Oil and Gas News Briefs
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OPEC says oil demand past its peak in wealthier countries

(The Wall Street Journal; Oct. 8) - The world's thirst for oil is unlikely to peak for two more decades but may already have crested in the U.S. and other wealthier countries, according to an OPEC forecast. The estimate by one of the oil market's most persistent optimists marks the speed at which the pandemic has upended the world's energy mix. OPEC expects demand for its core product to fall more than 10% among the world's richest economies this year, and said it will never return to pre-pandemic 2019 levels.

Over the course of the next 25 years, it expects demand in those most developed countries to fall by about 27%, according to its closely watched annual oil supply-and-demand survey. The steep drop in demand among the Organization for Economic Cooperation and Development, a club of the world's richest economies, marks "an evolutionary shift in demand from developed to developing countries," said OPEC Secretary-General Mohammed Barkindo during an online press conference Oct. 8.

In recent years, developing world oil demand has outpaced that of the developed world, as consumers in fast-growing economies, particularly China, drive cars, take vacations, and buy and run air conditioners at a pace starting to approach their more affluent counterparts in the West. The shift has been magnified by slow or stagnant population growth in richer countries, decades of fuel efficiency efforts and an accelerated embrace of alternatives to fossil fuels for powering everything from cars to electricity grids.

OPEC didn't have all bad news for oil producers. The world's overall appetite for crude won't reach its apex for another two decades, it said, offering a much more optimistic view of global long-term demand than other forecasts. OPEC forecasts oil demand will plateau in 2040 at 109.3 million barrels a day — some 10% above its 2019 level.

New pricing benchmark tracks rising U.S. crude oil exports

(Houston Chronicle; Oct. 9) - For nearly four decades, Cushing, Oklahoma, has served as the epicenter of the U.S. oil market, serving as the main storage facility, trading hub and delivery point for millions of barrels produced in West Texas and later transported to refineries and petrochemical plants across the country. The U.S. benchmark West Texas Intermediate tracks the price of oil at Cushing. But since the nation's 40-year-old ban on oil exports was lifted in 2015, the center of the U.S. oil market is shifting from the storage tanks in Cushing to the ports and ship terminals along the Gulf Coast.

The U.S., the world’s top oil producer, exports 3 million barrels of crude daily. Much of this oil comes from West Texas, often bypassing storage facilities in Cushing and going directly onto tankers in Corpus Christi, Houston and Beaumont. These ports accounted for 77% of all U.S. crude exports in 2019, according to Argus, an oil-pricing agency.

In a sign of the growing influence of Gulf Coast ports, two leading oil-price agencies, Argus and S&P Global Platts, have introduced crude benchmarks that track the price of West Texas crude departing from the coast for overseas buyers. The new benchmark, American Gulf Coast Select, goes up against the longtime and well-known WTI, which tracks the price of crude in Cushing primarily for domestic consumption.

“The center of gravity is shifting away from Cushing, from the Permian, to the Gulf Coast and increasingly, international markets and beyond,” said Richard Swann, group manager of oil pricing for Platts. The U.S. exported an average of 3.2 million barrels per day in the first half of 2020, up from 2.9 million in the first half of 2019 but down from the record high of 3.7 million in February 2020, according to the Energy Department.

New U.S. oil export terminals in ‘state of limbo’

(Reuters; Oct. 7) - The coronavirus pandemic has stalled a once-furious race among energy companies to build deepwater oil export terminals off the Texas coast, amid permitting delays and rising environmental opposition. Only three out of an initial dozen offshore U.S. Gulf Coast oil export proposals remain before federal maritime regulators. They are being slow-walked as the coronavirus has slashed global fuel demand and the gusher from U.S. shale fields ebbed, analysts said.

“While these projects may be on the drawing board, they are more or less in a state of limbo, given that in the current crude oil-price environment there’s more than ample export capacity already available,” said Andrew Lipow, president of consultancy Lipow Oil Associates. U.S. oil production has declined 18% and crude prices have tumbled 35% this year, lessening demand for new export terminals.

While development has slowed, environmental opposition to the proposals has soared. Environmentalists have petitioned federal regulators to halt reviews until the pandemic fades and public hearings can be held. There is no Texas export terminal capable of directly loading supertankers, vessels able to carry 2 million barrels of oil. Smaller ships are loaded with oil that is transferred to larger vessels farther out at sea, a method that proponents of the deepwater ports argue is costly and increases ship traffic.

