Oil and Gas News Briefs
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June 18, 2020

Saudi Arabia scales back crude deliveries to U.S.

(Bloomberg; June 16) - After flooding the U.S. with crude earlier this year, Saudi Arabia has all but cut off the taps to the American oil market. The kingdom has exported just one cargo to the U.S. so far in June, equivalent to about 133,000 barrels a day, tanker-tracking data compiled by Bloomberg show. That compares to the 1.3 million barrels a day it shipped in April, when it flooded the global market during a price war with Russia.

If the low pace of exports is sustained in the second half of June, U.S. imports of Saudi crude could drop to the lowest level in 35 years, helping the U.S. market rebalance, according to traders and analysts. Saudi oil industry officials say the kingdom is unlikely to boost cargoes to the U.S. in the second half of June and into July. By slashing U.S. deliveries, they can influence the most highly visible oil market in the world. In addition, the drop in cargoes is likely to help reduce U.S. crude stockpiles, amplifying the price impact as U.S. and global oil benchmarks have recovered to the $38-to-$40 range.

For much of 2019 and early 2020, Saudi Arabia shipped relatively little crude into America, with arrivals averaging 475,000 barrels a day, according to U.S. data. But that changed in April, when Riyadh opened the taps after failing to reach a deal with its OPEC+ partners to cut production. Saudi crude takes about 45 days to reach the U.S. Gulf and West coasts, so the impact of the April export flood wasn't felt until late May and early June, when U.S. imports of Saudi oil jumped to 1.5 million barrels a day, much of it going to the West Coast with its limited storage capacity, affecting prices.

U.S. shale producers expected to restore 500,000 barrels per day

(Reuters; June 17) - U.S. shale producers are expected to restore roughly half a million barrels per day of crude output by the end of June, according to crude buyers and analysts, amounting to a quarter of what they shut in since the coronavirus pandemic cut fuel demand and hammered oil prices. Such a swift rise in U.S. oil production would complicate efforts by top producers Saudi Arabia and Russia to encourage global allies to fulfill their pledges to make record production cuts to help boost prices.

The OPEC+ group agreed to big cuts in April to balance oil supply to prop up prices, and anticipated similar economic cuts by the likes of the United States as well. U.S. producers cut supply by roughly 2 million barrels per day. But the recovery in prices to around $40 a barrel makes some shale output profitable again, even though that level is unlikely to spur new drilling activity. Larger producers are reopening the taps in low-cost plays in Texas, but also in expensive shale basins in North Dakota and Oklahoma.

Fracking activity tracker Primary Vision estimates as much as 500,000 barrels per day of production will return to the market by month-end, while Rystad Energy estimates 400,000 could be added to the market between June and August. “Some of the bigger guys that we work with are starting to turn everything back on,” said Joshua Wade, an oil marketer in Oklahoma, who works with producers. Producers are also pumping oil out of storage, which filled when demand plummeted as billions of people worldwide stopped traveling due to lockdowns to slow the spread of coronavirus.

U.S. shale oil production in July forecast at lowest in 2 years

(S&P Global Platts; June 15) – U.S. shale oil production will slip to 7.632 million barrels per day in July, down 93,000 from June and the lowest in two years, the U.S. Energy Information Administration said June 15. U.S. crude production from onshore shale basins peaked in March to just above 9 million barrels per day, before freefalling global oil demand from pandemic lockdowns and excess supply from Saudi Arabia and Russia tanked global oil prices. Production is set to decline month on month in all seven major U.S. shale basins in July.

China fills up oil storage tanks at a record pace

(Houston Chronicle; June 16) - China has been filling its oil storage facilities at a record pace, propping up global energy prices at a time that demand has plummeted due to shutdown orders intended to contain the coronavirus pandemic. Over the first six months of the year, China’s oil inventories climbed at four times the pace of the previous record set by the United States in late 2014 and early 2015, according to the consulting firm IHS Markit.

“The world has never seen an increase of this magnitude in such a short period of time," said Jim Burkhard, vice president and head of oil markets at IHS Markit. "Crude oil in storage has increased around the world as demand has fallen this year. But no geography — not even floating storage — matches the scale of China’s inventory increase.” China's decision to fill up its tanks has helped prop up oil prices. "China’s crude oil buying and stock building have been a critical support for an otherwise exceptionally weak crude oil market," said Xiaonan Feng, an analyst at IHS Markit.

