Oil and Gas News Briefs
Compiled by Larry Persily
October 22, 2020

Exxon stock down 52% this year; company says layoffs are coming

(Bloomberg; Oct. 21) - ExxonMobil plans to lay off an unspecified number of its 75,000 employees as low oil prices force the company to delay major projects, CEO Darren Woods said in an Oct. 21 email to staff. “These are difficult times,” Woods said in the email, the text of which was released by the company. He also mounted an extensive defense of fossil fuels, calling them a “higher purpose” that aids global prosperity at a time when the company’s European peers are looking at renewables as the future.

The job cuts are just the latest sign of struggle among U.S. producers navigating the industry’s worst downturn in recent memory. Many have turned to bankruptcy and high-profile mergers as companies seek to gain scale and cut costs to survive the shattering hit of COVID-19 on global oil demand. Exxon’s stock has plunged 52% this year and it has all but ended its aggressive $30 billion-a-year counter-cyclical growth strategy. The No. 2 U.S. oil company by market value lost nearly $1.7 billion in the first six months and analysts forecast a third-quarter $1.17 billion loss, according to data from Refinitiv.

The company was forced to slash its capital spending budget by a third, or $10 billion, after crude dropped to the lowest in a generation. But Woods was clear that the cutbacks are not a sign that his faith in oil and gas is in any way diminished. Fossil fuels will supply about half of the global energy mix by 2040 and often provide the most cost-effective pathway to development in poor countries, especially those in Africa and Asia, he said. Significant investments are needed by oil and gas companies to meet projected long-term consumption, Woods said. “This is a compelling investment case for the industry and our company — and is foundational to our long-term strategies and plans.”

OPEC+ could reverse its plan for January output increase

(Reuters; Oct. 19) – OPEC+ on Oct. 19 pledged action to support the oil market as concerns mount that a second wave of the pandemic will hobble demand and that an earlier plan to raise output next year would further depress prices. Saudi Arabia, the biggest member of the Organization of the Petroleum Exporting Countries, said no one should doubt the group’s commitment to providing support, while sources from other producing countries said a planned output increase in January could be reversed.

Already Russian President Vladimir Putin and Saudi Arabia’s Crown Prince Mohammed bin Salman held two phone calls last week. OPEC and its allies, including Russia, collectively known as OPEC+, have curbed output since January 2017 to try to support prices and reduce inventories. “This group has shown, especially in this year, that it has the flexibility to adapt to changing circumstances when required. We will not dodge our responsibilities in this regard,” Saudi Energy Minister Prince Abdulaziz bin Salman said.

For now, OPEC+ is reducing production by 7.7 million barrels per day, down from cuts totaling 9.7 million enforced from May 1 to Aug. 1. OPEC+ is due to reduce the cuts by a further 2 million barrels per day in January. OPEC watchers, including analysts from bank J.P. Morgan, have said a weak demand outlook could prompt OPEC+ to delay the increase in production. “Demand recovery is uneven,” Russian Energy Minister Alexander Novak told the OPEC Joint Ministerial Monitoring Committee on Oct. 19.

Conoco output will surpass 1.5 million barrels per day with takeover

(CNN; Oct. 19) – ConocoPhillips’ $9.7 billion takeover of Concho Resources will make the new Conoco the largest independent oil-and-gas company in the United States, with its daily production surpassing 1.5 million barrels. Larger, diversified oil companies like Chevron and ExxonMobil own refineries. But the size will also make Conoco even more exposed to the same forces that have swiftly moved against fossil fuels.

"It is a bit of a contrarian move to double down on oil and gas at a time when it's unpopular in the investment community," said Pavel Molchanov, energy analyst at Raymond James. "Many investors are turned off by the commodity volatility, regardless of what they think about climate," he said. That's why Conoco didn't have to spend that much in this deal, which is its first major takeover since 2005.