Pandemic upsets gasoline-diesel-jet fuel balance at refineries

(Bloomberg; Oct. 7) - The global network of tankers, pipelines, and refineries that makes useful fuels out of oil is built on long-standing consumption patterns: so much gasoline for drivers, a certain amount of diesel for trucks and some jet fuel for aviation. The pandemic economy has turned that upside down, radically reshaping demand as different parts of the energy system recover at different speeds. Fear of the virus has persuaded millions of drivers to forgo mass transit and get in their cars. Meanwhile, international travel is a vestige of a year ago and thousands of airliners lie mothballed.

A varied demand recovery is starting to show in obscure corners of the oil market. India, ravaged by the Asia's worst COVID-19 outbreak, has started to import gasoline. In Europe, drivers are using almost as much fuel as before the pandemic even though overall economic activity remains depressed. In Asia, where the divergence has been strongest, gasoline inventories have plunged in recent weeks. By contrast, the market for jet fuel, about 8% of the global market pre-pandemic, remains dire, with idle tankers floating fully laden, holding unwanted cargoes. Surplus fuel is being blended into diesel.

Caught in the middle are refineries. In most of the world, they're running far below capacity because consumers aren't buying enough jet or diesel, which constrains their ability to make more gasoline. Refiners have some scope to tweak how much crude they turn into each of the refined products, but that's not solving the problem. "A uniform recovery in oil products markets will be elusive until a vaccine is widely distributed," said Amrita Sen, of consultant Energy Aspects. "Jet fuel demand is comatose."

Mexico declares oil hedging a state secret as deadline nears

(Bloomberg; Oct. 7) - Mexico's oil hedge is the largest annual oil deal in Wall Street, but this year the finance ministry has kept the $1 billion operation strictly under wraps — even declaring its details a state secret. Time is running out to do the deal for 2021, though, and the market is abuzz with rumors. Every year, the Latin American nation locks in the price of its oil exports by buying put options from Wall Street banks. The deal typically roils the market, creating violent swings in the price of oil options.

If the deal is happening, Mexico and its bankers have so far avoided leaving their typical calling card in the market: There hasn't been the usual spike in options volatility. Still, many traders and brokers suspect the deal is ongoing and attribute recent price drops to the activity. "Last week's market plunge began when Mexico started its annual hedge," Amrita Sen, chief oil analyst at consultant Energy Aspects, wrote to clients.

Mexico has hedged every year since the early 1990s, except when it skipped in 2003 and 2004 as oil prices were rising. Some traders have speculated that Mexico could opt to skip the 2021 hedge, arguing that prices are likely to rise as the world emerges from the coronavirus pandemic. The hedge runs from Dec. 1 to Nov. 30, so Mexico needs to complete it in the next eight weeks. It has reason to be secretive. The deal, which in the past has locked in a minimum price for about 250 million to 300 million barrels of oil, costs the government about $1 billion. Any information leak can increase the final cost.

Oil industry woes hit Wisconsin sand mine towns

(The Wall Street Journal; Oct. 8) - For years, Mary Drangstveit could feel the shale boom reverberating in her kitchen. This spring, oil prices crashed and the rattling ceased. It brought relief for her and distress for others in her community. Digging stopped at the sand mine next door in Blair, Wisconsin, which had rumbled since 2015 to supply drillers with silica they blasted into shale rock to let out oil and gas.

The coronavirus pandemic and a switch by drillers to cheaper sand accomplished what locals like Drangstveit, 77, couldn't in their efforts to fight the mine at town meetings and court. The mine's owner, Hi-Crush, filed for bankruptcy in July. Rival Covia Holdings, an Ohio company with Wisconsin mines, did so in June. Other mines have closed or cut hours. "This has been the most peaceful summer of the last six years," Drangstveit said.

The peace has been disquieting for locals like Joshua Brush, who mowed grass at Hi-Crush properties. He lost his top customer and said $6,530 of unpaid invoices are "a huge financial hardship." Dozens of idled open-pit mines dot the farmland near where Wisconsin, Minnesota, Iowa, and Illinois meet. Few of the shale boom's sideshows have flamed out quite like Wisconsin's Northern White sand. Energy companies prized it for its crush strength, grain size and roundness that helps prevent plugs in fracking wells.

Oil companies wanted trainloads delivered 1,200 miles away in West Texas as well as to drilling fields in Appalachia and North Dakota. Small farming towns allowed miners to gouge away at the countryside, hoping to pay for public services, create high-paying jobs and keep young people from leaving. The sand mines were a mixed blessing with disputes breaking out between residents wanting to participate in the shale-drilling boom that was helping to lift the economy and those decrying the environmental impact.