Japan’s oil imports fall to lowest level since 1991

(Reuters; June 17) - Japan’s oil imports slumped in May to the lowest in almost three decades, official figures showed on June 17, as the coronavirus outbreak hit demand for crude and fuel in the world’s third-biggest economy. The world’s fourth-biggest oil buyer imported 1.92 million barrels per day of crude last month, down 36% from a year earlier and the smallest amount since April 1991, according to Ministry of Finance data.

Imports of liquefied natural gas and thermal coal also fell to multi-year lows. The virus pandemic has caused a fall of about 30% in global oil demand, sending crude prices crashing as economies were paralyzed by lockdowns of billions of people to halt the spread of infection. Japan’s LNG imports in May were down 18.9% from a year earlier and the lowest since May 2009.

Oil’s share of global energy is down, while gas and renewables are up

(S&P Global Platts; June 17) - Oil's share of the global energy mix continued to slip last year, but remained the largest contributor to the world’s primary energy supplies even as the role of natural gas and renewables rose to record highs, according to estimates by BP. Oil's dominance over world energy use slipped 0.2 percentage point to 33.1% in 2019, while the growth of gas and renewables saw their shares rise to 24.2% and 5%, respectively, according to BP's latest annual Statistical Review of World Energy.

Rising renewable power, mostly from solar and wind, accounted for more than 40% of global energy growth last year, according to the data, after renewables posted a record increase in consumption in energy terms. As a result, renewable energy, including biofuels, overtook nuclear’s 4.3% share of the energy mix, the report found.

Oil's share of the global energy mix has been falling steadily over the past four decades after hitting a peak of 50% in 1973, according to BP's data. But a more recent shift away from coal toward gas and renewables meant coal's share of primary energy fell to its lowest level in 16 years last year to 27%. Despite coal consumption slipping last year, BP said coal was still the single largest source of power generation, providing over 36% of global power compared to 10% from renewable energy.

Canada’s cleanup plan for inactive wells ‘will put people back to work’

(Calgary Herald columnist; June 15) - As Western Canadian provinces begin awarding contracts as part of a C$1.7 billion federal assistance program to clean up inactive oil and gas wells, a report shows how big of a dent it can make in the $9 billion problem. A study by AltaCorp Capital said the federal money with programs administered by governments in Alberta, British Columbia, and Saskatchewan, could double the market for abandonment and reclamation work in Western Canada within three years.

It would create jobs and work for a range of companies, from service rig operators, engineers and consultants, to trucking and disposal firms. Depending how much money petroleum producers spend in the coming years, the market for this segment of the sector could jump from $615 million last year to as much as $1.2 billion by 2022. “One of the main take-aways is that it’s really going to benefit smaller (service) companies the most, in terms of exposure” to additional work, AltaCorp analyst Tim Monachello said.

“It probably does achieve what the government is looking for. It will put people back to work. But it will be more impactful for smaller and private companies,” Monachello said June 15. In April, Ottawa announced it would provide funding to clean up wells across Western Canada, including $1 billion in Alberta. Another $200 million of federal aid is going out as a loan to the Alberta Orphan Well Association, which manages reclamation and abandonment work on wells when there is no owner left to pick up the tab.

Abandoned oil and gas wells a growing problem

(Reuters; June 16) - In May 2012, Hanson and Michael Rowe noticed an overpowering smell like rotten eggs seeping from an abandoned gas well on their land in Kentucky. The fumes made the retired couple feel nauseous, dizzy, and short of breath. Regulators responding to the leak couldn’t find an owner to fix it. J.D. Carty Resources had drilled the well near the home in 2006 — promising the family a 12.5% royalty and free gas, which they never got. But Carty went bust in 2008 and sold the site to a company that was later acquired by Blue Energy. Lawyers for both companies deny any responsibility.

