Oil and Gas News Briefs
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Judge orders Dakota line shut down, says analysis was inadequate

(Washington Post; July 6) - A federal judge ruled July 6 that the 1,172-mile Dakota Access Pipeline must shut down by Aug. 5, saying federal officials failed to do a complete analysis of its environmental impacts. It marks a setback for President Donald Trump's resource development push, underscoring the extent to which long-standing environmental laws represent an obstacle to his quest to expand oil and gas production.

The judge wrote that the federal government had not met all the requirements of the National Environmental Policy Act, a 50-year-old-law that the Trump administration is seeking to weaken. The law requires federal agencies to assess and disclose how their decisions might harm the environment. The line, which opened in 2017, carries about 500,000 barrels of crude oil a day from North Dakota's Bakken shale basin to Illinois.

The ruling means the Army Corps of Engineers must conduct a more thorough analysis of how a leak in the line could affect Lake Oahe, which collects water from the Missouri River and lies half a mile from the Standing Rock Indian Reservation. Several tribes first challenged the line in 2016. While the Obama administration slowed down the project as it consulted with the tribes, Trump expedited its construction after taking office.

"Our system is set up so that it's very unusual for the president to simply be able to snap his or her fingers and make something change," said Joel Reynolds, a senior attorney for the Natural Resources Defense Council. The White House is expected to finalize a rule within weeks that would scale back the National Environmental Policy Act by limiting the extent to which climate change could be considered in federal approvals.

U.S. oil production down almost 20% from March

(The Wall Street Journal; July 6) - U.S. crude supply is falling at its quickest pace ever, easing a global oil glut and spurring a recovery in fuel prices. Yet oil's push past $40 a barrel as drivers return to roads isn't enough for troubled shale producers, which until recently were the driving force changing the energy industry. For many, prices haven't risen enough to help ease the strain of debt taken on during boom times. And the need to cut output in the face of lost demand means they can't pump their way out of trouble.

Weekly U.S. output recently fell to 10.5 million barrels a day, down almost 20% from a near-record of 13 million barrels a day in late March, government data show. With companies shutting in productive wells in response to the coronavirus, the slide marks the biggest 11-week drop on record going back to 1983. The tumble in domestic supply along with record output cuts from OPEC and partners including Russia are supporting higher oil prices after they dramatically collapsed earlier in the year.

But even with the recent rebound, prices are still well below where they started 2020, and many investors expect a wave of bankruptcies and deals to overhaul the U.S. energy sector. "I don't think that $40 oil is enough to turn around the shale industry," said Andy Lipow, president of Houston-based consulting firm Lipow Oil Associates. "This price is still not enough to cover all the debt and costs that have been incurred during the boom." A recent Deloitte analysis found that shale companies could have to impair or write down the value of their assets by as much as $300 billion.

U.S. Gulf crude helps fill gap created by OPEC+ cutbacks

(Bloomberg; July 6) - Leaving behind the Caribbean Sea, the 1,100-feet long oil tanker Maran Apollo is emblematic of the wider petroleum market. Running at 11.5 knots, she's heading toward China, where oil demand is fast recovering, hauling a cargo of two million barrels of U.S. crude. But her voyage didn't start a few days ago. She loaded in early May, and with no buyers during the worst of the coronavirus outbreak, the tanker stood floating in the U.S. Gulf of Mexico for almost two months, waiting for better times.

Only a few days ago, she weighed anchor and left for the China — a sign that refiners are starting to pull in crude that went unwanted for months. It's not any kind oil on board, though. Refiners are competing for barrels in one corner of the market known as medium-heavy sour crude — oil with a higher content in sulfur and relatively dense. It's the kind that Saudi Arabia and its OPEC+ allies pump. That's the type of crude pumped offshore in the U.S. Gulf of Mexico — and that's what is in the Maran Apollo's tanks.

Such crude is in increasingly short supply. OPEC, which pumps mostly medium-sour crude, has cut output to the lowest since 1991, and Russia has also implemented brutal reductions. On top of that, medium and heavy sour crude accounts for the bulk of the oil from Iran and Venezuela, where production has collapsed under U.S. sanctions and lack of investment. The market is reflecting the undersupply and OPEC is able to raise the prices it charges. On July 6, Saudi Aramco lifted its official selling prices to Asia for the third month in a row, largely reversing the discounts it offered in March and April.

