Oil and Gas News Briefs
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Big Oil can do little but hope for prices to rise

(Bloomberg analysis; Oct. 31) - It was Andrew Swiger, the chief financial officer at ExxonMobil, who summarized the attitude of the entire industry after Big Oil reported another dismal set of quarterly earnings: "Prices will have to rise." After months of low oil and gas prices driven by weak demand, the world's largest international oil companies have largely exhausted their financial defenses, leaving little room to maneuver if they're dealt further blows. ExxonMobil, Chevron, Shell, Total, and BP have already reduced 2021 spending probably as much as they can.

At low prices, the industry is underinvesting in supply to such an extent that future shortages are inevitable, which eventually means higher prices, Swiger said. But a price recovery relies on two things: higher demand and OPEC+ holding the line on production curbs, underpinned by the uncomfortable alliance between Russia and Saudi Arabia. Big Oil is now at the mercy of a worldwide rout in fuel demand that, absent a COVID-19 vaccine, shows no signs of abating, as well as the will of OPEC+ leaders.

Big Oil CEOs can do little to foster geopolitical cooperation, but for the past six months they have been pulling all the levers they can to stop the bleeding of cash: Curtailing unprofitable production, reducing spending and future investment, and firing tens of thousands of employees. The question is not will Big Oil survive, but whether it can still make investors care. "Making energy relevant and investable again is the million-dollar question," said Jennifer Rowland, a St. Louis-based analyst at Edward Jones.

Oil prices fall below $36; lowest since March

(Bloomberg; Oct. 30) - Oil has posted its largest monthly drop since March as renewed lockdown measures to contain the coronavirus threaten to upend a shaky demand recovery. U.S. futures fell on Oct. 30 to end the week below $36 a barrel, taking their cue from a broader market sell-off and the worst week for U.S. stocks since March. At the same time, the U.S. posted a record surge in daily coronavirus infections, while new restrictions in Europe could drive the region toward another recession.

The concerns over oil demand come at a time when the Organization of Petroleum Exporting Countries and its allies face a challenge in their efforts to keep supply in check with the faster-than-expected return in Libyan oil output. Meanwhile, Norway's largest oil field will pump at pre-COVID levels after receiving government permission last month. Prices started the year above $60 before crashing. After a summer recovery, they had stayed around $40 for months until this week's drop.

Many analysts had cautioned for weeks that prices could decline, but the speed of the sell-off has caught some traders off-guard, exacerbating the market swings, The Wall Street Journal reported. "It has come dramatically fast," said Donald Morton, a senior vice president at Herbert J. Sims Co. who oversees an energy trading desk in Haverhill, Massachusetts. "The buyers are backing off." Meanwhile, deteriorating margins are spurring refiners to shutter plants or take tentative approaches to reopening their facilities as fuel demand remains depressed.

OPEC+ will face November decision on oil production

(Reuters; Oct. 29) - Kuwait said on Oct. 29 that it would support any decision made by OPEC and its allies on future oil-supply policy after OPEC and industry sources told Reuters some producers would prefer to pump more crude starting in January rather than extend the alliance's current output curbs. Saudi Arabia and Russia are in favor of extending existing oil production cuts of about 7.7 million barrels per day into next year. They want to extend the cuts because fuel demand worldwide remains depressed due to the pandemic's impact on population movement and economic activity.

Extending the curbs would mark a change from the existing pact between the Organization of the Petroleum Exporting Countries and allies, a group known as OPEC+. The producers had previously agreed to raise output by 2 million barrels per day in January. "Kuwait fully supports the joint OPEC+ efforts to restore balance to the market, and going forward we will also support whatever necessary joint decisions will be agreed to under the OPEC+ framework," Kuwaiti Oil Minister Khaled al-Fadhel said.

OPEC+ next meets in November to decide on production policy. Debate about targets and how they are calculated could complicate policy discussions on balancing supply with weak demand. The UAE and Kuwait typically support the Saudi position, but both believe their output cuts are too deep to sustain into 2021, the sources said. Both have made big investments in adding capacity. "The countries are being suffocated with those cuts, it is very tough to continue with them next year too," said one OPEC source.