Melting Arctic ice opens up Russian sea route for more traffic

(The Wall Street Journal; Oct. 8) - The Arctic has gone through its warmest summer on record, and with the ice melting more ships than ever are sailing along Russia's Siberian coast, underscoring its role as a growing energy transport corridor and potential as a new ocean trade route. The Northern Sea Route counted 71 vessels and

935 sailings from January to June this year, according to the NSR information office — a big increase from 47 vessels and 572 voyages in the same period of 2018.

The mostly frozen seaway is used in warmer seasons to move Russian oil and gas to overseas markets. Container ships and general cargo vessels also have used the route to move goods between Asia and Europe, as it cuts an average 10 days of sailing time compared with the standard route through the Suez Canal. Freight transport on the NSR is at its highest from July to November. Some sailings also take place in the rest of the year, and the Russian government expects largely ice-free year-round trips in 2024.

“There was no ice at all across the coastline in September, no need for icebreakers or ice-hardened vessels,” said Nikos Papalios, a mechanic on an oil tanker that sails the NSR. “It was pleasant to sit on the deck. It felt out of place.” But there are limits to the waterway’s role in global trade. Cargo between Asia and Europe is handled by massive ships that can carry over 20,000 containers each. Parts of the NSR are too shallow for anything larger than a 5,000-container vessel and there are no transshipment ports.

Mitsui plans to sell all its stakes in coal power plants by 2030

(Reuters; Oct. 11) - Japanese trading house Mitsui & Co. plans to sell its remaining stakes in coal-fired power stations by the end of the decade as it shifts to gas from coal to help achieve its 2050 net-zero emission target, its chief executive told Reuters. “We still own stakes in coal-fired plants in Indonesia, China, Malaysia, and Morocco, but our goal is to make it zero by 2030,” Mitsui CEO Tatsuo Yasunaga said Oct. 9.

Mitsui’s first comment on selling out of coal-fired power generation comes as firms worldwide move away from coal to cut carbon dioxide emissions and slow climate change. Mitsui, which generates about two-thirds of its profit from energy and metals, is also shifting away from oil. “With the COVID-19 crisis, we have postponed investment in a few upstream oil deals, but our liquefied natural gas projects are on track,” he said.

Through equity holdings, Mitsui’s energy assets comprise 78,000 barrels per day of crude oil and 181,000 barrels per day of natural gas measured in oil-equivalent terms. “Renewable energy can’t replace all other power sources in one fell swoop. Gas goes well with volatile renewable energy as gas-fired power generation is easy to switch on and off,” Yasunaga said, adding that Mitsui is also keen on cleaner energy such as offshore wind farms and hydrogen projects.

[Chevron’s move into eastern Mediterranean a big shift for industry]

(The New York Times; Oct. 9) – U.S. giant Chevron wrapped up its acquisition on Oct. 5 of a relatively small Houston company Noble Energy, paying about $4 billion. Until recently, the deal would have been unlikely, if not unthinkable — because what distinguishes Noble is the large natural gas business it has built in the Mediterranean Sea, especially in Israel, an area that major oil companies had until now avoided.

Chevron’s move is the latest milestone in a remarkable shift in perceptions about a relatively new region for the petroleum industry in the eastern Mediterranean. Once a dead sea for the oil industry, this area, reaching from the Nile Delta in Egypt up to Israel and Lebanon and around Cyprus, has come alive with exploration vessels, drilling rigs and production platforms in recent years thanks to a series of large gas discoveries.

Those finds are drawing major oil companies into the area, attracted not only by the prospect of further undiscovered resources but by improving relations between Israel and its former foes Egypt and Jordan. International oil giants previously steered clear of Israel, partly, it has been assumed, to avoid alienating large Arab oil producers. The move by Chevron indicates those days may be over.

More than 20 years ago, Delek Drilling, an Israeli firm, brought Noble to Israel. The partnership has produced major gas finds that turned Israel into an exporter with long-term contracts worth an estimated $25 billion. From a geological view, the area has what giants like Chevron are looking for: very large volumes of gas, which many in the industry view more likely to have a better future than oil as climate change concerns grow.

[Chinese LNG buyer signs low-price 15-year purchase agreement]

(Independent Commodity Intelligence Services; Oct. 8) - U.K. utility Centrica and Chinese independent gas buyer Shenergy signed a recent 15-year LNG contract for 0.5 million tonnes per year at a 10.5% slope to Brent crude, said three trade sources. At current prices of around $42 per barrel, that would work out to about $4.40 per million Btu for the liquefied natural gas. Deliveries by Centrica are expected to start in 2024. Not even a decade ago, before several large new LNG supplies came online, the slope quoted in long-term contracts was closer to 15% of the price of a barrel of oil.

