Oil and Gas News Briefs
Compiled by Larry Persily
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Opponents find success going to court to block pipelines

(Bloomberg; July 6) - To be an energy superpower, U.S. oil and natural gas requires a suitably gargantuan pipeline network that stretches for millions of miles. The country's ability to expand that infrastructure is being tested like never before. In the span of less than 24 hours, a court ordered the Dakota Access oil pipeline to shut down and the developers of the Atlantic Coast gas line said they were canceling the $8 billion project.

It was a deluge of bad news for an industry that's increasingly finding the mega-projects of the past are no longer feasible in the face of unprecedented opposition to fossil fuels and the infrastructure that supports them. Armed with experienced lawyers and record funding, environmental groups are finding enormous success blocking key pipeline permits in court. The challenges come despite support from President Donald Trump, who so far has failed to ensure big projects like the Keystone XL oil pipeline get built.

"I would expect this to be a turning point for new investment," said Katie Bays, co-founder of Sandhill Strategy. "There is real investor fatigue around this parade of legal and regulatory headwinds to energy projects." The keep-it-in-the-ground movement has increasingly turned its attention to pipelines because they require federal and state permits, which, for the most part, can be more easily litigated. "The Dakota Access and Atlantic Coast pipes encapsulate the last few years of a trend we've watched: The dramatic expansion of using regulatory obligations to hurt infrastructure projects in the courts," said Brandon Barnes, an analyst at Bloomberg Intelligence.

Dakota Access oil line owner appeals shutdown order

(The Associated Press; July 8) - The owner of the Dakota Access oil pipeline continued to fill it with North Dakota crude on July 8 and said it has no immediate plans to shut down the line, despite a federal judge's order that it close down by Aug. 5 for additional environmental review. Owner Energy Transfer has asked the court to halt the order, and is seeking an expedited appeal. The company is still taking orders to move oil on the line in August, a spokeswoman said. "We're not saying we're going to defy anything."

U.S. District Judge James Boasberg on July 6 ordered the pipeline shuttered for an additional environmental assessment more than three years after it began pumping oil. "We don't believe he has the authority to do this," the spokeswoman said. Boasberg has given the company 30 days to empty the line while the U.S. Army Corps of

Engineers fulfills his demand for a more extensive environmental review than the one that allowed the 1,172-mile pipeline to start moving oil near the Standing Rock Indian Reservation.

Boasberg cited the “potential harm” that the pipeline could cause before the Corps finishes its survey. The $3.8 billion Dakota Access pipeline was the subject of months of protests in 2016 and 2017, sometimes violent, during its construction near the Standing Rock Sioux Reservation that straddles the North Dakota-South Dakota border. The tribe pressed the litigation against the pipeline even after it began carrying oil from North Dakota across South Dakota and Iowa and to a transfer point in Illinois in June 2017.

Pipeline closure adds another obstacle to Bakken oil

(Bloomberg; July 7) - It was once the center of America’s shale boom — a vast reservoir of crude unleashed by hydraulic fracturing and horizontal drilling, turning North Dakota into the second-largest producing state and helping transform the U.S. into the world’s largest supplier. These days, the Bakken is looking like anything but a boom. Drilling in the once-prolific formation straddling North Dakota, Montana, and parts of Canada has all but halted — another victim of the pandemic that sapped fuel demand worldwide.

Output is believed to have fallen by as much as 500,000 barrels a day this year. Even before the virus, drillers were trying to compete with better margins in Texas’ Permian Basin. Now the looming shutdown of the Dakota Access pipeline that carries more than a third of the region’s oil to market threatens to keep the play from booming ever again. “This court ruling will create major obstacles for producers in North Dakota, who’ve been struggling to rebound,” said Sandy Fielden, research director at Morningstar.

On July 6, a U.S. District Court judge ruled that Energy Transfer’s Dakota Access pipeline will have to shut by Aug. 5. If the ruling survives appeals, it would be the first time a major pipeline in service was ordered shut because of environmental concerns. Exactly how long it will be down is unclear — the court has decided it should remain closed until a proper environmental review is complete. That process could extend into 2021. One thing’s clear: The closure would be devastating for the Bakken, which once jostled to become the nation’s most prolific crude-producing field.