A year later the state declared the well an environmental emergency and hired Boots & Coots — the Texas contractor that doused oil-well fires after the Gulf War — to plug it. During the 40-day operation, the Rowes retreated to a trailer on their property and lived with no running water to escape the gases. Regulators determined the leak was a toxic blend of hydrogen sulfide, a drilling byproduct, and the potent greenhouse gas methane.

The incident, while extreme, reflects a growing global problem: More than a century of drilling has left behind millions of abandoned wells, many of which leach pollutants into the air and water. And companies are likely to abandon more wells due to bankruptcies as oil prices struggle to recover from historic lows after the pandemic crushed global demand, according to bankruptcy lawyers, industry analysts, and state regulators.

Leaks from abandoned wells have long been recognized as an environmental problem, health hazard and public nuisance. They have been blamed for a slew of public safety incidents over the years, including a methane blowout at the construction site of a waterfront hotel in California last year. They also pose a serious climate threat that researchers and governments are only starting to understand, according to a Reuters review of government data and interviews with scientists, regulators and U.N. officials.

Opponents push to deny permit for New Jersey LNG export terminal

(New Jersey Spotlight; June 16) - Environmentalists representing 126 groups in four states on June 15 urged the Delaware River Basin Commission to reverse its approval of a plan to build New Jersey's first liquefied natural gas export terminal. The groups argued that the interstate regulator didn't consider a range of environmental impacts when it approved dredging for the controversial project last June and should withdraw its permit in light of information that has since been presented in a public hearing.

They accused the commission of making a "rushed" decision to approve the project to export Marcellus shale gas, and said it had not taken into account the impacts of round-the-clock loading of LNG and other petroleum products; development of the former DuPont explosives factory site where the terminal would be built; dangers to coastal and inland communities associated with the transportation and loading of LNG and other fuels; and exacerbation of climate change from the production of more natural gas.

"This project will have substantial negative impacts on the Delaware River, its water quality, its habitats, and the species that live in and depend on the River, Estuary and Bay," the groups wrote in their letter. The terminal would accept LNG from a planned liquefaction plant at Wyalusing, Pennsylvania, about 175 miles by truck or train to the waterfront site. The fuel would then be loaded onto tankers and shipped overseas. Delaware River Partners, a unit of New Fortress Energy, wants to build the terminal as an extension of a logistics complex that is already under construction.

Climate activists oppose gas supply projects in New York

(S&P Global Platts; June 12) - Emboldened by the recent cancellation of a fiercely disputed natural gas pipeline project, climate activists are now looking to defeat National Grid's top alternative for addressing a downstate New York gas supply crunch. Dozens of environmental groups have asked Gov. Andrew Cuomo and the New York State Public Service Commission to reject any option that would increase gas supply into New York City and Long Island.

The groups instead want New York to opt for non-infrastructure solutions, including energy efficiency, demand-response measures and electric heating systems. National Grid, however, favors other solutions to close a projected gas supply gap in the state. In May, the company recommended several options, including building additional pipeline capacity, boosting liquefied natural gas regasification capacity in Brooklyn, and incremental energy efficiency and demand-response efforts.

In rejecting a critical water quality permit for a controversial pipeline project, the state Department of Environmental Conservation said: “Long-term use of fossil fuels is inconsistent with the state's laws and objectives and with the actions necessary to prevent the most severe impacts from climate change." Activists seized on that piece of the decision to argue against any fossil fuel option, including National Grid’s proposal. A 2019 law requires New York to achieve net-zero greenhouse gas emissions by 2050.

Supreme Court allows controversial gas pipeline to proceed

(The Wall Street Journal; June 15) - The U.S. Supreme Court has removed a legal barrier to construction of an $8 billion pipeline that would deliver natural gas from West Virginia to the East Coast, ruling the project could run under a major hiking trail. The court, in a 7-2 opinion June 15, overturned a lower-court ruling that found the U.S. Forest Service didn’t have the authority to grant a special-use permit for developers of the Atlantic Coast Pipeline to construct an underground segment beneath a section of the Appalachian National Scenic Trail in Virginia.

The line would transport gas across 600 miles to sites in Virginia and North Carolina. The developers say the project is needed to help meet East Coast demand for the cleaner-burning fuel. The pipeline was announced in 2014 but has faced delays. Opponents argued the pipeline’s path could harm ecologically important national forests, with threats of soil erosion and damage to wildlife habitat. They said the project would harm an especially picturesque section of the Appalachian Trail in Virginia.