[FERC extends deadline by 5 years for Louisiana LNG project]

(Reuters; Oct. 7) - The Federal Energy Regulatory Commission on Oct. 7 approved the request of a unit of Glenfarne Group to give it five more years until April 2026 to complete the proposed Magnolia LNG export plant in Louisiana. FERC approved construction of Magnolia in April 2016. That approval required completion of the $6 billion project within five years, by April 2021.

Glenfarne, which acquired Magnolia from LNG Ltd. of Australia in May 2020, said "unforeseeable developments in the global LNG market have affected Magnolia's ability to enter into long-term LNG offtake contracts ... critical to securing project financing and achieving (final investment decision)," referring to purchase agreements for gas. Those "unforeseeable developments" included energy demand destruction from government lockdowns to stop the spread of the coronavirus and the U.S.-China trade war.

Glenfarne has said it expects to decide late next year whether to build the Magnolia plant and the Texas LNG facility it is developing in that state. Several developers have put off decisions to build LNG projects in North America over the past year due to uncertainty about demand as the pandemic and other factors have cut energy consumption. Magnolia is designed to produce 8.8 million tonnes per year of LNG.

Complaint says bankrupt Texas well leaking gases for 10 months

(Bloomberg; Oct. 8) - An oil well site in the Permian Basin owned by a bankrupt shale producer has spewed polluting gases for 10 months, despite being investigated by Texas regulators, according to an environmental group. Infrared video footage collected in multiple visits from November 2019 through September show "continuous intense and significant" emissions from faulty valves and tank hatches at MDC Energy's Pick Pocket location in West Texas, Earthworks said in a letter to state regulators on Oct. 8.

The group called on the Texas state regulators to rescind permits for MDC. The group cited emissions of "volatile organic compounds, methane, and hydrogen sulfide." It's the latest example of mounting environmental concerns in the Permian. Those concerns are being compounded by a collapse in crude prices that has forced many producers into bankruptcy, sparking worries that they will not be able to pay to maintain producing wells or properly plug wells that are abandoned.

Texas environmental regulators said that an enforcement case for complaints raised about MDC's operations is "under development and will include the assessment of an administrative penalty and corrective actions, as needed." Earthworks first raised a complaint in December and MDC told regulators in April that it would fix and replace a faulty valve and broken tank hatch, according to a report obtained via a public records request by Earthworks. MDC also hired a third party to measure emissions, which were found to be higher than allowed by the agency and lacking a special permit.

Republicans want action against banks that reject Arctic projects

(The Wall Street Journal; Oct. 8) - Defenders of the oil-and-gas industry in Washington are fighting back against big banks that want to stop financing new arctic-drilling projects, fearing it could be a harbinger of an unbankable future for fossil-fuel companies. Five of the six largest U.S. banks — Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo — have pledged over the past year to end funding for new drilling and exploration projects in the Arctic.

Alaska Sen. Dan Sullivan and some fellow Republican lawmakers, mostly from energy-producing states, have been lobbying the Trump administration to examine whether the federal government can prevent the banks from cutting off financing, or punish them for doing so. The American Petroleum Institute, one of industry's most influential lobbying groups, has said it is working on the issue, which it called a "bad precedent."

Wall Street has been pulling back from the oil-and-gas industry after years of dismal returns and is under increasing pressure from environmentalists and others to limit fossil-fuel lending. Some environmentalists criticized the politicians' opposition to the bank policies as legally groundless. "A growing number of banks are making the obvious business decision not to finance more drilling in the Arctic because it would threaten their bottom line and expose them to numerous risks," said Ben Cushing, who leads the Sierra Club's financial advocacy campaign.

Company plans to make LNG from biological waste feedstock gas

(S&P Global Platts; Oct. 8) - Finland-based technology company Wartsila said Oct. 8 it would build a CO2-neutral liquefied natural gas production facility in Cologne, Germany, using biological waste as feedstock. The plant is expected to be fully operational by the autumn of 2022 and is designed to have a capacity of 100,000 tonnes per year of LNG, destined for use in the transportation sector, the company said. That's the equivalent of about 4.8 billion cubic feet of natural gas per year.