Dakota Access oil line closure could send crude into railcars

(Reuters; July 6) - Companies that transport oil by rail are prepping for a business surge after a federal judge ordered the largest crude pipeline out of North Dakota to shut within a month, sources said July 6. Shipping by rail will be among the few options left

for producers in the second-largest oil producing state, providing a boon for transport firms forced to furlough workers during the coronavirus-triggered economic downturn.

A U.S. District Court judge ordered Energy Transfer to shut its 570,000 barrel-per-day Dakota Access Pipeline pending an environmental review that would keep it shut for at least a year. "I think everybody is forming their game plan now, and if they have tank cars they're probably thanking their lucky stars," said one source familiar with Bakken rail operations. The pipeline closure could prevent companies from boosting output when demand recovers, and will add costs as rail transport is typically more expensive.

The line runs from North Dakota's Bakken shale basin to Patoka, Illinois. Bakken crude shippers have been exploring crude-by-rail options, the source said. There are enough tank rail cars to compensate for the lost pipeline capacity, two sources said, but staffing may be a challenge initially. "The assets are available but the staffing is not in place to ramp up quickly in my opinion," said Elliot Apland, managing member at MarbleRock Advisors, which helps negotiate rail supply-chain contracts.

Canadian oil producers worry about court rulings against pipelines

(Bloomberg; July 7) - This week's escalation of U.S. pipeline setbacks is heightening concerns among Canadian oil producers that export almost all of their crude to the U.S. Alex Pourbaix, CEO of Cenovus Energy, called a U.S. court ruling temporarily shutting down the Dakota Access pipeline on July 6 "pretty disturbing" in its implications that other projects, including existing pipelines, may now be at risk. His concerns were echoed by the CEOs of Suncor Energy and ExxonMobil's Canadian unit, Imperial Oil.

"It's going to be incredibly difficult for anybody to invest in any kind of infrastructure," Pourbaix, who formerly served as chief operating officer of pipeline giant TransCanada, said July 7 during a Toronto-Dominion Bank conference. "If there's an opportunity to come back on those regulatory decisions years after the fact … that's a real significant problem," he said. While producers had grown used to delays, the ruling on the Dakota line is particularly worrying because the line had already been operating for three years.

Oil sands crude from a landlocked area of northern Alberta that holds the world's third-largest crude reserves is almost entirely shipped through pipelines to refineries in the Midwest and Gulf Coast. The lack of enough shipping capacity has been the dominant problem facing the industry the past several years. The same day as a U.S. District Court judge ordered a shutdown of the Dakota Access line because its federal review fell short of environmental requirements. The U.S. Supreme Court left in force a lower court order that blocks construction of the Keystone XL line from Alberta to the U.S.

Supreme Court turns away appeal of ruling against Keystone line

(The Associated Press; July 7) - The U.S. Supreme Court handed another loss to the Keystone XL oil sands pipeline from Canada on July 6 by keeping in place a lower court ruling that blocked a key environmental permit for the project. TC Energy needs the permit to continue building the long-disputed pipeline across U.S. rivers and streams. Without it, the project that has been heavily promoted by President Donald Trump faces more delay just as work had finally begun this year following years of courtroom battles.

The Supreme Court order, however, did put on hold a court ruling out of Montana as it pertains to other oil and gas pipelines across the nation. That's a sliver of good news for an industry that just suffered two major blows — the July 5 cancellation of the $8 billion Atlantic Coast gas pipeline in the mid-Atlantic and a July 6 ruling that ordered a shutdown the Dakota Access oil pipeline in North Dakota.

In the Keystone case, an April ruling from a federal judge in Montana had threatened to delay not just Keystone but more than 70 pipelines across the U.S. The judge agreed with challengers who said that a U.S. Army Corps of Engineers construction permit program was allowing companies to skirt responsibility for damage done to waterbodies. The Supreme Court’s one-paragraph order did not explain its decision not to overturn the Montana judge’s ruling as it pertains to the Keystone line. The order returns the case to the U.S. 9th Circuit Court of Appeals for further consideration.