The deal translates to a slim 15% premium to Concho's share price on Oct. 13, the day before rumors of a takeover swirled. Concho is being acquired at just $10,700 per acre in the Permian Basin — well shy of the $40,000 it used to cost there, according to Raymond James. "These are cheap valuations. The bet Conoco is making is that valuations will eventually improve — and this is the time to be a buyer," Molchanov said. The deal may not require a massive oil-price recovery to be viewed as a success. The companies said their average cost of supply will be below $30 a barrel.

Mergers continue in U.S. oil industry

(Bloomberg; Oct. 21) - The series of mergers reshaping the beleaguered U.S. shale oil industry accelerated Oct. 20 when Pioneer Natural Resources agreed to buy Parsley Energy for $4.5 billion in stock, creating one of the largest producers in the Permian Basin. The deal came a day after ConocoPhillips announced its $9.7 billion takeover of

Concho Resources and underscores the view that oil companies must be big to survive in a new, pandemic-maligned world that's oversupplied with crude.

The sector is in full-on merger mode in response to oil prices that have been stuck at around $40 a barrel in recent months as the COVID-19 pandemic hits global demand. While that's put pressure on energy companies around the world, the pain is most severe in U.S. shale. The industry is weighed down by massive debts, the result of years of break-neck expansion that made America the largest crude producer.

"There's only going to be three or four independents that are investable by shareholders" after the recent market rout, Pioneer CEO Scott Sheffield said on a call with analysts. He said the "real survivors" will be Pioneer-Parsley, EOG Resources, ConocoPhillips and "maybe" Hess over the long-term. Pioneer's production in the Permian shale basin would grow by more than 40% to the equivalent of roughly 558,000 barrels of oil a day, according to regulatory filings and data compiled by Bloomberg. Size matters in U.S. shale because of economies of scale, lower overhead, increased bargaining power with suppliers but also, crucially, greater access to debt markets.

Colorado landowners worry about wells caught up in bankruptcies

(The Denver Post; Oct. 20) - Mark Schell's family has farmed in Colorado since 1906, and even though he works as a certified public accountant he hasn't left farming behind. About a year ago, Schell bought a 310-acre farm in Mead that he leases to someone else to raise crops. But he has been spending more time there, trying to get Occidental to clean up old wells the company inherited when it bought Anadarko in 2019.

"(Occidental) started plugging these in April and then they told me they weren't going to plug the rest of them. One of the guys flat out told me the reason they're not going to do the rest of them is because they don't have the money," Schell said. Occidental told Schell last week it will close the five last wells. He's glad for the news, which follows an inspection by the Colorado Oil and Gas Conservation Commission, but said not everyone has time to keep after a company or the money to hire a lawyer like he did.

Schell is not alone in wondering what the industry's economic downturn, driven by low prices and sinking demand due to the pandemic, might mean for communities and landowners. In early September, Denver-based Ursa Piceance, with 41,000 acres of oil and gas properties in western Colorado and about 580 active wells, filed for bankruptcy. It has wells in Battlement Mesa and wants to drill more. "My concern about a bankruptcy is they just won't be able to maintain their wells very well. I hope they have a source of money," said Battlement Mesa resident Larry Forman, head of a community group.

More refineries may convert to produce biofuels

(Reuters; Oct. 19) - European and U.S. oil refineries face a wave of closures due to plateauing fuel demand, tightening environmental rules and overseas competition, prompting some owners to opt for an easier alternative — converting plants to produce biofuels. The International Energy Agency said in a recent report that by 2030 about 14% of current refining capacity in advanced economies "faces the risk of lower utilization or closure." That could grow to 50% in 2040 under a more aggressive transition away from fossil fuels to electric vehicles, the IEA said.

However, shutting down refineries, some of which are 70 years old, is a costly process that requires dismantling heavy equipment and pipelines and remediating the land. So owners are choosing alternative paths, including converting refinery sites to import terminals, putting them to other industrial uses or, in many cases, switching to cleaner biofuels by processing vegetable oil and waste oils.

BP, Total, and Eni have outlined plans to grow their biofuel capacities by two- to five-fold by 2030 while reducing their global oil-refining footprints. The switch is part of strategies to reshape and grow renewables and low-carbon businesses. Converting refineries to biofuels "makes a lot of sense," said Rob Turner, a partner at PWC specializing in the energy sector. "It allows plants to play a role in the energy transition, creates long-term value and mitigates the costs of a full shutdown and site cleanup." Already three refineries in Europe have shut down in the wake of the coronavirus epidemic.

