Oil and Gas News Briefs
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Permafrost thawing out from under Russian energy projects

(Washington Post; July 28) - The smell of diesel was so overpowering that it made Vasily Ryabinin dizzy. As an inspector from Russia's environmental agency, Ryabinin went on his own to the Daldykan River in the Siberia city of Norilsk to see the aftermath of a major fuel leak at a metals plant. He was also getting a glimpse of something else: possible warning signs for Russia's plans to expand its industrial and military footholds across the country's resource-rich Arctic — one of the world's fastest-warming regions.

This surge in climate change in interior Russia — more than three times the global average — is throwing new risks in the way of President Vladimir Putin's Far North agenda. A key danger is piling more infrastructure atop rapidly thawing permafrost. As the permafrost destabilizes, so will the buildings, oil and gas pipelines, roads, railways, and military bases built on top of it, environmentalists and others warn.

This is what metals giant Norilsk Nickel claims happened in late May at its power station about 200 miles north of the Arctic Circle. Melting permafrost shifted the foundation and ruptured a tank, sending 150,000 barrels of diesel into a fragile ecosystem of rivers and wetlands. The spill "was a signal to the political governance of Russia that the Arctic is not a piece of cake," said Vladimir Chuprov, with Russia's branch of Greenpeace.

The Kremlin published its 15-year Arctic plan in March, outlining a plan to develop new energy projects and create tens of thousands of jobs to lure people to the Far North. But major Russian energy producers such as Gazprom, Novatek, and Norilsk Nickel could face a big financial hit because of melting permafrost, according to a Morgan Stanley report obtained by the Russian business daily newspaper Vedomosti. Scientists have warned that as the world warms, the Arctic would warm faster than the rest of the globe.

Deutsche Bank will stop financing Arctic oil and gas

(Barents Observer; Norway; July 28) - Frankfurt-based Deutsche Bank adopted its new fossil fuels policy on July 27, with strict limitations on future involvement in coal, oil, and gas. Effective immediately, the world's 17th-largest bank said it "will no longer finance any new projects in the Arctic region." The bank also said it will review all its existing business activities in the oil and gas sector by the end of 2020. And also effectively immediately, the bank will halt all financing of new oil sands projects, the bank said.

The game-changing move by the German bank is a big blow to those in the industry that still look north for exploration of new fields. “This is just the beginning of the end for the fossil fuel industry,” said Frederic Hauge, head of the Bellona Foundation, an Oslo-based international environmental group. The decision by Deutsche Bank is “a signal to all investors that conversion to clean energy can’t start soon enough.”

In addition to backing out of Arctic oil and gas, the bank has decided to end its global activities in coal mining no later than 2025. By the end of 2020, the bank will review its existing business activities in Europe and the U.S. with regard to clients’ diversification plans involving coal power. For Asia, a similar review will begin in 2022. “The policy sets us ambitious targets and enables us to help our longstanding clients with their own transformation. It will allow us to play our part in protecting the climate and helping the EU to achieve its goal of being climate neutral by 2050,” said CEO Christian Sewing.

Melting sea ice opens up Arctic route earlier for Russian tankers

(Barents Observer; Norway; July 27) - The spike in shipping along Russia’s Northern Sea Route comes as sea ice melting over the past weeks has reached unprecedented levels. According to Russia’s National Snow and Ice Data Center, ice levels on July 15 stood at 2.9 million square miles, about 4% less than the record low for this time of year set in 2011. A key reason for the major sea ice melting is the heat wave that moved across Russia’s arctic coast in May and June, the researchers said.

Already in mid-July, the Northern Sea Route was almost ice-free. Ice maps from the Russian Arctic and Antarctic Research Institute show that the Vilkitsky Strait and East Siberian Sea, the most icy and difficult parts of the sea route, allowed easy passage for ships. More than 50 vessels are currently sailing on the route, figures from the Northern Sea Route Administration show. Several of them are tankers bringing petroleum products from Arctic fields to Asian markets.