The case required the high court to unwind the intersection of several federal agencies and laws, and consider what the word “land” actually means. The Forest Service can grant a right of pipeline access on national forest land, but it can’t do so on lands in the National Park System. The Appalachian Trail is administered by the National Park Service, and environmentalists argued that meant the Forest Service couldn’t grant the permit. The court said it could. Officials acknowledged, however, that the project still has other environmental reviews and permitting hurdles it has to clear.

Texas may tighten rules to limit gas flaring

(Reuters; June 16) - Texas as early as this fall could tighten some rules for the controversial practice of gas flaring, the head of the state’s regulatory commission said June 16. The practice of burning off unwanted gas produced alongside more lucrative oil has become a top issue for environmentalists and investors focused on sustainability measures. The release of carbon dioxide from flaring can worsen climate change.

Recommendations from an industry panel — provided to state regulators at a meeting June 16 — included cutting to 90 from 180 the number of days producers can routinely burn unwanted gas without going to the Texas Railroad Commission, the state's regulator, for a hearing. Commission Chairman Wayne Christian directed agency staff to figure out which of the recommendations from the Texas Methane & Flaring Coalition, a group of producers and industry organizations, could be implemented by fall.

"This is now the opportune time to implement meaningful reforms to reduce flaring before oil and gas production climbs back to previous highs," Christian said, adding that the issue is hindering some producers' access to capital. Flaring is used sometimes during well maintenance, plant outages or for safety reasons, but is also done routinely in some oil fields that do not have pipelines to get gas to market. The alternative to flaring, known as "venting," is even more damaging as it releases unburned methane, the main component of natural gas and many times more potent as a greenhouse gas.

Lawsuit over Arctic oil drilling heads to Norway's Supreme Court

(Barents Observer; Norway; June 10) - After losing in two lower courts, four Norwegian environmental organizations in April won approval to bring their case against Arctic oil drilling in the Barents Sea to the country's highest court. The hearings will start on Nov. 4, Greenpeace Norway announced. The court has set aside seven full days for the case, and all 19 judges of the court will attend. Only 10% of cases in Norway are taken to the Supreme Court, and very few are given so many days in court.

Back in in 2016, the organizations sued the government for opening new drilling in the Barents Sea. They argue that Arctic drilling will contribute to harmful climate gasses in the atmosphere and consequently contradict the country's constitution, which says the state has an obligation to guarantee citizens' rights for a secure climate. "We the people have a constitutionally granted right to a healthy environment. It's up to the Supreme Court of Norway to make it a reality," said Frode Pleym, head of Greenpeace Norway.

Chinese LNG importer will favor spot market over long-term contracts

(Bloomberg; June 15) - One of China's biggest private liquefied natural gas importers is betting it will be cheaper to meet rebounding demand by boosting purchases on the spot market. ENN Energy Holdings, one of the few non-state-owned firms to operate an LNG import terminal in the country, has stopped negotiating long-term supply contracts and plans to rely on cheaper spot-market imports for at least the rest of the year, ENN President Zhang Yuying said June 15. That comes after the benchmark Japan-Korea spot LNG marker dropped more than 60% this year to a record-low.

ENN has about 1.1 million tonnes of LNG a year in long-term contracts and space for more at its Zhoushan terminal. The company is in talks with exporters for additional contract volumes and has applied for exemptions to China's tariffs on U.S. imports, Zhang said. But those discussions are now on hold for at least the rest of the year.

In the second half of the year, two key developments will allow the company to take advantage of low spot prices and boost imports, Zhang said. The first is the opening of a sub-sea pipeline to Zhejiang province from its terminal on Zhoushan island. Currently all imports are transported by tanker truck across bridges and are subject to traffic bottlenecks. The other is the emergence of the China Oil & Gas Pipeline Network Corp., which the government created to take over pipeline and terminal assets from the country's three state-owned giants in order to allow more third-party access to them.