Oregon LNG opponents say export approval doesn’t mean go-ahead

(The News-Review; Roseburg, OR; July 8) - Landowners and others who oppose the Jordan Cove Energy Project and its cross-state gas pipeline said the July 6 decision by the U.S. Department of Energy to allow liquefied natural gas exports doesn't mean the Oregon project has a green light to move forward. Project opponents said Calgary-based developer Pembina still hasn’t obtained necessary state permits, and landowners have filed a federal lawsuit seeking to block the $10 billion project.

"Pembina has been denied key permits from the state of Oregon and will never be able to show that Jordan Cove LNG qualifies for these permits that protect our communities,” Rogue Climate Campaigns Director Allie Rosenbluth in a prepared statement. The lawsuit, filed in U.S. District Court of the District of Columbia in May, challenges the Federal Energy Regulatory Commission's March decision allowing the project to move forward. On July 3, the landowners requested the court block the project from using eminent domain to force the project across the land of unwilling property owners.

The project would include a gas liquefaction plant and marine terminal at Coos Bay, about 100 miles north of the California border. Even with FERC approval and export authorization, the developer needs investors, financing, and customers, in addition to the contentious state permits.

Almost $300 billion in LNG projects face delays, researchers say

(Reuters; July 6) - Prospects for nearly half of the world's projects to build infrastructure for exporting liquefied natural gas have faltered in recent months, amid rising concerns about climate change, public protests, and delays due to the coronavirus pandemic, said a report published July 7. Out of 45 major LNG export projects in pre-construction development globally, at least 20 — representing a capital outlay of some $292 billion — are facing delays to their financing, researchers at Global Energy Monitor found.

That marks a stark shift by investors away from what many had considered a promising market, already buffeted by slower growth in demand, competition from renewable energy, and opposition over the fuel's climate-warming emissions. The vice president of the European Investment Bank said the report underlines the unacceptable risk of LNG investments. "Investing in new fossil fuel infrastructure like LNG terminals is increasingly an economically unsound decision," Andrew McDowell said. The bank had announced last November that it would stop financing fossil fuel projects at the end of 2021.

The LNG industry has made big bets on a more positive outlook, as many analysts have predicted that demand would outstrip supply in the next decade. Companies committed $160 billion to $170 billion to build new LNG export terminals around the world in 2019, almost triple the $65 billion in 2018, said the San Francisco-based nonprofit research group. In total, companies had announced plans to build $758 billion of projects still in the pre-construction phase. But with 20 of those in jeopardy, including nine in the U.S., that could be reduced by $292 billion if delays persist indefinitely, the researchers said.

Just 18 oil and gas drilling rigs active in Canada last week

(Reuters; July 6) - Canada's drilling rig count, a bellwether of the oil and gas industry's growth, has plummeted far below previous levels, raising risks that much of the country's equipment will permanently fall out of service. Just 18 rigs were active last week in the world's fourth-largest oil-producing country, a fraction of even the depressed level of a year ago, according to oil-field service provider Baker Hughes.

The overall fleet looks likely to shrink 25% in the next year from the current 500, as companies decide against costly recertifications of equipment, said Kevin Neveu, CEO of Precision Drilling, one of Canada's biggest drillers. The Canadian energy industry has struggled for years and its services sector may face a longer recovery than rivals in the U.S., where companies say capital is more accessible. A services-sector contraction would limit a rebound once the coronavirus pandemic wanes and oil demand returns.

Just six oil drilling rigs were active as of July 2, along with 12 gas rigs for a total of 18 — compared with 120 rigs a year earlier, according to Baker Hughes. Recertifying a rig

can cost as much as C$2 million (US$1.48 million), depending on the size, Neveu said. Those decertified may be scavenged for parts or auctioned. With fewer wells drilled, work has also dried up for companies that service them. Roll'n Oilfield Industries has serviced wells since 1977, but has never seen it this slow, President Brad Rowbotham said. The company is operating just 20% of its rigs, forcing it to cut jobs and salaries.

B.C. city council opposes LNG terminal expansion across the river

(Delta Optimist; Delta, BC; July 7) – The city council in Richmond, British Columbia, is taking a stand against the expansion of the Tilbury liquefied natural gas plant just across the Fraser River in Delta. The council voted 8-1 to send a clear message to senior levels of the provincial and federal governments that the expansion isn't welcome in their backyard, citing risks to the Fraser River, wildlife, and air — a list of concerns were compiled by Richmond city staff about the proposed expansion.

