Oil and Gas News Briefs
Compiled by Larry Persily
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Fight over quota cheating likely to delay OPEC+ meeting

(Bloomberg; June 3) - A meeting between OPEC and its allies is unlikely to happen this week as Saudi Arabia and Russia draw a hard line over oil-production quota cheating by other nations. The OPEC+ leaders told members that talks planned for next week could also be skipped if countries including Iraq and Nigeria don't stick to promises to implement their supply curbs, said people familiar with the matter. Without a meeting to settle the dispute, the group is due to start easing back on its production curbs in July.

OPEC and its allies have spent the past four days discussing a plan to bring forward their meeting by several days to June 4. That video conference would have discussed a short extension to the group's current supply reductions of 9.7 million barrels per day, set in April. While a consensus had emerged between Saudi Arabia, Russia, and others to maintain the deepest level of cuts for one more month, that was contingent on other countries making solid promises to implement their reductions in full, the sources said.

It's unlikely the meeting will happen June 4, said one person. Without assurances on compliance, Moscow and Riyadh warned that the talks originally set for June 9-10 may not happen either, the people said. The Saudis have long urged other nations to share the burden of production cuts more equitably. Russia, which was often a laggard in the past but has stuck to its pledges this time, is pushing for any extension past July 1 to be conditional on compliance. Iraq and Nigeria have repeatedly flouted OPEC deals during the past three years, following through on less than half of their cutback share in May.

U.S. shale producers start to reverse production cutbacks

(Reuters; June 2) - U.S. shale oil producers are starting to reverse production cuts as prices recover from historic lows, underscoring shale's ability to quickly adjust to pricing and posing a challenge to OPEC as its members consider extending their own output curbs. U.S. producers began cutting flows in March as prices collapsed under a supply glut and falling demand due to the pandemic. U.S. producers are forecast to pare their output by as much as 2 million barrels a day in 2020 with half coming from shale wells.

But on June 2, shale producers Parsley Energy and EOG Resources disclosed plans to restore some or all of their output cuts. In North Dakota, state officials have reduced by 7% their estimate of production shut-ins in the second-largest U.S. shale field. While some U.S. producers start to ramp back up, OPEC and its allies will meet June 4 to consider extending their April agreement to cut a record 9.7 million barrels per day of oil production to offset the lost demand from coronavirus-induced economic shutdowns.

EOG, one of the largest U.S. shale producers at more than 450,000 barrels per day last year, starting next month will open wells it had curtailed and “bring on wells that we’ve completed and not turned on yet,” said Kenneth Boedeker, head of exploration and production. “Many larger producers might restore significant part of curtailed production” in June, said Artem Abramov, Rystad Energy’s head of shale research. Others, he said, are likely to wait as they “build more confidence in market fundamentals.”

China’s oil demand back to more than 90% pre-pandemic levels

(Reuters; June 2) - China’s oil demand has recovered to more than 90% of the levels seen before the coronavirus pandemic struck early this year, a robust rebound that could be mirrored elsewhere in the third quarter as more countries emerge from lockdowns. While China — the world’s second-largest oil consumer — is the outlier for now, easing travel restrictions and stimulus packages aimed at resuscitating economies could accelerate global oil demand in the second half of 2020, industry executives said.

“The brisk resumption of Chinese oil demand, 90% of pre-COVID levels by the end of April and moving higher, is a welcome signpost for the global economy,” said Jim Burkhard, vice president and head of oil markets at IHS Markit. “The degree to which it is snapping back offers reason for some optimism about economic and demand-recovery trends in other markets such as Europe and North America,” Burkhard said.

Widespread lockdowns to contain the spread of the virus took an especially heavy toll on oil markets, wiping roughly 70% off global prices by mid-April and leading to huge build-ups in oil and fuel inventories worldwide. Benchmark oil prices have bounced back as lockdown measures eased with Brent futures rallying 50% and U.S. crude futures more than 90% since May 1. While oil analysts agree that China’s demand is rebounding, estimates differ in terms of degree and duration, and other countries are behind China in reopening their economies and rebuilding their oil consumption.

Wyoming legislators look at cutting oil taxes to help industry

(KPVI TV; Pocatello, Idaho; June 2) - Wyoming lawmakers mulled ways to prop up the ailing oil and gas industry June 1, including possible cuts to state mineral taxes. The Legislature's Joint Minerals, Business and Economic Development Committee moved to draft a bill that would slash in half the mineral taxes oil and gas firms pay the state. The proposed legislation would reduce the severance tax by 50% for a six-month period.