Exxon will cut workforce by 15% before end of 2022

(Bloomberg; Oct. 29) - ExxonMobil will slash its global workforce by 15% by the end of 2022, an unprecedented culling by North America's biggest oil explorer as it struggles to preserve dividends. The cuts will include 1,900 U.S. jobs, mostly in Houston, as well as layoffs previously announced in Europe and Australia and reductions the number of contractors, some of which have already occurred. Personnel reductions are CEO

Darren Woods' latest effort to curtail spending and halt the worst string of quarterly losses since Exxon assumed its modern form with the 1999 takeover of Mobil.

The reduction means Exxon will cut its workforce by about 14,000 people, split between employees and contractors, from year-end 2019 levels, spokesman Casey Norton said. The cuts will come through attrition, targeted redundancy programs in 2021, and scaled-back hiring in some countries. Exxon's Big Oil rivals are also cutting thousands of jobs in response to the pandemic-induced demand slump. BP plans to slash 10,000 jobs, Shell will cut as many as 9,000 and Chevron has announced about 6,000 reductions.

Exxon's workforce stood at about 88,000 people, including 75,000 in-house employees and the rest comprised of contractors, as of year-end 2019, Norton said. In the U.S., the pain will be particularly acute at the suburban Houston location where Exxon opened a sprawling, glass-walled campus in 2014 to house 9,000 employees from exploration, chemicals, and other units that had previously been spread throughout the metro area.

Exxon warns of possible $30 billion in write-downs on U.S. gas fields

(Bloomberg; Oct. 30) - ExxonMobil warned it may take up to $30 billion in write-downs on U.S. gas fields as crashing energy demand and low prices have spurred a historic losing streak. Exxon is confronting one of its biggest crises since Saudi Arabia began nationalizing its oil fields in the 1970s. If Exxon takes the full $30 billion impairment, it will be the industry's worst in more than a decade, according to Bloomberg data.

The company lost $680 million during the third quarter. Blindsided by the economic fallout from the COVID-19 pandemic, Exxon CEO Darren Woods abruptly ditched an ambitious rebuilding effort and imposed widespread job cuts that are unprecedented in Exxon's modern history. His top priority has been preserving a dividend that pays shareholders $3.7 billion every three months. Pandemic-induced lockdowns have crushed demand for oil, gas and chemicals, sending Exxon's finances into a tailspin. Before 2020, the company hadn't posted a quarterly loss in at least three decades.

Woods' turnaround effort took another hit Oct. 30 when the company said an internal assessment is under way to determine the future of its North American gas assets. Much of those fields were added to Exxon's portfolio a decade ago with the $35 billion takeover of XTO Energy, when U.S. natural gas prices were almost twice the current level. The company also may incur additional impairments on assets in Canada, where operations include the massive Kearl oil sands complex in Alberta.

Weak fuel demand forces closure of New Jersey refinery

(Bloomberg; Oct. 29) - PBF Energy's Paulsboro refinery in New Jersey has become the latest oil-processing facility to fall victim to a COVID-driven collapse in fuel demand. The company announced plans to idle operations for the foreseeable future and lay off 250 employees at the 160,000-barrel-a-day plant, halting production, according to a letter to workers seen by Bloomberg. The plant will maintain its lubricant and asphalt production.

"The move was prompted by unanticipated, extended demand destruction for transportation fuels related to COVID-19 policies," the letter from CEO Tom Nimbley said. The nationwide decline in fuel demand resulting from pandemic-related lockdowns and less travel have already forced the announced shutdown or repurposing of at least six refineries since March. Gasoline demand plunged in the late spring and summer and remains stuck about 8% below the five-year average, according to government data.

The Paulsboro plant's fuel-making units will be taken out of service and preserved for a possible reopening in the future, according to the company's letter. If the refinery is reopened, it will produce partially refined feedstocks that will be sent to the company's Delaware City refinery, the letter showed. The refinery is the first to be idled on the East Coast since the virus decimated fuel consumption. To date, all of the other refineries to be closed or converted to biofuels are in the western U.S., including three in California.

