Oil and Gas News Briefs
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North American producers cutting back faster than OPEC expected

(Bloomberg; May 7) - North American oil companies have slashed production faster than skeptical OPEC officials and industry analysts had expected and are on course to cut about 1.7 million barrels per day by the end of June, according to a Reuters analysis of U.S. state and company data. OPEC and allies led by Russia — known as OPEC+ — struck a deal a month ago to contain a worsening supply glut as the coronavirus pandemic cratered global fuel demand by about 30%, sending prices plunging.

The group also pushed for non-OPEC+ members, including North American countries, to contribute 10 million barrels a day in output cuts. But during talks last month, some OPEC members raised concerns that nations like the U.S. and Canada couldn't muster that magnitude of cuts from private companies without state mandates. That hasn't turned out to be the case. Multiple producers in North America announced have sizable cuts, including ConocoPhillips, ExxonMobil, Chevron, and Canada's Cenovus Energy.

The U.S. and Canada, which produce more than 17 million barrels a day, have already cut output by about 10%, according to Reuters' estimates. "The power of the market can be ferocious sometimes," said a senior OPEC source, adding he was surprised at the speed of U.S. and Canadian supply reductions. "When prices went negative it really accelerated some of the cuts," said Allyson Cutright, director at Rapidan Energy Group in Bethesda, Maryland. The consultancy recently increased its forecast for U.S. and Canada output cuts to 2.3 million barrels a day in June, almost 15% of total production.

The heaviest reductions are coming from Texas, the largest U.S. producing state. Texas output is likely to drop by 20%, or 1 million barrels, by the end of May, according to the Texas Alliance of Energy Producers. In North Dakota, daily output has dropped by at least 400,000 since March 1, nearly a third of the state's 1.4 million before the crisis.

Producers take 'great pains' to preserve shut-in wells

(Bloomberg; May 8) - With thousands of oil wells choking back or completely shutting off production, companies already are looking ahead to what may prove to be a bigger challenge: turning wells back on. U.S. and Canadian producers are curbing output as they look for the best way to survive low prices. Old-style, conventional wells were the first to go down and the closures are expanding to some of the horizontal gushers that represent shale drillers' prize assets.

Although shutting down a well can be a relatively simple, industry executives and their engineers aren't altogether sure how smoothly an idle well can be restarted. "When you shut in wells, especially for a long period of time, you have a lot of surprises," Clay Bretches, an executive vice president at Apache said May 7. "Some of them are good and some of them are bad." Apache has shut about 2,500 wells. Bretches said the company is taking "great pains" to make sure they're being preserved. That includes preventing corrosion and maintaining equipment that sits atop the well in remote fields.

Executives are careful about disclosing which wells are being curtailed — which involves squeezing back on the volume of crude — versus those that are completely shut down. That's because reversing a total shutdown presents a more challenging set of tasks and costs. Deciding whether to shut a well involves more than just comparing operating costs and oil prices, according to Rystad Energy. Producers must weigh the cost and mechanical difficulty of restoring those wells back to pre-curtailed volumes.

Shut-in decisions depend on technology, finances, regulation

(World Oil; May 8) - Consulting firm IHS Markit forecasts second-quarter 2020 global oil demand at 22 million barrels per day (22%) less than a year ago. The collapse in demand combined with low oil prices, storage constraints and government-ordered cuts are driving what is an extraordinary level of production cuts and shut-ins. "The Great Shut-In, a rapid and brutal adjustment of global oil supply to a lower level of demand is underway," said Jim Burkhard, vice president and head of oil markets at IHS Markit.

"All producing countries are subject to the same brutal market forces. Some will be impacted more than others. But there is nowhere to hide," Burkhard said. "Under these market conditions, it is pretty clear where production will be cut. Nearly everywhere," said Paul Markwell, vice president, global upstream oil and gas at IHS.

IHS Markit has identified three key factors that will shape production-cut decisions: Technical and logistical factors, including restart complexity; financial considerations, including operating margins, current oil prices, future expectations of price, financial health of the operator, capital availability and other spending options; and regulatory and contract conditions, including ensuring compliance with government requirements for shutting-in wells, government orders to adjust production and contractual obligations.