"We are industrializing the Fraser River and putting Richmondites at extreme risk with having LNG directly across from jet fuel. Surely there's more we can do to make the ministers understand what grave consequences could happen if ever there was an accident or spill," said City Councillor Carol Day. The expansion at the LNG plant is planned to begin within two years. It will include a new storage tank and marine jetty. Richmond, population about 220,000, is part of the Vancouver metro area.

Ian Finke, LNG operations director with the plant owner, FortisBC, said the plan is to have one vessel come to the jetty every five days. Currently, FortisBC trucks its LNG to ships for use as a marine fuel. The Tilbury gas liquefaction plant is 49 years old and was recently expanded to meet increasing demand for LNG as a marine and highway transportation fuel. The terminal also can load the fuel for barge or ship deliveries, and 40-foot tanks of the fuel have been shipped to China in a pilot project for exports.

Utilities like renewables but say they can't live without gas

(The New York Times; July 6) - Dominion Energy, one of the nation's largest utilities, in June erected wind turbines off the Virginia coast — only the second such installation in the U.S. — as part of a big bet on renewable energy. The company is also planning to build new power plants that burn gas. Utilities around the country are promoting their growing use of renewable energy like hydroelectric, wind turbines, and solar panels, which collectively provided more power than coal-fired plants for the first time last year.

But even as they add more green sources of power, the industry remains deeply dependent on gas, a fossil fuel that emits greenhouse gases and is likely to remain a cornerstone of the electric grid for years or even decades. Utilities maintain that they need to keep using gas because the wind and the sun are too unreliable. They are also

reluctant to invest in energy storage, arguing that it would cost too much to buy batteries that can power the grid when there isn't enough sunlight or wind.

"We've got to have a resource that has an 'on' and 'off' switch," said Katharine Bond, vice president for public policy and state affairs at Dominion. For years, environmental activists and policymakers fought to force utilities to reduce coal use to curb emissions and climate change. As the use of coal fades, the battle lines are rapidly shifting with proponents of a carbon-free grid facing off against those who promote gas, an abundant fuel that produces about half the greenhouse gas emissions that burning coal does.

Coal supplies less than 20% of the country's electricity, down from about half a decade ago. Over that same time, the share from gas has doubled to about 40%. Renewable energy has more than doubled to about 20%, and nuclear has held around 20%.

New Colorado commission will start rewriting oil and gas rules

(Denver Post; July 7) - The Colorado Oil and Gas Conservation Commission (COGCC) is poised to start writing new oil and gas rules, mandated by a sweeping law passed last year. A new, full-time commission will take the hand-off from a volunteer commission to take on what's being called "mission change." The proposed rules range from where wells should be located to assessing the cumulative impacts of development, protecting important wildlife habitat to deciding who has the right to comment on new drilling.

The broad swath of proposals is intended to enact what's considered the core of the bill signed into law in April 2019, which shifted the language of the COGCC's mission from "fostering" oil and gas development while protecting public health and the environment, to "regulating" the industry in a way that safeguards the public and environment. The new five-member professional commission will hear from various interest groups leading up to a multi-day hearing scheduled to start Aug. 24.

The state Air Quality Control Commission is also writing rules aimed at cutting emissions from well and gas sites. "This mission-change rule making is really where we see how successful Senate Bill 181 can be," said Kelly Nordini, executive director of Conservation Colorado. "The old mission used to be about promoting oil and gas development. That's not a modern charge for an agency that people expect to protect public health, neighborhoods and the environment."

Mexico's Pemex asks suppliers if they can wait to 2021 for payment

(Bloomberg; July 6) - Petroleos Mexicanos' nearly $105 billion in debt already makes it the biggest borrower of any oil company in the world. And it's accruing more. Pemex, as the Mexican state oil company is known, is asking some of its contractors if they can

wait until next year to be paid what is owed to them, according to sources, who asked not to be identified because the phone and in-person conversations are not public.