Remote Arctic region in Russia needs help paying its bills

(The Barents Observer; Norway; Oct. 19) - Local authorities in Naryan-Mar, capital of the far northern Russian region, are used to having money in excess. Over the past decades, the region along the coast of the Pechora Sea has pumped millions of tons of oil from the remote tundra ground. Salaries have grown to the highest in the country and public services to a well-respected level.

But flush oil money is no longer enough to keep wheels running in the Arctic region with a population of only 45,000. Regional Gov. Yuri Bezdudny has now approached federal authorities in Moscow for help to cover a looming budget gap. He needs at least 3.9 billion rubles ($50 million) to cover costs for the remaining months of the year.

Revenues for the oil-dependent region are believed to be as much as 30% less than planned this year. The local budget leans heavily on the oil industry and is based on an oil at $57 per barrel, far below current prices. It will be a difficult task for Yuri Bezdudny, the regional leader that was appointed in September. The Nenets Autonomous Okrug is one of many regions pushing the federal treasury for additional funding. He will have to convince Moscow that his remote and wealthy Arctic region deserves help.

Alberta tax relief for oil and gas industry hurts municipalities

(Calgary Herald commentary; Oct. 20) - The Alberta government rolled out more than $80 million in property tax relief for petroleum producers on Oct. 19, while it aims to fix underlying flaws in the property tax assessment system in the coming years. What it didn't do, however, was tackle the issue of property taxes that simply aren't being paid by some energy companies, leaving Alberta municipalities holding the bag.

Companies owed $173 million in unpaid taxes to municipalities last year, according to the Rural Municipalities of Alberta (RMA), up from $81 million in 2018. "I make no bones about this, the unpaid taxes are our No. 1 concern," RMA President Al Kemmere said. "It has got some of our municipalities on the cusp of not being able to pay their bills." The aid package is designed to make the industry more competitive, attract investment and address some flaws in the assessment system. Industry groups and the province say assessments of wells and pipelines are too high and don't reflect market value.

The new measures include a three-year property tax holiday on drilling wells or constructing new pipelines, as well as the elimination of a tax on well-drilling equipment. However, as cash-strapped municipalities are being asked to forego revenue, the province also needs to make unpaid local property taxes a priority. Otherwise, delinquent bills will continue to pile up and squeeze rural municipalities, coming on top of millions of dollars of revenue lost from the tax-relief initiatives.

Lukoil has not abandoned plans to boost oil output in Iraq

(Bloomberg; Oct. 20) - Lukoil is seeking to develop new oil field projects in Iraq, even as slumping crude prices and OPEC+ supply cuts have compelled the company to slash production in the country. Russia's second-biggest producer pumped 400,000 barrels a day last year at its West Qurna 2 field in southern Iraq and had planned to boost output there in 2020. Instead, Lukoil has reined in production to 280,000 barrels a day to help Iraq comply with its quota under the OPEC+ production-cutting agreement, said Egor Zubarev, managing director of Lukoil's Middle Eastern business.

While it expects for now to keep output unchanged, Lukoil will "soon" submit proposals to Iraqi officials to develop a separate area in the south known as Block 10, Zubarev said. Oil prices are 36% lower this year since the coronavirus gutted fuel demand, and Lukoil, like other producers, has had to postpone its plans to raise output.

"The current situation forces us and our partners to revise our plans," Zubarev said. Still, Iraq is "undoubtedly" one of Lukoil's "prioritized regions," he said. Lukoil has a 75% stake in West Qurna 2 and is working on projects to explore other parts of the field as well as the Block 10 area. Iraq's financial constraints present a challenge. Lower crude prices are putting pressure on the government, and some oil projects have slowed due to Baghdad’s shortage of cash, Iraq’s oil minister said Oct. 20. When Iraq is ready to ramp up production, it will need upgraded export facilities and pipelines, Zubarav said.