Hess charters three tankers to store half of its May-July Bakken oil

(Bloomberg; May 7) - Hess Corp. is chartering a trio of supertankers to hold more than half of its North Dakota crude production as rapidly filling storage forces some drillers to curtail output. The U.S. oil explorer said it has enlisted three very large crude carriers (VLCCs) that will each store about 2 million barrels of oil produced in May, June, and

July from the Bakken shale. Based on the company's first-quarter production, Hess will be putting about 56% of its Bakken output on VLCCs over the next three months.

Hess expects to sell those volumes in the fourth quarter of this year, the company said May 7 in its first-quarter earnings statement. The VLCC that will hold Hess's May production is already in the Gulf of Mexico, according to a representative for the company. The other two will arrive later.

Oil tankers take the long, slow way to deliver their cargoes

(Bloomberg; May 6) - When the supertanker New Vigorous arrived at the port of Antifer in northern France on May 2, it made a small bit of maritime history. The vessel, laden with 2 million barrels of crude, became the first in almost two years to make the voyage from Saudi Arabia to northwest Europe by way of South Africa's Cape of Good Hope — a journey that takes almost twice as long as the usual route through the Suez Canal. Now at least two more supertankers are traveling the same route with Saudi crude.

As the coronavirus pandemic turns the oil market on its head, it's also sending shockwaves through the shipping industry. From California to Gibraltar, tankers have piled up as suppliers deal with the largest glut the world has ever seen and ports have become congested. With storage options running out, fuel at historically low prices and the value of cargoes almost certain to rise in the future, some ships are taking rare voyages, often prolonging their routes until more favorable conditions arise.

"Everyone is seeking to postpone the delivery of cargoes" as storage fills up, said Peter Sand, chief shipping analyst at industry group BIMCO. "Right now, in combination with very low fuel prices, it does make sense to bring ships around the Cape of Good Hope." And it's not just affecting Saudi crude to Europe. Last month a tanker sailed around the tip of South America on its way to delivering the first Norwegian crude to the U.S. West Coast in 11 years.

U.S. drilling count falls to lowest in 80 years

(Reuters; May 8) - The number of operating oil and natural gas rigs in the U.S. fell to an all-time low — reflecting data going back 80 years — as the energy industry slashes output and spending to deal with the coronavirus-led crash in fuel demand. The rig count, an early indicator of future oil and gas output, fell by 34 to a record low of 372 in the week to May 8, according to data from energy services firm Baker Hughes going back to 1940. The previous all-time low was 404 rigs in May 2016.

Drillers have cut an average of 52 rigs per week since mid-March after crude prices started to plunge due to the coronavirus and an ensuing oil-price war between Saudi

Arabia and Russia. U.S. oil rigs fell by 33 this week to 292, while natural gas rigs fell by one to 80, according to Baker Hughes data.

"The great coronavirus derigging kicked off mid to late in the first quarter, impacting well starts across the major U.S. oil shale plays," analysts at Enverus Rig Analytics said. Analysts expect companies will keep pulling rigs the rest of the year and will be hesitant to activate many new units in 2021-2022. Raymond James projected the rig count would collapse to about 200 at the end of 2020. The investment bank expects an average of just 225 operating rigs in 2021.

Louisiana debates legal protection for oil and gas companies

(The Advocate; Baton Rouge, LA: May 7) - Oil and gas companies won the first round May 7 in a state legislative effort to kill lawsuits filed against them by Louisiana parish municipal governments over the loss of coastal wetlands. The Senate Natural Resources Committee approved the bill 4-3. The bill now advances to the full Senate. The committee hearing pitted industry lobbyists against John Carmouche, a politically powerful trial attorney backed by parishes that hired him to sue the companies.

"For years, Big Oil has run this state," said state Sen. Eddie Lambert, R-Gonzales, a sharp critic of the bill. "It's time for them to pay up." Potentially billions of dollars are at stake. Carmouche has already reached a tentative settlement for $100 million with Freeport McMoRan, one of the smaller oil and gas players in Louisiana. Passage of the bill would kill that deal, which calls for the money to restore wetlands, and would block other similar efforts. Carmouche and the oil companies also are battling in court.