Three contractors that are being asked to defer payment are waiting on $115 million in payouts, according to the sources, but the amount owed to companies across Pemex's supply chain could easily total billions of dollars. According to the sources, contractors enter their invoices on Pemex's website and receive a confirmation number and an estimated time of payment. The invoice number, known as "Copade," is no longer being issued in some cases, the people said. Pemex didn't respond to a request for comment.

Adding to Pemex's outstanding debt to suppliers is a worrying development, given the difficulties the heavily indebted company already faces, said Wilbur Matthews, founder of Vaquero Global Investment, which trades in Pemex bonds. Pemex suffered a record $23 billion loss in the first quarter of the year as the COVID-19 pandemic coupled with 15 years of declining output took its toll. Pemex bonds were downgraded to junk by Moody's in April. "What you're seeing … is that the reality of the situation is starting to bite," said Ruaraidh Montgomery, research director from oil consultancy Welligence.

Little improvement in U.S. natural gas prices expected until winter

(The Wall Street Journal; July 7) – Natural gas prices have bounced back from the 25-year low reached late last month, but analysts and traders don't expect them to go much higher — at least until winter. Natural gas has lagged behind as commodities start to recover from the coronavirus meltdown. There is simply too much of it. Stockpiles of the power-generation and heating fuel are bloated worldwide, and the international trade in liquefied natural gas has collapsed, squeezing an important outlet for U.S. gas.

With crude prices back up to around $40 a barrel, oil producers are reopening the spigots and, as a byproduct, putting a lot of cheap gas into the market. U.S. natural gas futures for August delivery ended July 6 at $1.83 per million Btu, up 23% since June 25, when futures for July delivery closed at $1.482 — their lowest level since 1995. Yet it is still 24% below the price this time last year and 36% less than the price two years ago.

The heights of summer and winter are when gas prices are typically at their highest, given the demand to power air conditioners and fuel furnaces. But the global gas glut and diminished demand amid pandemic shutdowns have produced not only the lowest June prices ever in the U.S. but also the lowest price on record for any month in Europe, where storage is already pretty full following a mild winter. With tanks and storage caverns filling up around the world, buyers of U.S. LNG have canceled more than 110 cargoes, according to the U.S. Energy Information Administration.

Oil majors take on record debt as buffer against low revenues

(Reuters; July 7) - The world's top oil and gas companies locked in cheap borrowing rates to raise a record amount of debt in the second quarter of 2020 and boost cash reserves as a buffer against a collapse in revenues because of COVID-19. The dash for debt piles pressure on company balance sheets and the issue is particularly acute for BP and Shell. Already burdened by high levels of borrowing, they also face the disruption of a major shift toward renewables and low-carbon energies.

The world's top seven energy firms — BP, Shell, ExxonMobil, Chevron, Equinor, Total, and Eni — raised $60 billion in debt in the quarter, nearly half of the $132 billion in oil-and-gas sector borrowing over the period, Refinitiv data showed. BP, which had $78.5 billion in debt by the end of March, raised the most at nearly $16 billion, using for the first time hybrid bonds that place less strain on the balance sheet because the principal is not required to be repaid.

The coronavirus crisis has battered oil company shares, as concerns over their ability to withstand the short-term shock has added to uncertainty over the world's shift to renewable power. The share price drop has dealt a double blow to the companies as the ratio of their debt to total market size, known as gearing and an indicator of financial health, is set to rise. Higher gearing can impact a company's credit ratings.

North Dakota regulators decide against limiting oil production

(Bismarck Tribune; ND; July 7) - North Dakota regulators on July 7 decided not to impose any mandatory production cuts on the oil industry, following the lead of Texas and Oklahoma, which both nixed similar proposals this year as oil prices plummeted amid the coronavirus pandemic. The unanimous decision by the North Dakota Industrial Commission to dismiss the matter comes after a lengthy hearing in May and extensive written comments, in which numerous oil producers and tribal mineral owners from the Fort Berthold Indian Reservation opposed the idea.

"Let's let the private sector hammer out some of these things and where government can assist and intervene we'll do so, but it's probably best if we don't go down this road," said state Agriculture Commissioner Doug Goehring, who sits on the commission along with Gov. Doug Burgum and Attorney General Wayne Stenehjem.