Committee Co-Chair Mike Greear, R-Worland, who introduced the idea, said he hopes the aid could "incentivize and encourage" the recovery of oil production in Wyoming. Oil prices have plunged in response to the spread of COVID-19 and a global price war. Several major oil and gas companies have trimmed their workforces, reeled in expenses, and halted production. The rig count in Wyoming — a prime indicator of how much drilling activity is occurring — fell from 30 rigs in March to two rigs as of May 29.

A preliminary report to lawmakers last month revealed the state could face a $1.5 billion revenue drop between March 2020 and June 2022 in light of the COVID-19 pandemic and the collapse in oil prices. The latest proposal would supplement other relief efforts extended to the industry by the Legislature this year, including reductions in the mineral tax at certain market prices. The Wyoming Oil and Gas Conservation Commission announced in April it will not require producers to pay the state conservation tax for the next six months. Wyoming companies produced about 290,000 barrels a day in March.

U.K. Methodist church board getting out of oil stocks

(Pension & Investments magazine; June 2) - The Central Finance Board (CFB) of the Methodist Church, London, sold its holdings in three oil companies and has excluded seven additional energy firms from future investment. The board and its subsidiary firm, Epworth Investment Management, invest about £1.2 billion (US$1.5 billion) on behalf of Methodist and non-Methodist churches and charities in the U.K. The board’s investment team used 25 metrics for assessment of the energy companies, including future investment plans, and track records and targets related to reducing carbon emissions.

The board said June 2 it had sold its just over £15 million in shares in BP and just over £2 million in Total with both divestments made on climate change grounds. Although BP has recently made a commitment to reduce indirect carbon emissions by 2050, "it has yet to provide details of how this commitment would be met," the church board said.

While Total has since made a new emissions commitment, "both companies rated amber in (the CFB's assessment) partly due to their current output and the carbon emissions assessment," the release said. The church board also excluded from future investment Chevron, Woodside, Gazprom, Hess, ConocoPhillips, ExxonMobil, and EOG Resources. It said it did not hold stocks in those companies. The board said it holds and is reviewing investments in four companies — Repsol, Eni, Shell, and Equinor — and wants "more radical change from them soon to address the climate emergency.”

States ask for federal funds to plug abandoned wells

(Argus Media; June 2) - North Dakota, New Mexico and other oil-producing states are seeking federal funds to plug and remediate hundreds of recently "orphaned" wells owned by companies that have gone out of business since oil prices collapsed earlier this year. The U.S. had more than 56,000 orphan wells before lockdowns sparked by the COVID-19 outbreak devastated fuel demand and helped caused oil prices to crash.

State officials are bracing for thousands of newly orphaned wells as smaller producers go bankrupt, leaving the states with figuring out how to pay potentially hundreds of millions of dollars to plug wells and reclaim drilling sites. "We have everything we need except the budget," North Dakota Department of Mineral Resources Director Lynn Helms said at a June 1 virtual roundtable hosted by Democrats in the U.S. House.

North Dakota two months ago had no orphan wells, Helms said, but now in the wake of the oil-price crash, it has 366. The state is seeking to use $33 million in federal coronavirus aid to plug hundreds of abandoned wells, and it is holding a June 10 hearing to confiscate 368 wells to be plugged. The average cost of plugging a well and reclaiming the site in the state is $150,000.

New Mexico has 708 known orphan wells, and there is a risk that number will increase as producers struggle to survive. Orphan wells in the state cost an average of $35,000 to plug with $30,000 to $80,000 needed to remediate the drilling sites. Just plugging the wells would cost $24 million, far in excess of the $2 million the state has collected in clean-up bonds from operators, the state's top oil regulator Adrienne Sandoval said.

China revives $20 billion petrochemical project

(Reuters; June 1) - China is reviving a $20 billion petrochemical project in eastern Shandong province as part of its efforts to dial up infrastructure spending to support an economy struggling with the coronavirus pandemic, two China-based industry sources said. The 400,000-barrel-per-day refinery and 3-million-tonne-per-year ethylene plant in Yantai, the country's hub for independent oil refineries, was proposed years ago but approval has been slowed because of China's struggle with excess refining capacity.