The May 7 committee hearing turned on an obscure legal question: Whether the 1978 Coastal Zone Management Act allows parishes to sue oil and gas companies for the coastal-use permits issued by the state. Their lawsuits allege that drilling activities destroyed wetlands and demand that the companies pay to restore the coast. The bill's sponsor and committee chair, Republican Sen. Bob Hensgens, said his measure would clarify that parish governments do not have the right to sue oil and gas companies for permits issued by the state. Only the state can file the lawsuits, Hensgens said. "This (bill) was introduced due to a troubling number of lawsuits by local governments."

Norwegian energy company warns of extended period of low prices

(Reuters; May 8) - Aker ASA, a major investor across Norway's oil industries, is preparing for an extended period of low prices, its chief executive said May 8. "I don't expect the oil market to come into balance during the next couple of years ... due to the underlying supply-and-demand mechanics being impacted by storage (overhang)," CEO

Oeyvind Eriksen said. “A number of producers will be wiped out, a number of suppliers will go bankrupt, and those who survive will explore opportunities to consolidate.”

Aker ASA, which is the largest shareholder of oil and gas producer Aker BP, Aker Solutions and Kvaerner, is considering investing more in renewable energy but has yet to make a final decision, Eriksen said. Still, Eriksen has joined industry executives in calling on Norway’s parliament to boost planned tax relief for oil investments, arguing that 50,000 jobs are at stake in the country of 5.4 million people.

If the proposal is not amended, platform builder Kvaerner could be out of business by mid-2022, while engineering company Aker Solutions would have to lay off most of its highly skilled workers, Aker’s order book forecasts show. Aker BP’s plans to develop a series of discoveries in the so-called NOAKA area in the North Sea, potentially the largest new oil field project off Norway, in partnership with Equinor would have to be scrapped, Eriksen said.

Norway’s oil industry says tax relief insufficient

(Bloomberg; May 8) - Two of Norway’s most influential oil executives have asked the government to change a tax proposal that is meant to boost investment, but that they said risks doing little to protect the industry against the COVID-19 slump. The chief executives of Equinor, Norway’s biggest oil company, and Aker ASA, which controls one of the biggest producers and a handful of service firms, both raised forceful concerns about the plan in the past two days.

While the proposal to defer as much as 100 billion kroner ($10 billion) in taxes will improve oil companies’ liquidity, it does nothing to improve the profitability of projects, they said. “Changes to the proposal are required in order to avoid significant and permanent reduction in capacity and competency for the Norwegian supplier industry,” Aker CEO Oyvind Eriksen said in the company’s first-quarter report on May 8.

Equinor CEO Eldar Saetre came out against the plan on May 7, saying it left industry “not at all very happy,” and would force him to delay a series of projects. Talks continue ahead of the final proposal, which will be presented next week and that could still be amended in Parliament. The government’s plan would allow oil companies to accelerate deductions from investments decided by the end of 2021 and completed no later than 2024. That time frame is far too short for many projects, the industry argues.

Oil-price crash adds to Iraq’s growing list of problems

(Al Jazeera News; May 7) - Is it one challenge too many for Iraq’s new government to bear? First came political unrest. Then the coronavirus. Now an oil-price crash. They are all pushing Iraq's finances and its fragile stability to the edge. Oil accounts for 67% of Iraq's economy. Income from oil sales funds roughly 90% of its government budget. That is not a problem when oil prices are buoyant. But when they plummet, Iraq's finances are at the mercy of the markets. And this year has been particularly merciless.

"One day our GDP looks brilliant, the next day it looks horrible, simply because oil prices change," said Ahmad Tabaqchali, senior fellow at the Institute of Regional and International Studies. Iraq faces a severe economic crisis. The World Bank now reckons the country's economy will contract 9.7% this year — the worst performance since the fall of the late President Saddam Hussein in 2003. Even before the twin crises of coronavirus and the oil-price crash, Iraq was steeped in political turmoil.