North Dakota regulators have instituted production cuts before, in the 1950s and 1960s during the early days of the state's oil industry. But the industry has grown much more complex since then, State Mineral Resources Director Lynn Helms said. Nevertheless, regulators have the authority to declare oil as a "waste" if prices get low, and in effect require that oil producers curtail their output. Many Bakken producers, as well as the North Dakota Petroleum Council, asked the state to let the market determine oil's fate.

Japanese LNG buyers want more flexible contract terms

(Argus Media; July 8) - Japan's largest liquefied natural gas buyer, JERA, is calling for more flexible terms in its long-term LNG contracts as the country faces a significant reduction in LNG demand because of COVID-19 and uncertain future demand as gas and power markets evolve. "Long-term SPAs [sales-and-purchase agreements] with rigid terms are no longer suitable for a rapidly changing market," Hitoshi Nishizawa, senior executive officer at JERA, said at an LNG conference in Japan on July 8.

Nishizawa also called for more price creativity, and he said volume and destination flexibility are needed to meet buyers' evolving needs. A few Japanese buyers, including JERA, have succeeded in negotiating flexibility and price concessions with long-term suppliers. The current market of lower demand and oversupply highlights the importance of changes in long-term contracts. Japanese buyers are already "heavily burdened" with demand uncertainty, following the deregulation of the country's gas and power markets that has left some buyers overcommitted, he said.

Japan's LNG imports in May fell by 18.9% from a year earlier and by 12% against April as the COVID-19 outbreak suppressed industrial demand for incremental spot cargoes because of high inventories. Power and gas utilities continue to struggle with deliveries, with several still in negotiations with suppliers to defer cargoes until the end of the year or reduce their contracted offtake. Japanese buyers have been pushing for more contract flexibility in recent years, including removal of destination restriction clauses.

Indonesia wants to double its refining capacity

(Bloomberg; July 7) – Indonesia is accelerating plans to almost double its oil refining capacity, ignoring a temporary slump in demand triggered by the coronavirus pandemic, as the former OPEC member seeks to cut its reliance on imports of fuel products. State-owned PT Pertamina will spend $48 billion over the next seven years to increase processing capacity to 1.8 million barrels per day from 1 million. The expansion also includes building 8.6 million tonnes a year of additional petrochemicals capacity.

Indonesia now relies on imports for more than half its annual needs because of years of underinvestment in new refining capacity. The national oil company plans to expand its existing refineries and build a new one that can produce cleaner fuels, including Euro V-standard gasoline and green fuel from palm oil that could cut imports $9 billion a year.

If Pertamina fails to act now, or further delay its plan to add refining capacity, the nation may become fully dependent on imports, President Director Nicke Widyawati told Parliament last week. There also is an urgency to upgrade refineries because of the need to switch to cleaner fuels to cut until pollution, she said. Additionally, fossil fuel demand is forecast to continue growing to at least 2030 before consumers start using

more renewable energy, Widyawati said. To meet the demand for renewables and biofuels, Pertamina is setting up green refineries, which will use palm oil as feedstock.

Chinese energy firms select Morgan Stanley, Goldman as advisers

(Reuters; July 7) - Top Chinese energy firms have selected investment banks Morgan Stanley and Goldman Sachs to act as advisers for multibillion-dollar deals transferring oil and gas pipeline assets into a national energy infrastructure giant, four sources said. Overseen by a government vice premier, underlining the project's importance, China aims to complete the asset transfers and start operation of the new entity — valued by industry analysts at more than $40 billion — by the end of September, sources said.

China announced in late 2019 that it would establish a National Oil and Gas Pipeline Co. by combining pipelines, storage and liquefied natural gas receiving terminals operated by China National Petroleum Corp., China Petrochemical Corp. (Sinopec Group), and China National Offshore Oil Co. (CNOOC). The new entity — also known as PipeChina — was conceived by Beijing to provide oil and gas producers open access to energy infrastructure, looking to boost non-state investment in oil and gas exploration.

Morgan Stanley has been selected to advise Sinopec, according to two sources with direct knowledge of the matter. Goldman Sachs was selected for CNPC, two separate sources said. I t was not immediately clear if CNOOC had appointed an international adviser. For the new pipeline group itself, China International Capital Corp. has been appointed as adviser, three separate sources said.