China's state planner, the National Development and Reform Commission, gave initial approval on June 1 for the project, allowing Shandong province to start planning for construction, said the sources with knowledge of the approval. Investment in the project will be nearly 140 billion yuan ($20 billion), according to one of the sources. China business registration data seen by Reuters showed Shandong Nanshan Group, a private aluminum smelter based in Yantai, will be the venture's lead investor. Other investors include chemical group Wanhua and the Shandong provincial government.

The project could help cut China's petrochemical imports but would likely worsen its surplus of refined fuel products. Analysts expect the project to be operational around the end of 2024 with revenue underpinned by petrochemicals — demand for which is more resilient than for transportation fuels that have been hit hard by the coronavirus.

Proposed Louisiana LNG project now on third potential new owner

(The Advocate; Baton Rouge, Louisiana; June 2) - The Australian parent company behind the proposed Magnolia LNG project near Lake Charles, Louisiana, is now on its third potential buyer for the venture. The company in late May canceled a deal to sell the project to a British business, the second canceled sale. Global Energy Megatrend was expected to pay $2.25 million by May 15, but on May 25 the deal was terminated due to the buyer's "failure to close the transaction within the required timeframe."

One day later Magnolia LNG Holdings, a 3-week-old company, bought Magnolia LNG for $2 million from the parent company, LNG Ltd. The purchase agreement includes an unsecured promissory note worth $1.3 million if the project raises enough capital to start construction. The deal includes permits, land, detailed engineering plans and a contract for development in addition to the underlying technology related to the LNG project.

Before the second deal failed, LNG Ltd. had expected to sell the Magnolia project for $75 million to Singapore-based LNG9 Ltd., but investors pulled out of that deal after a loan fell through. LNG Ltd. recently appointed administrators in Australia — akin to bankruptcy in the U.S. — who were tasked with handling a potential insolvency. The company was on track to run out of money in May. Magnolia LNG is proposed to produce 8.8 million tonnes per year of LNG. It has its approval from the Federal Energy Regulatory Commission but lacks investment capital, financing and customers.

Traders, analysts fear the worst is yet to come for natural gas market

(Bloomberg; June 2) - The specter of negative prices is hanging over energy markets more than a month after oil's unforgettable crash below zero. While crude has staged a rapid recovery after a deal by the biggest producers to curb a supply surplus, the $600-billion-a-year global natural gas market remains extraordinarily oversupplied. Traders and analysts say the worst may be yet to come as demand falls and storage nears capacity, creating the ideal conditions for negative prices in some parts of the world.

It shows just how far the energy industry is from recovering from a pandemic-fueled slide in demand and signals more pain for producers. Unlike the oil market, there's been no sign of a coordinated response to address the natural gas glut, meaning the fallout could be deeper and longer. "We are in uncharted territory with low demand levels and high storage stocks," said Guy Smith, head of gas trading at Swedish utility Vattenfall.

The fuel, used to generate power and heat and as a feedstock for chemicals and fertilizer, was already slated to have a terrible year after a mild winter exacerbated a glut. But then the pandemic hammered demand. Meanwhile, sellers haven't throttled back enough output as stockpiles near capacity — the key is a lack of storage. Traders and analysts point to Europe as the first market likely to hit that crisis point, which could ripple across the U.S. and Asia. "European gas storage inventory is the biggest risk for global gas markets," said Edmund Siau, a Singapore-based analyst at energy consultant FGE, who expects the region's storage to hit capacity in August.

India wants LNG suppliers to accept new spot-price markers

(S&P Global Platts; June 3) - With global liquefied natural gas supplies swelling and spot-market prices at historical lows, Petronet's CEO Prabhat Singh has a mammoth task in hand — how to ensure contracted supplies for India's burgeoning appetite for gas at a fair price. Singh is hoping that contract pricing will undergo a dynamic shift under which India will be able to seal new term deals based on spot-price markers.

He believes the country's insatiable appetite for gas over the next decade along with exponential growth in its LNG purchases, will attract suppliers to agree to India's stance on term prices sooner than later. "It's a hypothesis that we have floated. I am saying we are willing to commit large volumes for five to 10 years. But let's agree to those volumes based on spot-price markers," he said. Spot prices generally are lower than contract prices when the market is oversupplied, but the situation can reverse in a tight market.

"In this way, my term (contract) import prices will be always less than the spot prices and suppliers in turn will have a guaranteed market over the longer term. Out of some 147 LNG suppliers, we have received extremely good offers from more than a dozen suppliers. We are now working around that and perhaps in the next two to three months you may hear something from us," Singh added. He said India's LNG imports could reach as high as 50 million tonnes by 2030, more than double current volumes.