"The use of LNG as an emissions-reducing fuel in the marine and transportation industries is already well established, and to introduce bioLNG which can be mixed with LNG is the next obvious step in enabling a CO2-neutral transportation fuel," Wartsila's vice president for gas solutions, Antti Kuokkanen, said in a statement. The feedstock for bioLNG is based on biological waste material such as liquid manure and food waste, which is fed to an anaerobic digestion reactor that produces biogas.

That gas is then upgraded to biomethane and injected into the gas grid or made into LNG, the company said. Green gas certificates are issued along with the biomethane, which then permits operators to buy the certificates and use the biomethane. Wartsila said its plant in Cologne would include a gas treatment system, a liquefaction unit and LNG storage tanks, along with truck filling stations.

[Spanish gas buyer renegotiates LNG supply contracts]

(Natural Gas Intelligence; Oct. 8) - Naturgy, one of Spain's major natural gas buyers, said last week it has negotiated new terms for two contracts with one of its primary liquefied natural gas suppliers. A supply glut and weak market made weaker by the COVID-19 pandemic, along with a spike in spot trading of cheap LNG as prices have fallen precipitously, have given buyers an opening to pursue better deals and review supply contracts over the past year or so.

Naturgy released few specifics and said only in a regulatory filing that its annual contracted volume was reduced and the price formula was revised. The move comes after the utility said earlier this year that it would seek to renegotiate its natural gas and LNG supply contracts under price-review clauses. The company indicated it was prepared to go to arbitration as COVID-19 has wreaked havoc on the global economy.

Naturgy also said Oct. 8 it would meet to discuss its gas supply contract with Algerian state oil company Sonatrach. In the U.S., Naturgy has offtake agreements for Cheniere Energy's Corpus Christi (Texas) and Sabine Pass (Louisiana) LNG terminals. While the market is shifting, much of the global gas trade is still underpinned by long-term contracts, signed for supply periods of up to 20 years, though pricing structures negotiated years ago might not reflect the value of natural gas today.

[Argentina may have to boost natural gas imports to cover shortage]

(S&P Global Platts; Oct. 7) - Argentina is facing potential natural gas shortages in the winter of 2021 if production continues to decline, which could lead to a rise in imports of not only natural gas but of diesel. "Argentina will have problems supplying domestic gas demand next winter if something is not done now," Juan Jose Aranguren, a former energy minister who now runs the Energy Consilium consultancy, said Oct. 6.

The country's gas output tumbled 13% to 4.43 billion cubic feet per day in August, according to Energy Secretariat data, fueling concerns that imports will have to be increased even after they were scaled back over the past few years. Argentina, which consumes an average of 4.94 bcf per day, ramped up gas imports from zero after domestic gas production began falling in 2004.

Imports then started easing back as domestic production recovered, led by the development of Vaca Muerta, which holds some of the largest shale gas resources in the world. But it's not enough. Aranguren said the government should implement incentives to encourage fresh drilling in Vaca Muerta as well as other plays. In August, the government said it was preparing a 2020-24 program for rebuilding production. There is a sense of urgency to avert a rise in imports. The country is in a third year of a financial crisis, which has led to a decline in dollar reserves that could limit its capacity to pay for gas imports, said Sergio Berensztein, a political analyst in Buenos Aires.

Talks resume to restart second LNG plant in Egypt

(S&P Global Platts; Oct. 9) - Talks focused on a new agreement to allow for the restart of the idled Damietta LNG export facility in Egypt have resumed, a spokesman for project partner Eni said Oct. 9. The restart of Damietta, which has been idled since 2012, would provide additional export options for Egypt, which currently has a surplus of gas. A previous deal agreed in February fell through in April after terms were not met.

"The parties have resumed negotiations to try … to resolve all existing legal disputes and to restart the plant," the Eni spokesman said. Damietta LNG is operated by Union Fenosa Gas, a 50-50 joint venture between Eni and Spain's Naturgy. Under the earlier agreement, UFG's 80% share in Damietta was to be divided between Eni (50%) and state gas company EGAS (30%). That would have left the split at Eni (50%), EGAS (40%) and state-owned oil company EGPC (10%). It would have also seen Naturgy exit the project and receive $600 million in cash and most of UFG's assets outside of Egypt.

Egypt currently exports liquefied natural gas from the Shell-operated Idku facility, but weak global LNG prices have led to a near total collapse in shipments. In August, Egypt completed its first LNG cargo export since March, according to data from S&P Global Platts Analytics and Platts trade flow software cFlow. Exports ground to a halt in March as spot prices fell to record lows, hitting $1.825 per million Btu in Asia in late April.