Oversupply prompts natural gas price competition in China

(S&P Global Platts; June 17) - China's top LNG importers are competing aggressively in the domestic gas market, but face demand saturation in several regions like key eastern provinces where wholesale trucked LNG prices have hit multi-year lows while gas consumption has ceased to grow. The provinces of Jiangsu and Zhejiang are seeing fierce gas-on-gas competition with main suppliers China National Offshore Oil Corp., state-run PetroChina and ENN Group slashing prices for truck-delivered LNG and even competing on price with domestic pipeline gas in some areas.

The glut means that China's LNG imports could be capped. Domestic LNG wholesale prices in eastern China dropped for a short period in early June to the equivalent of $3.82 per million Btu, reflecting a 10-year low before rebounding, local traders said. China's gas pricing is divided geographically due to differences in provincial economies, availability of pipeline gas from Central Asia, Russia, and Myanmar, domestic gas production and infrastructure like LNG terminals, pipelines and storage facilities.

Many of the nation's import terminals use trucks to supply their customers, and CNOOC and ENN operate some of the largest LNG trucking fleets in the region. Consequently, CNOOC and ENN have engaged in a price battle since China's economy reopened in April. These prices were at times the lowest in China, and several market participants called the price wars "irrational." At one point, CNOOC and ENN had reportedly agreed to stop undercutting each other, but competition is still fierce, traders said.

Henry Hub cash prices fall to $1.38 per million Btu

(S&P Global Platts; June 16) - Cash Henry Hub and other U.S. Southeast physical gas benchmark prices fell June 16 to their lowest levels in more than 20 years, with feed gas to liquefied natural gas plants at a 14-month low on weak global market dynamics. Cash Henry Hub settled at $1.38 per million Btu on June 16, which is location's lowest settlement price since it fell to $1.01 on Dec. 3, 1998.

The weakness was felt in the futures as well as the physical market. July prices on the New York Mercantile Exchange, the current prompt-month futures contract, settled 5.5 cents lower at $1.614. The largest factor in the June 16 price drop was likely weakening LNG feed gas demand. Total LNG feed gas deliveries fell to a 14-month low of 3.72 billion cubic feet on June 16, according to S&P Global Platts Analytics data. This is a steep drop compared to the May average of 6.7 bcf and April average of 8.27 bcf.

Globally, LNG demand has been hard hit relative to available supply due to measures aimed at slowing the spread of the coronavirus. Over the past two months, both the Platts Japan-Korea Marker and the Platts Northwest European Marker hit record lows as a result of the supply-demand imbalance, falling to $1.825 and $1.337, respectively. The flexible nature of U.S. LNG supply has led to it being one of the hardest hit exporting countries in recent months, with more than 35 cargoes expected to be cancelled for June and potentially more than 45 cargoes in both July and August.

Tellurian delays Louisiana LNG project to 2021, still needs partners

(S&P Global Platts; June 16) - Tellurian has delayed its target to begin construction of its proposed Driftwood LNG export terminal in Louisiana until next year, the company's CEO said June 16. The disclosure, made by Tellurian's Meg Gentle during an investor presentation that was webcast, follows the developer's recent inability to complete a key equity partnership agreement with India's Petronet.

Low international prices, weak demand and market shocks from the coronavirus pandemic have created enormous challenges for existing U.S. LNG exporters as well as developers of new terminals. Utilization at U.S. liquefaction terminals has fallen to 14-month lows, while final investment decisions on multiple projects have been delayed. At full development of 27.6 million tonnes per year, about half of Driftwood's capacity is expected to be used by the equity investment partners Tellurian has been soliciting. The remaining capacity is to be retained by Tellurian to market on its own.

To date, however, after a preliminary deal with Petronet expired when it wasn’t completed by the end of May, only France's Total has made a firm commitment to support the project — a $500 million investment signed last summer. The project is estimated at as much as $30 billion for full capacity. Tellurian hopes to have sufficient agreements in place during the first half of 2021 so it can obtain financing and begin construction, Gentle said. Start-up of LNG production is expected by the end of 2024.

Gazprom wants to retroactively raise gas price to Poland

(Reuters; June 16) - Russia's Gazprom is in talks with Poland's top gas company PGNiG to retroactively back to 2017 raise the cost of gas supplied to the country, its Gazprom Export arm said June 16. Gazprom Export did not say what grounds it had for raising prices, but it is not uncommon for it to change contract prices retroactively if spot prices have changed significantly or there have been other developments in the market.