Frustration with corruption, a lack of jobs and public services spurred protests late last year that forced Prime Minister Adel Abdul Mahdi to resign. Months of political deadlock finally gave way on May 6 after Iraq's Parliament voted to approve the majority of Prime Minister-designate Mustafa al-Kadhimi's new Cabinet. But while Iraq has a new government, it still lacks an oil minister. "There is no doubt that the political blockage and the repercussions of the spread of the coronavirus are all factors that will constitute challenges for the new government," said former Iraqi oil minister Ibrahim Bahr Alolom.

India needs revenues, boosts taxes on gasoline and diesel

(Bloomberg; May 6) - Oil has plummeted to about $30 a barrel from $115 when Indian Prime Minister Narendra Modi first came to power six years ago, but Indian consumers have yet to enjoy the benefits of the plunge. Modi's administration has repeatedly raised taxes on fuel to cushion worsening public finances. Diesel in the country's capital now costs 20% more than it did in 2014, with tax levies accounting for nearly half the retail price, while gasoline is roughly priced the same as under Modi's predecessor.

Lower fuel costs could have helped citizens — from factory owners to farmers — at a time when millions have lost their jobs and are living on handouts from the government or the charity of neighbors amid the coronavirus shutdown. The latest tax increase came close to midnight on May 5, when the federal government imposed an additional levy of 13 rupees per liter (64 cents per gallon) on diesel and 10 rupees on gasoline.

Pump prices will, however, not change, the government said. That means fuel retailers would have to absorb the higher duties. Taxes collected by the federal government on diesel have swelled by seven times in the past six years while those on gasoline have nearly tripled over the same period. The steep increase in taxes on the two fuels, which account for more than half of India's oil demand, comes at a time when demand has plunged by about 70% following the world's biggest virus-fighting lockdown.

Exxon subsidiary scales back plans at Russian Far East oil fields

(Reuters; May 7) - Exxon Neftegaz is adjusting the schedule and scope of some of its activities at the Sakhalin-1 oil and gas project in Russia's Far East as it moves to cut spending in response to the coronavirus crisis and weak oil prices, it said May 8. The ExxonMobil subsidiary declined to give further details. Exxon, like other international energy majors, has been forced to scale back production and investments due to the economic fallout from the spread of COVID-19 and a crash in oil prices.

"In response to challenges posed by the worldwide COVID-19 pandemic and the current global oil price environment, ENL (Exxon Neftegaz) is adjusting the schedule and scope of certain Sakhalin-1 activities," ENL said in emailed comments to Reuters. "ENL, as Sakhalin-1 operator, is looking to reduce spending in response to market conditions and evaluating all appropriate steps to reduce capital and operating expenses in the near term," the company said.

Russian energy giant Rosneft (20%), Exxon (30%), Japan's SODECO (30%) and India's ONGC Videsh (20%) are partners in the Sakhalin-1 group of fields. In 2018, Sakhalin-1 produced more than 230,000 barrels per day of oil and gas condensate. The partners have been looking at monetizing the fields' natural gas too, but have not settled on whether to build their own liquefied natural gas export project or sell or run their gas through the nearby Sakhalin-2 project, controlled by rival Gazprom.

Nova Scotia LNG project decision delayed another year

(Rigzone; May 6) – Calgary-based LNG developer Pieridae Energy has negotiated extensions to deadlines under its 20-year agreement to sell gas to German energy company Uniper Global Commodities. Those include extending the deadline for Pieridae to make a positive final investment decision on its proposed Goldboro LNG export terminal in Nova Scotia to June 30, 2021. The developer and German utility also agreed to extend delivery of the first LNG cargoes to no later than February 2026.

Both extensions add about a year to the project's timeline. Uniper would take gas from the first liquefaction train of the proposed $10 billion, two-train, 10-million-tonne-per-year facility. "Over the last several weeks we have seen projects in Australia, Africa, and the Gulf Coast either cancelled or delayed indefinitely due to the challenging energy market," Pieridae CEO Alfred Sorensen said in announcing his company's own delay.