U.S. LNG deliveries could remain depressed past the summer

(S&P Global Platts; June 2) - Weak liquefied natural gas prices and unfavorable economics for deliveries to Asia and Europe suggest U.S. export volumes will remain depressed through much if not all of the summer — and perhaps beyond. Operators are pulling forward maintenance, shutting down units, and working to control costs as they seek to manage the lower production levels that are symptomatic of reduced global demand and trade-flow disruptions due to the coronavirus pandemic.

With the number of cargo cancellations reported for July approximately double the count for June, and questions about the extent of a possible recovery in August, U.S LNG producers are expected to face pressure for the foreseeable future. The fixed fees that liquefaction plant operators receive even when shipments are canceled will blunt the pain, but no new U.S. export terminals are likely to be sanctioned in this environment.

Based on total feed gas flows to the six major U.S. liquefaction facilities of 3.57 billion cubic feet on June 2 — the lowest level in almost 14 months — plant utilization averaged 35%, according to S&P Global Platts Analytics data. As of late March, feed gas flows to U.S. LNG export terminals were approaching 10 bcf a day. The Platts Japan-Korea Marker benchmark for LNG delivered into Northeast Asia in July was assessed at $2.025 per million Btu June 2. Platts Analytics expects negative economics on U.S. cargoes until around October, when a sharp recovery in prices is expected.

Europe has more gas than it needs

(Bloomberg; June 2) - The natural gas glut is now so severe that prices hardly move even when Europe's biggest supplier curbs its flow to the region. Europe is choking on gas as demand has slumped in line with the virus-stricken global economy, storage sites are fuller than usual, and little relief is seen from the continuing delivery of liquefied natural gas imports — even with benchmark prices near record lows.

While traders watch for signs when key producers such as Russia and Norway start curbing flows, Gazprom, which has one of the lowest marginal costs of importers to Europe, briefly reduced its shipments through a link through Belarus and Poland. But the move wasn't enough to give prices a sustainable lift. "Gas demand is very weak and low prices are signaling supply must be cut," said Trevor Sikorski, a gas analyst at Energy Aspects in London. "Cuts (to supply) now are keeping prices falling further."

Flows from Russia via the pipeline that runs to Mallnow, Germany, resumed on June 1 after slumping to zero last week. Russia's move to cut flows is seen as temporary, said Hadrien Collineau, a senior gas analyst at Wood Mackenzie. "There is no demand for gas, and prices are so low at the moment that all the suppliers are struggling," said Collineau. Norway's flows have declined by about 11% from the same period last year. Meanwhile, LNG inventories in Europe are at record levels for the time of year.

Novatek continues to boast of 70 million tonnes annual LNG capacity

(The Barents Observer; Norway; June 2) - As this year's first cargoes of liquefied natural gas are making it across Russia's Northern Sea Route, the boss of Novatek, the nation's largest LNG producer, has reiterated his grand plans for massive growth in the remote Arctic region. By 2030, CEO Leonid Mikhelson said, the company's export terminals will have an annual capacity of 70 million tonnes, almost quadruple the volume of Novatek's only operating LNG facility, Yamal, which opened in 2017.

Yamal's annual capacity is 16.5 million tonnes. Novatek's second project, Arctic LNG-2, is under construction and scheduled to start up in 2023, with 19.8 million tonnes annual capacity when it reaches full operations. The company's Ob LNG project, at almost 5 million tonnes, is not expected to start production before 2024. That would leave Novatek one or two projects shorts of reaching its goal of 70 million tonnes by 2030. Construction costs for Yamal, Arctic LNG-2 and Ob are likely to total close to $50 billion.

Qatar's $19 billion LNG tanker order helps bail out Korean shipyards

(Reuters; June 1) - South Korea's ailing shipbuilders have been thrown a lifeline in an increasingly tough market with a $19 billion order from Qatar Petroleum (QP) for liquefied natural gas carriers, analysts said June 2. Qatar's state-run LNG producer signed agreements with South Korea's biggest shipyards on June 1 to secure more than 100 ships through 2027, in the largest-ever single LNG vessel order.

With a steep market downturn on the horizon, the orders had come at the right time for Daewoo Shipbuilding & Marine Engineering, Hyundai Heavy Industries Holdings and Samsung Heavy Industries, analysts said. "They would have been worrying about their own survival next year if they didn't win this Qatar deal," said Lee Dong-heon, an analyst at Daishin Securities, who estimated the trio would now have an order backlog stretching a year-and-a-half.