This year’s first liquefied natural gas carriers made it across the route in late May, the earliest voyages ever. While the first LNG tanker in May was accompanied by an icebreaker, subsequent vessels sailed most of the route independently without icebreaker escort. As of July 26, there were 16 oil and gas tankers sailing on the eastern part of the Northern Sea Route, some of them small tankers that had sailed up Siberian rivers and into arctic waters. There are also several cargo ships on the route.

Total takes $8 billion write-down; forecasts oil at $35 this year

(Bloomberg; July 29) - Total announced an $8.1 billion write-down after the push to curb carbon emissions and the coronavirus pandemic challenged assumptions about the long-term viability of some oil and gas assets. The bulk of the impairment — about $7 billion — applies to Canadian oil sands, which are costlier and more carbon intensive than conventional fields. Total said it will not approve any capacity increase on projects of this type and will withdraw from Canada's oil-industry lobby group.

The French energy giant is following BP and Shell, which already warned that they could write down almost $40 billion between them in the second quarter. The size of the impairments shows how the global health crisis, combined with the push to slow climate change, is shaking the industry's foundations. Most major European oil companies had valued their assets using long-term prices of $60 to $80 a barrel. That's close to where international benchmark Brent was trading before the pandemic, but is now considered unrealistic in the post-COVID economy. Total expects Brent to average $35 this year.

"Beyond 2030, given technological developments, particularly in the transportation sector, Total anticipates oil demand will have reached its peak and Brent prices should tend toward the long-term price of $50 a barrel," the company said July 29. America's biggest oil producers are coming under increasing pressure to disclose their long-term forecasts. ExxonMobil and Chevron don't publish such estimates, leaving shareholders less able to scrutinize how their investment plans square with market realities.

North Dakota city will learn whether it is overextended

(E&E News; July 27) - Even for a pandemic, Main Street in Watford, North Dakota, is quiet, maybe the quietest it's been during the decade of furious construction that built western North Dakota's Bakken oil fields into the second largest oil-producing region in the nation. In recent years, the city added hundreds of new apartments, a new high school and elementary school, a hospital, a law enforcement center, a sewer plant, a highway bypass, and even a community-built nonprofit day care.

And, of course, an $83 million event center on a hill east of town, financed in part with a penny sales tax and an aggressive monthly repayment schedule that had many here nervous as oil prices began collapsing this spring and as the pandemic kept people from stores. Both events have tested Watford City's vision of itself as a livable, small-town community that was able to find creative solutions to manage its growth from 1,744 people in the 2010 census to an estimated 7,835 last year.

"There are constant reminders of the fragile balance between seizing an opportunity and overextending," said Vawnita Best, community development director. The city is waiting to see just how lean it will get. Since March, oil companies have shut in 7,500 wells across the state and all but ceased new drilling. Production fell from 1.2 million barrels to 858,000 in May, the lowest since June 2013. More than 10,000 oil field jobs vanished, a number that could grow as the federal Paycheck Protection Program ends.

North Dakota State University in May released a bleak economic forecast into early 2021. It predicted the state would see salaries and wages drop, "a decrease in the labor force, an increase in the unemployment rate, a decrease in gross state product," and, most alarmingly for a state that runs on oil, "a decrease in total tax collections."

OPEC nations ‘waking up to a new reality’ about future demand

(Reuters; July 27) - The pandemic drove down daily crude consumption by as much as a third earlier this year, at a time when the rise of electric vehicles and a shift to renewable energy sources were already prompting downward revisions in forecasts for long-term oil demand. It has prompted some officials in the Organization of the Petroleum Exporting Countries to ask whether the dramatic demand destruction is a permanent shift and how best to manage supplies if the oil age is drawing to a close.

“People are waking up to a new reality and trying to work their heads around it all,” said an industry source close to OPEC, adding the “possibility exists in the minds of all the key players” that consumption might never fully recover. Reuters interviewed seven current and former officials or other sources involved in OPEC, most of whom asked not to be named. They said this year’s crisis that sent oil below $16 a barrel had prompted OPEC and its 13 members to question long-held views on the demand growth outlook.