Concerns grow over oil tanker listing off Venezuela coast

(CBS News; Oct. 22) - A Venezuelan oil tanker has been parked for nearly two years in the Gulf of Paria, between the country’s east coast and Trinidad and Tobago, carrying about 1.3 million barrels of oil. New photos of the vessel show it tilting heavily — leading to growing concerns of a potential environmental disaster threatening one of the richest areas of biodiversity in the world. The vessel is part of a joint venture between Petroleos de Venezuela and Italy's Eni and has been stranded in the gulf since January 2019.

An Eni spokesperson told Reuters that the company was seeking to offload crude oil from the vessel but was waiting for the "green light" from the U.S. government "in order to prevent any sanctions risk." On Oct. 19, environmental group Fishermen and Friends of the Sea, representing 50,000 fishermen in the local industry, pleaded with Caribbean nations to work together to protect the region and people from a possible disaster.

Gary Aboud, corporate secretary of the organization, visited the vessel Oct. 16 and said what he saw was "frightening." Video taken by Aboud shows the boat tilting at an angle he estimates at about 25 degrees. A massive oil spill would threaten the entire southern Caribbean. A huge coral reef system, already stressed by climate change, could be damaged beyond recovery — eventually leading to a collapse of the entire marine ecosystem. "Our cries have gone unanswered and it appears that the Nabarima's situation is worsening daily," the organization wrote on Facebook.

U.S. natural gas futures climb to 20-month high over $3

(Reuters; Oct. 21) - U.S. natural gas futures climbed over 4% to a fresh 20-month high on Oct. 21 as liquefied natural gas exports rose and producers cut back on their output. Front-month gas futures rose 13.5 cents, or 4.6%, to $3.048 per million Btu. It’s the first time the contract has climbed over $3 since January 2019, and it puts the contract up about 70% from a recent low of $1.795 on Sept. 21.

Data provider Refinitiv said output in the Lower 48 states has averaged 86.2 billion cubic feet per day so far in October, which would be its lowest month since September 2018. That compares with an all-time high of 95.4 bcf per day in November 2019. The production decline comes as low prices earlier in the year due to coronavirus demand destruction caused energy firms to shut oil and gas wells and cut back on new drilling by so much that output from new wells no longer offsets declines at existing wells.

The amount of gas flowing to liquefied natural gas export plants has averaged 7 bcf per day so far in October, up from 5.7 bcf in September. That would be the most in a month since April and puts exports on track to rise for a third month in a row for the first time since February when feed gas to LNG plants hit a record 8.7 bcf.

Korea Gas to change its LNG pricing structure for utilities

(The Korea Herald; Oct. 18) - Korea Gas said Oct. 18 it would impose a new format for selling liquefied natural gas starting in 2022 to address cherry-picking by electricity suppliers, which it says leads to higher electricity bills. The state-run company has long supplied LNG to power utilities based on its average import costs, dubbed an “average-tariffs” formula. Last year KOGAS imported LNG from about 15 countries including Qatar, Australia, and the U.S. and provided LNG to utilities at the same average price.

Starting in 2022, however, KOGAS will charge different prices to utilities through negotiations with each power company, called an “individual-tariffs” system. Under the current average-tariffs formula, when global gas prices are cheaper than the average gas prices offered by KOGAS, some power utilities bypass KOGAS and import the fuel directly. When this happens, KOGAS loses opportunities to import gas at cheaper prices and bring down average prices for its other customers.

But when global prices are higher than the average prices charged by KOGAS, power utilities stop direct imports and buy more gas from KOGAS. To secure more gas to meet the short-term demand, KOGAS has to pay extra, which drives up its average import costs, resulting in more expensive electricity bills. The change, which will apply to all new contracts with KOGAS beginning 2022, is expected to resolve this pricing dilemma.

Turkey boosts estimate for Baltic Sea gas find to 14 tcf

(Reuters; Oct. 17) - Turkey has raised the estimated reserves in a gas field off its Black Sea coast to 14.3 trillion cubic feet after finding an additional 3 tcf, President Tayyip Erdogan said Oct. 17. The Fatih drill ship made the discovery about 100 nautical miles north of the Turkish coast. Even before the revision, analysts had said that the find represents a major discovery and is one of the largest global discoveries in 2020.