"This is the largest single LNG vessel order in history. We have never seen so many LNG vessels ordered in the same year, let alone by a single buyer," said Saul Kavonic, analyst at Credit Suisse. The industry has been suffering from a prolonged shipbuilding slump that has led to massive losses, job cuts and a bailout from the government. Park Moon-hyun, an analyst at Hana Financial Investment, said the deal could be a "opportunity for South Korean shipbuilders to overcome setbacks they have faced."

Pipeline to move CO_2 starts up in Alberta

(Calgary Herald; June 2) - After 11 years, Alberta's largest carbon capture and storage project is fully operational, allowing millions of tonnes of emissions to move from facilities near Edmonton to a storage site in central Alberta. The Alberta Carbon Trunk Line has been in the works since 2009 when the province funded the project with C$495 million to help tackle emissions and gain more oil revenue from depleted wells.

Several stops and starts later, Calgary-based energy development company Enhance Energy found a partner to build the 150-mile line in 2018. The project was fully online June 2. The roughly C$1.2 billion project will transport liquefied carbon dioxide from Alberta's industrial heartland area to a site near Clive, 75 miles south of Edmonton. The CO2 will then be pumped into Enhance Energy's depleted oil reservoirs allowing for up to 20% more oil to be taken out of the ground because the crude will flow more easily.

The first customers to use the pipeline to move their CO_2 will be the Agrium fertilizer plant and the NWR Sturgeon Refinery. The cost of processing the CO_2 will be recouped from Enhance Energy. NWR president Kerry Margetts said the refinery will be able to transport 1.3 million tonnes per year through the pipeline, about 70% of the plant's emissions. Carbon capture and storage systems have some drawbacks with one of the biggest being the capital cost. The project required C$63.2 million from the federal government in addition to the C$495 million from the province.

COVID-19 restrictions slow down Nigeria's effort to reduce gas flaring

(Reuters; June 3) - Nigeria's efforts to reduce the amount of natural gas it flares have been delayed by at least six weeks due to the coronavirus outbreak, the country's petroleum regulator said June 3. The West African country is trying to commercialize the gas that is currently burned at its wells as waste so that the fuel can be exported or used for power production. Nigeria is one of the top 10 gas-flaring countries in the world, according to accounting firm PwC.

The country estimates that it loses $1 billion in revenue annually due to flaring, which also adds to extreme environmental pollution in the Niger Delta region. But Sarki Auwalu, head of the Department of Petroleum Resources, said the bidding round to commercialize the gas has been delayed due to travel restrictions imposed to stem the virus outbreak. "What is holding (up) the program is COVID-19. Because (the bidders) need access to the flare points. … they have to go and see (them) physically," he said.

"We had to officially extend the program by six weeks," Auwalu said. Nigeria's gas flare commercialization program was approved in 2016, and the department held a round for companies wanting to bid on the opportunity to commercialize 96 flare points in February. Bids were due in early April. Auwalu said some 200 companies had joined the process, which will stretch into summer to allow bidders more time to travel to the sites.

Australian state may require Chevron to pay for CO_2 emissions

(The Guardian; June 3) - Chevron could be required to pay for offsets worth more than A$100 million for carbon dioxide emissions released at a delayed carbon capture and storage (CCS) project in northern Western Australia, an analysis suggests. The state government last week ruled against Chevron on an emissions condition that applies to the company's Gorgon liquefied natural gas project on Barrow Island in the Pilbara.

Western Australia Environment Minister Stephen Dawson backed a recommendation by the state Environment Protection Authority that Chevron must capture and inject underground at least 80% of CO_2 emissions released from the gas reservoir over a five-year period starting in July 2016, when it first shipped LNG from the site. The emissions burial target was a condition of the project's state approval, but the A$2.5 billion CCS operation was delayed due to technical issues. It started operating in August 2019.

The state rejected an argument by Chevron that the five-year period should not start until July 2018, when it was approved to expand the development. Analysts said it would be impossible for the company to meet the 80% target since it sequestered no emissions 20016-2018. Dawson said the state would determine whether Chevron was complying with the 80% condition and any penalty at the end of the first five-year period, in July 2021. Gorgon is Australia's only commercial-scale CCS project. Chevron operates Gorgon on behalf of partners including Shell and ExxonMobil.