Just 12 years ago, OPEC nations were flush when oil peaked above $145 a barrel as demand surged. Now it faces a dramatic adjustment if consumption starts a permanent decline. The group will need to manage even more closely its cooperation with other producers, such as Russia, to maximize falling revenues and will have to work to ensure relations inside the group are not frayed by any fratricidal dash to defend market share in a shrinking businesses. “The main concern is that oil demand will peak in the next few years due to rapid technological advances, especially in car batteries,” said an official who works in energy studies in the oil ministry of a major OPEC member.

Smaller might be better in oil industry takeovers

(Bloomberg Businessweek; July 27) - The smaller takeover is usually the smarter one, especially in the embattled oil and gas industry. Chevron announced on July 20 that it was acquiring Houston-based Noble Energy for about $5 billion. It was the first major takeover launched in the sector since the coronavirus pandemic triggered a severe erosion in oil demand and unprecedented volatility in crude prices. That’s a far cry from the $50 billion purchase of Anadarko Petroleum that Chevron pursued last year. Chevron ultimately walked away and ceded the takeover to Occidental Petroleum.

Noble is a more digestible version of Anadarko and brings Chevron complementary assets in the Permian Basin, a key U.S. shale patch. Chevron will also add acreage in the Denver-Julesburg Basin of Colorado and the Eastern Mediterranean. Perhaps most important for investors, Chevron is buying Noble on the cheap well below Noble's pre-pandemic valuation. That Noble sold itself at such a bargain price suggests there wasn't a lot of competition. Not many oil and gas companies have the financial wherewithal to even consider major acquisitions right now.

Occidental, meanwhile, is saddled with debt and under increasing pressure to prove the Anadarko takeover can still pay off in a depressed oil-price environment. Occidental's shares are down about 60% this year, which is one of the worst performances on the S&P 500 Energy index. Chevron's stock has declined a comparably moderate 25%.

Wyoming Legislature considers cutting severance tax

(Casper Star Tribune; Wyoming; July 28) - Wyoming lawmakers on July 28 again deliberated more tax relief for oil and gas operators, with the aim of spurring additional production and investment as the state struggles to recover from the collapse in energy markets. The Legislature's Joint Minerals, Business and Economic Development Committee advanced a bill that, if passed during the session, would reduce the state's mineral tax rate by half when oil and gas prices fall within certain price ranges.

Producers could only reap the tax benefits for a six-month period. The reduction, which would cut the severance tax from 6% to 3%, would apply to oil or gas produced from new wells or previously shut-in wells revived by operators during the designated period.

After calls from the Petroleum Association of Wyoming to consider the plight of gas producers in the state, the committee amended the bill. The legislation now covers gas operators, too — producers would pay just half the severance tax at certain prices. Taxpayer advocates oppose the bill, citing the tax break's drain on the state's already vulnerable revenue streams. "Tax exemptions for oil and gas do not raise revenue or generate employment," said Monika Leininger, a community organizer with the Powder River Basin Resource Council, a landowners group. The whims of the global oil and gas market fell far outside the lawmakers' control and reducing taxes isn't worth it, she said.

Tokyo Gas pays $657 million for control of U.S. shale gas producer

(Reuters; July 29) - Tokyo Gas will spend 69 billion yen ($657 million) to take control of a U.S. shale gas operator, Castleton Resources, and to buy a U.S. solar power development project in a bid to expand its overseas operations, it said July 29. The move reflects a long-term strategy mapped out by Japan's biggest city gas supplier last year, which includes stepping up overseas expansion and boosting stakes in renewable energy and liquefied natural gas development operations.

The company will invest about 20 billion yen to raise its stake in Castleton to 70% from 46% through buying new shares issued by the U.S. company to finance the planned acquisition of additional gas assets in Louisiana, said Koji Yoshizaki, senior general manager of Tokyo Gas. “As U.S. shale gas prices have fallen sharply, we think it is a good time to buy stake in gas assets at a relatively cheap price,” Yoshizaki said.