Investors start to look at capture-capture projects for Gulf Coast LNG

(Houston Chronicle; Oct. 29) - Two years ago, investor Chas Roemer was moving ahead on building a liquefied natural gas export terminal in southwest Louisiana when he ripped up his plans. With customers under regulatory pressures to address climate change, he decided his project needed to be cleaner than other LNG facilities going up on the Gulf Coast. So, Roemer, a partner at a Baton Rouge private-equity firm, looked into storing underground the vast amounts of carbon dioxide his facility would produce.

And he wasn't alone. Plans are underway for nearly a dozen commercial-scale carbon repositories along the Gulf Coast, which, if completed, would begin putting back into the ground the carbon dioxide that has flowed to the surface with oil and gas for more than a century. Among the developers are Occidental Petroleum and one of Louisiana's largest landholders, the Stream family. "We felt the demand was going to be there for clean energy, and to have an old product wasn't going to be competitive," Roemer said.

For decades, companies have pumped carbon dioxide underground to boost oil and gas output. But storing CO_2 underground strictly to combat climate change was considered an unlikely enterprise short a massive injection of government money, or the creation of a national carbon tax or other pricing plan to force polluters into the practice. But after a

2018 expansion of a federal carbon-capture incentive program, polluters can earn a $50 tax credit for each ton of CO_2 they store. Roemer's LNG plant, which at full output would emit 4 million tons of carbon a year, could increase revenues by $200 million a year.

Whether the greenhouse gas can be captured, put in pipelines and stored underground for less than the price of the tax credit remains unproven, but investors are beginning to believe it can be done, most likely at industrial plants making products like methanol or LNG, which emit pure streams of carbon dioxide that can be captured cheaply.

Japanese buyer lost $133 million on LNG resales

(Reuters; Oct. 30) – Japan's JERA, the world's biggest liquefied natural gas buyer, on Oct. 30 reported a loss of 13.9 billion yen ($133 million) from its resale of liquefied natural gas April-September. The loss highlights the struggle faced by large buyers, such as Japanese utilities, after committing to heavy LNG volumes linked to oil prices. Asian LNG spot prices dropped to a record low this year and were much lower than oil-linked contract prices because of coronavirus-induced lockdowns affecting demand.

JERA also booked a total 7.4 billion yen impairment on its stakes in the Ichthys LNG project and the Darwin LNG project in Australia because of a worsening outlook for natural resources prices, a spokesman said. The company is a thermal power and fuel joint venture between Tokyo Electric and Chubu Electric.

Yamal LNG plans Northern Sea Route transits into late December

(Argus Media; Oct. 29) - The Yamal LNG project expects to continue delivering liquefied natural gas along the Northern Sea Route to Pacific customers until the end of December, liquefaction plant operator Novatek said Oct. 29. In 2018 and 2019, Yamal shipped its final cargoes of the season along the route in October. But ice cover has remained low in recent weeks, making it easier for ice-class LNG carriers to navigate through to the Bering Strait and into the Pacific.

When the route closes to ship traffic, Yamal LNG cargoes head west toward Europe, with the option of longer voyages to Asia. For those westward deliveries, Yamal will carry out its first ship-to-ship transfer in the Murmansk region of Russia next month, Novatek said. Transferring the LNG from the limited fleet of costly ice-class carriers to more traditional LNG carriers for deliveries to customers will relieve a bottleneck in the fleet of Arc7 carriers required for transiting the Arctic deep into winter.

Using the closer transshipment facility near Murmansk, rather than a temporary operation in Norwegian waters, would probably give the Yamal project much greater shipping capacity this winter. The 15 ice-class LNG carriers can make 22 to 23 deliveries a month to northwest Europe, based on a round trip time of around 20 days.

Russia will get new, more powerful, ice-breaking LNG carriers

(The Barents Observer; Norway; Oct. 29) – A completely new ice-breaking hull design will allow liquefied natural gas carriers to transit the most icy parts of Russia's Northern Sea Route year-round. They will be the first ships designed for year-around shipping on the Arctic route, said general director of Aker Arctic Reko-Antti Suojanen. The Finnish design and engineering company this week announced it has developed a new state-of-the-art ice-breaking LNG carrier.

