S. borders.

While TC Energy does not immediately plan to use all of the capacity bump, the increase would accommodate new shipments secured through an open season for Keystone, President, CEO Russ Girling said on a July 30 conference call. The decade-old Keystone system, which connects the oil sands center of Hardisty, Alberta, with a hub in South Dakota that has links to the Midwest and Texas, was designed to operate at higher pressures than it currently runs. This makes increases in oil transportation capacity possible through the addition of pumping power.

The new permit will allow TC Energy to boost shipments on its Keystone system to 760,000 barrels per day from 590,000, which would ease some of the pressure on Canadian oil producers from pipeline capacity limits. The administration's action comes amid challenges to another TC Energy project, the 830,000-barrel-a-day Keystone XL line. A federal judge earlier this year suspended the methodology the U.S. Army Corps of Engineers used to approve pipeline water crossings. An appeals court reinstated the permit program pending further action, but Keystone XL was exempted from that action.