The deal, which marks Tokyo Gas’ first purchase of a U.S. shale gas operator, will be completed on Aug. 14. The acquisition of the additional gas assets will boost Castleton’s output to 473 million cubic feet a day from 296 million cubic feet. Tokyo Gas will also pay up to 49 billion yen to purchase the 630-megawatt Aktina solar power project in Texas from Hecate Energy, a U.S. renewable energy developer. Construction of Aktina will start in fall 2020 and will be brought online in blocks starting in mid-2021.

Former users want out of deals at Gulf Coast LNG import terminal

(S&P Global Platts; July 27) - Kinder Morgan is awaiting a legal decision about whether the remaining customer at its Gulf LNG regasification facility will be allowed to pull out of its long-term contract, according to a July 27 regulatory filing. At issue is the customer's claims that changes in the U.S. natural gas market "frustrated the essential purpose" of the import facility and that the operator, Kinder Morgan, breached their agreement by proposing to convert the Mississippi terminal to handle exports.

The dispute reflects the market shift that occurred in the years since the shale revolution unlocked vast reserves of cheap natural gas. The U.S. turned its attention to being a major exporter, effectively idling many import terminals. Kinder Morgan had hoped to continue to collect reservation fees from its regas contracts at Gulf LNG — even if they did not use the import facility — as the company worked to develop the export project.

But earlier this year, before the pandemic weakened global LNG demand, Kinder Morgan said construction of the export project was unlikely to be sanctioned near term. Italy's Eni won an arbitration in 2018 that it could terminate its deal tied to the Gulf LNG import facility, which was scheduled to continue to 2031. Eni still will have to pay Kinder Morgan, though short of covering Kinder’s loss. Now, Kinder Morgan is fighting a similar claim from its last regas customer, Angola LNG Supply Services, filed in 2019.

Besides wanting to terminate its contract, Angola is seeking an arbitration panel's order that Gulf LNG should reimburse it for all the unused reservation charges and fees it paid over the past 3½ years, plus interest. A final decision by the panel is expected by next summer, Kinder Morgan said in a Securities and Exchange Commission filing.

[Work starts on pipeline to deliver Russian gas into eastern China]

(Reuters; July 27) - Construction has started on the southern portion of the China-Russia East natural gas pipeline, which carries supplies from the new Power of Siberia system in Russia, China Oil & Gas Piping Network Corp. (PipeChina) in a statement on July 28. This portion starts at Yongqing in China's northern province of Hebei and ends at Shanghai in eastern China. The full China-Russia East system is a 3,176-mile pipeline delivering gas from the Siberia region in Russia to China.

Once launched in 2025, the southern part of the pipeline is expected to transmit an average of 1.8 billion cubic feet of gas each day to the Yangtze River Delta region, the statement said. Taking over pipeline assets from PetroChina, the newly launched PipeChina will be in charge of the investment, construction and management of the Yongqing-to-Shanghai pipeline. Northeastern China started consuming Russian gas via the northern portion of the China-Russia East pipeline in December.

The middle portion of the China-Russia East system will connect Changling in Jilin province and Yongqing and is scheduled for completion by the end of 2020. In May, Gazprom began a feasibility study for its Power of Siberia-2 pipeline that would pump an additional 4.8 bcf of gas per day to China through Mongolia.

[LNG terminal owner asks FERC for more time for expansion]

(Natural Gas Intelligence; July 28) - Freeport LNG has asked the Federal Energy Regulatory Commission for a three-year extension to bring a fourth production train online at its liquefied natural gas export terminal on Quintana Island in Texas, citing a weak global economy and the need for a new engineering contractor. FERC authorized the fourth train in May 2019, requiring that it be placed into service by May 2023.

In its request filed this week, Freeport said it would need a minimum of 42 months to construct Train 4 and would be unable to meet the current deadline. It now wants until May 2026 to bring the unit online. Freeport told FERC that the "worldwide economic climate and depressed global LNG prices resulting from the coronavirus pandemic" have made it "challenging to complete long-term contracts with potential customers, resulting in associated delays for LNG projects in the U.S. and around the world."