The ships will be developed in cooperation with South Korea shipbuilder Daewoo Shipbuilding & Marine Engineering and Russian LNG producer Novatek. The Korean yard has already signed contracts with shipping companies Sovcomflot and Mitsui O.S.K. Lines for construction of six Arc7 LNG carriers based on the new design. Three of the six new vessels will be operated by Sovcomflot.

According to the Russian company, the ships "will each feature a propulsion system comprising three Azipod units with a total capacity of 51 megawatts," comparable to Russia's larger nuclear-powered icebreakers. The new propulsion system is expected to provide the vessels with increased speed and maneuverability when sailing in ice conditions, the company said. According to Aker Arctic, the new design is tailored to serve Novatek's Arctic LNG-2 project, which is scheduled to start production by 2024.

Mozambique floating LNG plant on track for 2022 start-up

(Independent Commodity Intelligence Services; Oct. 29) - The Coral South floating gas production and liquefaction project in Mozambique waters, developed by Italian major Eni, remains on track to produce its first gas in 2022, despite the COVID-19 pandemic. The update on the project was provided by Roberto Dall´Omo, managing director of Eni's Rovuma Basin operations, at the online Mozambique Gas Summit on Oct. 28.

The unit will sail from the Samsung Heavy Industries shipyard in South Korea in the last quarter of 2021. "We still have a lot to perform, but we are on track to achieve start-up in 2022," said Dall'Omo. Coral South FLNG, which will have an annual liquefaction capacity of 3.4 million tonnes, is expected to be the first LNG project in Mozambique to begin operations with France-based Total's onshore LNG project to follow in 2024.

The capital cost of the Coral South gas production and LNG operation is estimated at $7 billion. BP has a 20-year contract to take all of the plant's output. Along with Eni, other partners are Portugal’s Galp Energia, Korea Gas, and Mozambique’s state-owned Empresa Nacional de Hidrocarbonetos.

Chinese LNG terminal opens to third-party access for first time

(S&P Global Platts; Oct. 29) - China's largest private liquefied natural gas receiving terminal operator ENN Energy Holdings has opened its Zhoushan terminal to third-party access for the first time, allowing the provincial government-owned Zhejiang Energy to receive an LNG cargo at the facility. The move underscores efforts toward liberalization in China's downstream market and the expansion of market reforms at the provincial level. Zhoushan LNG is also unique because in this case a private terminal operator has given third-party access to a state-owned company, instead of the other way around.

With the access, ENN's Zhoushan terminal in eastern China received Zhejiang Energy's first LNG cargo on Oct. 25, ENN said on its official WeChat platform Oct. 27. The third-party access comes after ENN, which is also China's largest private city gas distributor, opened a subsea pipeline in August linking the terminal to Zhejiang Energy's provincial gas distribution network. Zhejiang’s supply was previously restricted to LNG trucking.

The pipeline access has helped ENN triple its supply deliveries this year. This has emerged as a win-win situation for both ENN and Zhejiang Energy, as the former overcame a transportation bottleneck in market access while the latter was able to import low-priced LNG spot cargoes directly at the terminal, market sources in China said. Zhejiang Energy also benefits from the third-party access as it was in dire need to diversify its gas sources when local market reforms began to erode its market share.

Japanese utilities will have trouble reaching net-zero emissions

(Bloomberg; Oct. 29) - Japan’s pledge to be a net-zero greenhouse gas emitter by 2050 is running into headwinds from smaller power utilities addicted to coal and natural gas. Regional electricity providers including Hokkaido Electric and Shikoku Electric said this week they can’t set deadlines to become emissions-neutral because it’s too costly to replace power output that would be lost from closing their fossil fuel-burning plants.

“The target set by the prime minister is too challenging for us to achieve with technologies available now,” Kohei Satake, vice president of Shikoku Electric’s Tokyo office, said Oct. 29. “We cannot declare a net-zero emissions target now.” Japan will have to accelerate the closure of coal plants and ramp up renewable energy over the next decade to meet Prime Minister Yoshihide Suga’s pledge to be emissions-neutral.