Pieridae plans to move Western Canadian gas across the country by pipe to its terminal on the Atlantic Ocean. The company was founded in 2011 and early in its efforts targeted 2016 for a final investment decision on the Nova Scotia project.

Asia spot LNG prices fall to record low $1.85

(Reuters; May 7) - Lockdowns to slow the coronavirus pandemic are trashing demand in the world’s biggest users of liquefied natural gas, pushing Asia’s spot prices to record lows and forcing some suppliers to start cutting output. Global economies have ground to a halt as virus-containment measures have taken their toll, slashing gas demand for power generation, heating, cooking, vehicles, and chemicals. The world’s biggest LNG markets — Japan, China, South Korea, and India — are all seeing a drop in demand.

Asia’s spot LNG prices fell to $1.85 per million Btu last week, the lowest ever, as supply has flooded the market. “At prices in the $2 range ... some producers are getting close to not recovering cash costs of their operations. We are likely to see some producers start to ‘shut in’ (production),” said Alex Dewar, senior manager at the center for energy impact at Boston Consulting Group. Asia still buys most of its LNG in long-term deals linked to oil prices. And while those LNG prices have fallen along with crude prices, the contracts rates are still more costly than the spot market that is affected by oversupply.

LNG production in the United States is at the high end of the typical cost curve at about $4 per million Btu, including shipping, according to analysts from consultancy Bernstein. “Already we have seen U.S. liquefaction capacity utilization fall, and some cargoes rejected,” BCG’s Dewar said. Beyond high-cost U.S. producers, some Australian coal-bed methane projects are also likely to face acute pressure to cut supply, Dewar said.

Natural gas more expensive in U.S. than in Asia or Europe

(Reuters; May 6) - U.S. natural gas prices topped benchmarks in both Europe and Asia for the first time ever this week, giving buyers of U.S. liquefied natural gas another reason to cancel cargoes. Front-month gas futures for June delivery at the Henry Hub benchmark in Louisiana settled higher than both the Japan Korea Marker for Asia spot prices and the European benchmark in the Netherlands for the first time on May 5, according to recent pricing data available for all three contracts from Refinitiv Eikon.

Henry Hub futures for June settled about 11 cents per million Btu over the Japan Korea Marker on May 5, the first time the U.S. contract ever topped the Asian benchmark. The U.S. futures — at close to $2 per million Btu — also ended the day about 32 cents over the June contract in the Netherlands. Buyers in Asia and Europe have already canceled the loading of about 20 U.S. LNG cargoes in June as lockdowns to stop the coronavirus have cut gas demand around the world.

The buyers canceled their U.S. cargoes when forward prices made it more expensive to buy gas in the United States than it could be sold for in parts of Europe and Asia, not even counting the additional costs of liquefying the gas, transporting it overseas, and then regasifying it at the receiving terminal.

Russian gas producer will use cruise ship to house workers

(Reuters; May 6) - A cruise ship has arrived in Russia's northwestern Murmansk region to accommodate healthy staff from a construction site. Novatek, Russia's leading liquefied natural gas producer, is building a facility in Belokamenka near Murmansk to produce gravity-based platforms for its future Arctic LNG plants. The region is one of Russia's coronavirus hotspots, a local crisis response center said.

Many of Russia's oil and gas facilities are located in remote areas where people live and work in close proximity for weeks on end — making it hard to contain a contagious disease. Russia has nearly 166,000 confirmed coronavirus cases, of which 1,937 have been recorded in Belokamenka, according to the local crisis response center. A total of 11,000 people work in Belokamenka as Novatek subcontractors on the LNG project.

A spokeswoman for the response center said the ship had arrived near Belokamenka and referred questions to Novatek. Novatek declined to comment. A Reuters reporter saw the cruise ship — the Princess Anastasia, capable of accommodating nearly 2,500 people — anchored a couple hundred yards offshore. The 34-year-old Anastasia previously offered Baltic Sea cruises with bars, a spa, and a casino from St. Petersburg to Helsinki, Stockholm, and Tallinn, according to its operator, MOBY St. Peter Line, which said the ship was being turned into a floating hotel in Murmansk.