IEA sticks with forecast that oil demand will recover

(S&P Global Platts; July 6) - Global oil demand will likely to recover to above pre-pandemic levels in the future despite some predictions that the crisis may have already triggered a structural decline in world oil consumption, the head of the International

Energy Agency said July 6. Most market watchers see global oil demand recovering to pre-COVID levels of around 100 million barrels per day over the next two years. Last month, the IEA forecast that demand for crude is not expected to recover until 2022.

Last week, however, Norwegian energy consultants DNV GL said oil demand may have already peaked as the coronavirus pandemic accelerates the world's transition to low-carbon, renewable energy sources. When asked whether he thought the world had already passed peak oil demand, IEA Executive Director Fatih Birol said: "If oil demand goes back to 100 million barrels per day I would not be surprised. And under a strong recovery, I would not be surprised if it went higher than that."

As the global economy slowly restarts from lockdowns, business leaders, political parties and environmental groups have been calling for more climate-friendly policies to "bake-in" behavior changes in order to speed the transition away from fossil fuels. But Birol was skeptical that hoped-for, long term behavior changes, such as more remote working and less commuting, would make a significant impact on future oil demand. "Some say demand for oil is falling because we are changing our lifestyles. I'm not so sure. Teleworking alone is not going to send oil demand lower," Birol said.

Government troops protect Mozambique LNG work site

(Bloomberg; July 4) - Soldiers clutching AK-47s and grenade launchers watch over bulldozers, guarding Africa's biggest investment: A $23 billion project to export natural gas from an area of Mozambique increasingly besieged by an Islamist insurgency. Companies will take the gas from offshore fields, cool it to a liquid and ship it worldwide. The consortium is about to finalize $16 billion in project financing — a record for Africa.

"The work is immense," said Ronan Bescond, the 44-year-old French chemical engineer who Total chose to lead the Mozambique LNG project after nearly two decades at the French company. "The first cargo of LNG must be in 2024. And we are on the right track," he said to a handful of reporters at the work site. The obstacles facing a project that's expected to transform the impoverished Southeast African nation are huge.

To achieve the target of first production for an undertaking worth billions of dollars more than Mozambique's entire economy, developers need to move thousands of tons of equipment through territory thick with Islamic State-aligned insurgents. At one stage, a COVID-19 outbreak saw the project work site accounting for three in four of the country's confirmed infections. All this as LNG prices plunged to near 25-year lows.

Militants who pledged allegiance to Islamic State have carried out increasingly brazen attacks this year. Last week they raided Mocimboa da Praia for a third time. It's a crucial supply hub just 20 miles south of the project site and the closest port. At least eight workers for Total subcontractors died when their vehicle was ambushed in the attack, the company said. Three workers are still missing. Overall, about 1,300 people have died in the violence with 220,000 displaced since the first attack three years ago.

Pandemic has accelerated how oil and gas industry sees the future

(Houston Chronicle commentary; July 6) - Driving through the Permian Basin while on vacation, I couldn't help but notice an industrial landscape that presages the future of the oil and gas industry. New drilling rigs were rare, while most of the older pumpjacks were idle, their horsehead noses no longer dipping down to pull crude from the ground as low prices drove production into reverse. Towering above them, stretching into the distance, wind turbines spun by the hundreds, generating electricity for Texas' big cities.

Then I stopped in Lamesa, Texas, where Southern Power maintains 410,000 photovoltaic cells generating enough power for 26,000 homes. That's when it struck me: Texas' premier oil field may have a lot of oil, but it has limitless wind and sunlight. Where would you place your bet? Young people see the writing on the wall, choosing to turn their backs on oil and gas during the current bust to find more stable careers.