The two companies have been locked in a separate dispute over pricing, which led to an international arbitration court ruling in March that Gazprom must pay state-run PGNiG about $1.5 billion by July 1. If Gazprom Export reaches an agreement with PGNiG to raise prices retroactively, that could reduce the bill it owes the Polish company. Gazprom also said it is appealing the international arbitration court's ruling.

On June 15, Gazprom and PGNiG signed an annex to their contract, confirming they would use a different pricing formula after the arbitration court in March ruled that the formula in PGNiG's long-term deal with Gazprom should be changed to take into account gas markets. Under a 1996 contract, PGNiG buys from Gazprom most of the gas it resells, and has often said it pays more than its western European peers.

Uncompleted well count in U.S. highest since 2017

(Houston Chronicle; June 16) - The number of drilled but uncompleted oil and gas wells is approaching a three-year high as low crude oil prices continue to drag down production. There were 5,729 drilled but uncompleted wells in the United States at the end of May, a level not seen since December 2017, according to Norwegian energy research firm Rystad Energy. The number of such wells was at a low of 4,969 in February but began to build in March as the oil bust grew worse.

Of the estimated 760 drilled but uncompleted wells added over the past three months, Rystad said 500 of them are in the Permian Basin of Texas and New Mexico. The rest are on other shale plays across the U.S. The buildup is primarily driven by the wells that were recently drilled but are less than six months old. The number of the unfinished wells provide insight into future work for oil field service companies, which provide hydraulic fracturing and completion services when the wells are brought into production.

California's largest oil producer cuts deal with its lenders

(S&P Global Platts; June 16) - California Resources reached agreement with its lenders to restructure and continue to operate as the coronavirus pandemic has cut California refinery runs drastically, reducing the need for the producer's crude oil. The company, the largest producer of crude in the state, had been severely impacted by Gov. Gavin Newsom's statewide order on March 19 ordering 40 million Californians to stay home to prevent the spread of the deadly virus.

As the state ground to a halt, most Californians stopped driving and many business operations ground to a halt. California Resources became one of the causalities of the pandemic as the state's refinery capacity of 1.9 million barrels per day slowed dramatically to match falling gasoline and diesel demand. Refinery runs fell to 55.5% of capacity in the week that ended May 1, when refiners cut back crude inputs to 1.06 million barrels per day, according to California Energy Commission data.

California is not served by any interstate crude pipelines, and the oil used at refineries is either brought in by water, train or produced in the state. And while indigenous production has been falling — to 183.2 million barrels in 2019 — it still supplies about 30% of all crude used by California refineries. In 2019, California Resources produced 128,000 barrels of oil equivalent a day of crude, of which 80,000 was oil. California Resources' main base of operations is in the state's four main onshore basins, where it has 8,000 miles of gathering lines that feed pipelines directly connected to refineries.

First Nation says spill strengthens opposition to oil line expansion

(CBC News Canada; June 16) - An oil spill at a Trans Mountain pipeline pump station in Abbotsford, British Columbia, over the weekend has bolstered the Sumas First Nation's opposition to seeing the pipeline capacity expanded through its territory. The spill was detected in the early hours June 13. Trans Mountain estimates that up to 1,195 barrels of light crude was released during the incident.

Sumas First Nation Chief Dalton Silver said trust is stretched thin and the spill response coordination has been frustrating. "It's not going all that well as far as indigenous involvement." Since learning about the spill, it's been a challenge to get independent monitors on site, he said. Silver is also concerned about how and when details are being communicated to the Nation. "It brews a lot of mistrust among our leadership."

Trans Mountain said the pipeline was restarted the next day and said it has provided monitors with access to "the various sections of the site" since the spill, subject to the required training and personal protective equipment. Sumas is among a handful of First Nations opposed to the Trans Mountain expansion. The line moves about 300,000 barrels of crude a day between Alberta and the B.C. coast. The expansion would boost capacity to 890,000 barrels. Sumas is in the middle of hearings before the Canada Energy Regulator, trying to prevent the expansion from being routed through the area.