Freeport also noted that it would have to rebid the engineering, procurement and construction contract before it starts on Train 4. KBR, its previous contractor, announced last month that it would leave the energy business and refocus mostly on government contracts and technology, leaving projects to seek new contractors. Freeport's first liquefaction train entered commercial service last December, which was followed by the second train in January. The third came online in May. Train 4 would expand the facility's overall export capacity by 5 million tonnes per year to 20 million.

Trader offers LNG cargo to Pakistan at about $2.20 per million Btu

(Reuters; July 28) - SOCAR Trading, the trading arm of the state oil and gas company of Azerbaijan, offered the lowest bid to a spot-buy tender from Pakistan LNG for a liquefied natural gas cargo for delivery in late August, according to a notice posted on the Pakistani company's website. SOCAR's offer for the single cargo was about 5.74% of the price of a barrel of Brent crude, according to the document. This works out to about $2.20 per million Btu for the cargo and is a record low price secured by the Pakistani company, Pakistan LNG said on its Twitter account.

This is lower than the Asian LNG spot price for August, which on July 23 was estimated at about $2.35. Three other companies that had technically qualified for the tender placed offers ranging from 7.8% to 10.4% of a barrel of Brent crude: Gunvor Singapore, PetroChina International Singapore and Trafigura, according to the notice. The prices are expressed in the document as a "slope" of crude oil prices, a percentage of the Brent crude price, and are typically a pointer in the opaque spot LNG market.

Canadian crude-by-rail volume lowest in four years

(Reuters; July 28) - After moving record-large Canadian oil volumes by rail just five months ago, shippers have hit the brakes, idling thousands of tank cars and tens of millions of dollars' worth of infrastructure. Rail was Canada's oil lifeline in recent years when cheaper pipelines ran full and crude had no other exit from landlocked Alberta. But oil production cuts this year opened pipeline space and eliminated demand for trains, leaving producers with high fixed expenses and payments still owing to railways.

Cenovus Energy said last week it was spending as much as C$20 million (US$14.97 million) per month for its suspended rail program, one-quarter of the costs when it is fully active, but now generating no revenue to offset expenses. Prospects of a longer-term rail recovery also look dim as long-planned oil pipeline expansions enter service in each of the next two years.

Canadian crude by rail in May fell to 58,048 barrels per day, the lowest in four years, the Canada Energy Regulator said. In February, they had peaked at nearly 412,000 barrels per day. Cenovus has idled several thousand tank cars, said CEO Alex Pourbaix. He said they will stay parked pending several shifts: rebounding Canadian oil production, pipelines filling again, and a wider gap between Canadian and U.S. crude prices to justify rail's higher cost than pipelines. It looks doubtful that will happen soon.

Task force recommends Australia financially support gas supply

(Sydney Morning Herald; July 29) - A hand-picked coronavirus manufacturing task force is urging Australia's federal government to underwrite a dramatic expansion of natural gas supply through tax incentives and financial support for new projects. A presentation on the final report of the National COVID-19 Co-ordination Commission (NCCC) manufacturing task force recommends "cutting red and green tape" to help the gas industry rapidly increase gas extraction and create up to 170,000 manufacturing jobs.

The report, which was finalized in late May but is yet to be published, also recommends tax incentives for construction of gas infrastructure and letting pipeline owners charge higher prices. A leaked draft interim report from the task force sparked furious debate over the role of government support for fossil fuels and the government's energy policy.

Grattan Institute energy director Tony Wood endorsed the report's recommendations on streamlining project assessments but questioned many of its other initiatives. "Much of the report is focused on getting rid of moratoriums on gas developments and some good new regulations for gas pipelines. But the rest of it is saying we should subsidize stuff," Wood said. "There is not one mention that gas is a fossil fuel and we are supposed to be heading toward a low-emissions economy." Heavy gas users, such as manufacturers, have cited high natural gas prices as a growing problem, with industry supporters blaming shortages on local moratoriums that block new exploration.