That’s a tough task for the utilities struggling to compete against new retailers that offer cheaper rates to a shrinking pool of customers. Hokuriku Electric said cheap power from coal plants makes them competitive in Japan’s wholesale power market. Tohoku Electric said available technologies aren’t enough to lower emissions to zero. Hokkaido Electric said it can’t reach net-zero emissions without technological innovation. “We may fall into a tough situation without additional measures” to help cope with the nation’s climate policy, said Shigeru Koshimura, president of Hokuriku Electric’s Tokyo office.

Panama Canal allows more ships per day to ease LNG cargo delays

(S&P Global Platts; Oct. 29) - The Panama Canal Authority has raised daily transits to ease wait times of up to more than a week for LNG carriers passing through without a reservation. The delays observed in recent days for a small portion of vessels transiting the shortest route from the U.S. Gulf Coast to East Asia are due to fog, higher-than-average arrivals and additional safety procedures to prevent further spread of the coronavirus, the canal operator told S&P Global Platts on Oct. 29.

Market participants have reported wait times recently of four to eight days. The delays come during a particularly bullish period for U.S. LNG exporters. Forty LNG cargoes have transited the canal month-to-date through Oct. 29, averaging almost 1.5 cargoes per day, according to Platts' trade-flow software tool.

Utilization at the six major U.S. liquefaction terminals on the Gulf and Atlantic coasts rose Oct. 29 to a record 9.645 billion cubic feet per day, slightly above the previous record of 9.629 bcf set on March 31 before the worst of the market impacts from the pandemic set in. While some buyers of U.S. LNG in the spring, when prices were low, slow-steamed Gulf Coast shipments to East Asia by heading eastward around Africa, much higher prices now in Asia make shorter voyages westward preferable, especially with the tanker day rate at $120,000, almost double the rate of $62,000 of a month ago.

Draft EU rules are a defeat for gas-fueled power plants

(Reuters; Oct. 29) - Power plants fueled by natural gas will not be classed as a sustainable investment in Europe, unless they meet an emissions limit that none currently comply with, according to draft European Union regulations seen by Reuters. The landmark EU rules, due to be finalized this year, will force providers of financial products to disclose from the end of 2021 which investments meet climate criteria and can therefore be marketed as “sustainable.”

The aim is to steer billions of euros in much-needed private funding into low-carbon projects to help the EU hit ambitious climate goals, and to limit so-called greenwashing by stopping the labelling of investments that do not meet the criteria as “green.” The draft rules say that to be classed as a sustainable investment — one that makes a “substantial” contribution to curbing climate change — gas power plants must not produce more than 100 grams of carbon dioxide equivalent per kilowatt hour.

Even Europe’s most efficient gas plants produce more than three times that limit, according to estimates by industry and independent climate think tank Ember. To comply, plants could use carbon capture and storage technology — though currently, no European gas plants do so. Gas industry groups had ramped up lobbying efforts after most gas plants and pipelines were excluded from a provisional list of investments published in March. “The gas lobby has had its core request conclusively rejected,” said Rebecca Vaughan, an analyst tracking industry lobbying for InfluenceMap.

Italian company ventures into LNG as transport fuel in Israel

(Reuters; Oct. 30) - Italian gas group Snam took a first step into Israel on Oct. 29, signing agreements to develop liquefied natural gas projects for public transport and green hydrogen in the country. Europe's biggest gas transport operator said it had agreed with Israel energy explorer Delek Drilling and public transport group Dan to work on creating LNG infrastructure for transportation, especially buses and heavy vehicles.

It will also study the use of renewable gas, including hydrogen, and electricity to convert parts of Dan's fleet and develop refueling and recharging infrastructure. It also signed a partnership deal with Israeli start-up H2Pro, which owns technology to produce 30% more green hydrogen compared to traditional electrolysis. Green hydrogen is produced through electrolysis using solar and wind power sources and is seen as a possible replacement for fossil fuels when costs fall.

Snam, which makes most of its revenue from gas transport in Italy, has pledged to spend more on new green business lines and set up a hydrogen unit to help it position itself for the industry-wide transition to cleaner energy.