BP's decision to sell its petrochemical units is perhaps the most revelatory. For years, oil and gas boosters have said the industry's future rests in selling chemicals, coatings and plastic in a world turning away from burning fossil fuels. For just as many years, though, environmentalists have complained about pollution from chemicals and plastic. Plastics manufacturers are now promising to recycle more and consume less oil and gas. "The pandemic has accelerated how oil and gas companies see the future," said David Elmes, head of the Warwick Business School Global Energy Research Network.

Japan will support building newer, more efficient coal power plants

(Reuters; July 2) - Japan will introduce measures to accelerate the closure of old, inefficient coal-fired power plants by 2030, the country's Industry Minister Hiroshi Kajiyama said July 3. But he poured cold water on a suggestion by media that the move was a major shift in energy policy, saying Japan will continue to rely on coal power and will support building newer, more efficient plants.

The Yomiuri newspaper reported July 2 that Japan will close or mothball as many as 100 old coal plants by about 2030, in what Japan's biggest-selling newspaper said was a major turning point for the country. That sentiment was echoed by environmental groups, which have long criticized Japan's strong support for the dirtiest fossil fuel. "Japan decided in 2018 to phase out inefficient coal power plants, but we did not have any concrete framework, so we will make one," Kajiyama told a news conference July 3.

He did not give a number of plants that will be shut, and said coal will remain an important power source. “We will do whatever we can do to cut greenhouse gas emissions, instead of talking about scrapping or not scrapping all coal power plants,” he said. The ministry will consider new rules, tax incentives and other measures to ensure Japan achieves its goal to reduce coal’s share of the country’s power mix to 26% by 2030, from 32% now, Kajiyama said.

European Union plans roadmap for hydrogen energy

(Bloomberg; July 6) - Europe’s ambitious hydrogen strategy will be watched closely for clues to where the multibillion-euro program will put its money for the clean-burning fuel. Hydrogen could meet up to 24% of the world’s energy needs by 2050 and the European Commission will set out its plan for the technology this week. Under scrutiny will be whether there is sufficient backing for it to be produced using fossil fuels or renewables.

Green hydrogen is created using renewable energy, but it’s a long way from being at the scale needed for industry. Blue hydrogen, made from natural gas with the carbon emissions buried underground, is a step ahead in terms of development. “Long-term, only green hydrogen from electrolysis via renewable energies will allow for a truly climate-neutral solution,” said Bernhard Osburg, chairman of the executive board at Thyssenkrupp Steel. “But other types of hydrogen can help to establish a market.”

Hydrogen is a colorless gas, but the industry uses “color” as a way to distinguish the types of technologies used to produce hydrogen. That distinction is important because it will set the tone for the incentive policies and regulations adopted across Europe. The commission’s roadmap to be announced July 8 is set to detail actions that the EU plans to boost production of hydrogen, lower the price and avoid uncoordinated, fragmented market development. It’s also seen as a key route to climate neutrality by 2050.

Canada’s First Nations suffer revenue loss from drilling cutbacks

(CBC; Canada; July 6) - In a windswept corner of the Blood Tribe land in southwest Alberta is a pumpjack that towers more than three stories off the ground and reaches two miles deep. It's one of only two new wells to be drilled on the First Nation in the past year, as the downturn in the industry has resulted in reduced drilling across Western Canada. The well was drilled in December and began operating in February, less than one month before oil prices crashed as the pandemic spread across the globe.

For First Nations that rely on collecting royalties and rent from oil patch activity on their reserve land, those funds have quickly dried up. In fact, it's becoming costlier to manage oil and gas production on First Nations land than the amount of money collected from industry. Indian Oil and Gas Canada is the federal agency, fully funded by Ottawa, responsible for overseeing oil and gas production on those lands. It has a budget of about $1 million a month. In May, the agency only collected about $740,000.

Chief Roy Fox is keenly aware of the financial situation in the oil patch, considering there are about 300 oil and gas wells on Blood Tribe land, and the First Nation has a working interest in some of them. Compared to January, revenue from oil and gas activity is down 75%, he said. Royalties are down as a result of low prices and some companies are reducing production at wells that are unprofitable to operate. The First Nation uses the revenue to provide programs for elders and youth, improve housing, offer social programs and invest in other business programs, among other initiatives.