Novatek continues work on LNG projects, despite COVID-19 cases

(The Barents Observer; Norway; May 7) - A growing number of coronavirus infections will not affect progress at LNG projects under development in the Arctic, Russian natural gas producer Novatek said. The assurances by Mark Gyetvay, Novatek's deputy board chairman, during a telephone conference this week comes amid a dramatic increase in the number of virus-infected workers at the company's construction sites.

Authorities in Murmansk said up to 2,000 workers at the Belokamenka yard are infected with the coronavirus. That is almost 20% of the 11,000 workers involved in construction at the Kola Yard, where Novatek is building platforms for its Arctic LNG-2 project that is scheduled to go online in 2023-2024. In addition, authorities in the Yamal-Nenets region confirm that almost 700 workers have contracted the virus. A number of them are engaged in site work for Arctic LNG-2 and Novatek's existing Yamal LNG project.

The number of cases continues to grow. In Belokamenka almost 200 new cases were registered in the course of the past day. In Yamal 105 new cases were announced on May 6, Russian news agency TASS reported. The major outbreak at the construction sites threatens Novatek's operations. However, the company made clear it will not halt activities in Murmansk or in the Yamal region. "This outbreak will not affect construction works on site, nor the successive development of the Arctic LNG-2," Gyetvay said.

Russian investment group proposes LNG terminal in Arctic

(Reuters; May 5) - Russian investment group A-Property has hired energy services company TechnipFMC to design a liquefied natural gas operation in the north of the country that it hopes to complete by 2025 for LNG exports to Asia. A-Property spokeswoman Anastasia Kharitonova told Reuters that the plant and infrastructure in the remote northern republic of Yakutia would require a $10 billion investment.

The plant would produce 13 million tonnes of LNG per year at full capacity. Russia has prioritized the growth of LNG exports and the project could help the country reach its goal of raising its share in the global LNG market to 20% from around 6% in 2018, based on government data. There are two LNG terminals in operation in Russia with a third under construction and at least two more proposed. The investment group's proposed site is about 1,500 miles east of Russia's first Arctic LNG terminal, Yamal.

TechnipFMC will work on the design phase of the project, which should be complete by the end of 2020. A-Property is owned by Russian energy tycoon Albert Avdolyan, a partner of Russian state technology corporation Rostec. Last year Avdolyan's firm acquired the largest gas producer in Yakutia after buying out its debt and plans to use its reserves as the resource base for the LNG project. The republic of Yakutia is in eastern Siberia, stretching more than 1,000 miles across the Arctic Ocean.

Oil industry cutbacks hard on engineering students

(Bloomberg; May 7) - Hanzelle Kleeman was all set to head home to Houston until the oil crash upended her plans for the summer — and potentially for her career. Kleeman, a 20-year-old mechanical engineering major, had an internship lined up in the drilling group of a publicly traded crude producer. She was hoping it would translate into a full-time job once she graduates from the Colorado School of Mines next year. But in March, with oil prices plunging, the job offer was rescinded due to "market conditions."

As the pandemic wreaks havoc across the U.S. economy, energy is taking some of the biggest hits. That's bad news for the generation poised to finish college. The shale revolution — driven by high prices, low borrowing costs and tech breakthroughs that universities helped incubate — made the industry a bright spot in the market for new graduates. It was a source of well-paid openings through what were otherwise some tough years after 2008. At one point the energy business was adding jobs at about 10 times the national pace. Now it's faring even worse than the economy in general.

At the Colorado school, 20 oil and gas companies have withdrawn about 70 internship or job offers. "Students are worried," said Wendy Winter-Searcy, a director at the career center there. She's been trying to help them find options. Those alternatives likely won't come with oil field pay, though. Before COVID-19, alums from the school with a bachelor's degree in petroleum engineering could expect to make about

$101,000 a year. After 10 years in the field, the median salary jumps to $240,000, according to the Census Bureau — about four times the median U.S. household income.