“Work in this borehole has been completed” after reaching a depth of about 15,000 feet, Erdogan said, speaking onboard the Fatih. He said the vessel would start new operations next month at a different borehole in the same field, called Sakarya, after returning to port for maintenance. Another ship, the Kanuni, is also headed to the Black Sea for drilling operations, he said.

If the gas can be commercially extracted, the discovery could transform Turkey's dependence on Russia, Iran, and Azerbaijan for energy imports. Turkey expects the first gas flow from the field in 2023. One source close to the matter said a gas flow of more than 500 billion cubic feet per day was envisaged by 2025. More than a quarter of Turkey's long-term gas contracts expire next year, including imports by pipeline from Russia and Azerbaijan and a liquefied natural gas deal with Nigeria.

Police arrest protestors at oil pipeline work site in British Columbia

(Bloomberg; Oct. 19) - An Indigenous-led standoff in central British Columbia to stop the expansion of the Trans Mountain oil pipeline has escalated with the arrests of protesters at a construction site. Four women were taken into custody by Royal Canadian Mounted Police early Oct. 17 after they attempted to interfere with drilling under the Thompson River to lay pipe, according to the group's Facebook page. Five other protestors were arrested Oct. 15 for interfering with work on the line, the group said in an email.

Trans Mountain, which began laying pipe in the area late last month, is drilling a crossing under the river. A British Columbia Supreme Court injunction prevents blocking or obstructing access to Trans Mountain work areas, the company said in an email Oct. 17. "The protest activity occurred at a scheduled shift change and our crews were temporarily impacted from access, but have since continued work," the company said.

Members of the Secwepemc Nation and supporters have set up a camp along the Thompson River to protest the pipeline. The standoff is the latest in a long-simmering conflict between Canada's indigenous peoples and its industries. The C$12.6 billion expansion of the Trans Mountain pipeline from Alberta to a Vancouver area marine terminal has faced fierce opposition since it was first proposed more than a decade ago.

Norwegian unions wary of offshore rigs run remotely from land

(Reuters; Oct. 19) - A shift to operating oil rigs remotely from land, which has been accelerated by lower crude prices, has rekindled concerns among Norwegian labor unions over the impact on the safety of offshore workers and the loss of well-paid jobs. These fears were highlighted by Lederne, one of three unions representing offshore workers, which this month shut six fields in a strike that threatened a quarter of Norway's oil and gas output, rattling global oil markets.

"The strike was not against moving controls onshore. But we needed to get the deal for our members to also be a part of the discussions about moving controls onshore and their safety," Lederne leader Audun Ingvartsen told Reuters. Lederne, whose strike ended on Oct. 9, is the only Norwegian oil and gas workers' union which did not have an agreement for its members at onshore control rooms.

Oil companies started experimenting with remote controls about seven years ago with smaller, unmanned installations off the Norwegian coast. Europe’s largest oil and gas producer has become a testing ground for industry attempts to turn this technology to larger, manned platforms. Low oil prices are accelerating the shift, prompting concerns about the safety of staff still working offshore.

Chinese official says more work needed to meet emissions targets

(Reuters; Oct. 21) - China’s environmental conditions are “grim,” falling short of public expectations even after five years of efforts to improve air quality, boost clean energy, and curb greenhouse gas emissions, a senior official said on Oct. 21. There is still a long way to go, said Zhao Yingmin, the vice minister of ecology and environment, even though China had met a series of self-imposed targets on smog, water quality, and carbon emissions over the five years from 2016.

“While seeing the improvements ... it should be clearly recognized that the quality of the ecological environment remains far from people’s expectations for a better life,” he told reporters in Beijing. China remains dependent on heavy industry and coal, and the “grim environmental trends” have not fundamentally changed, he said. Last month President Xi Jinping set a 2060 deadline to reach carbon neutrality, as part of China’s commitment to the Paris climate-change accord. It also aims for emissions to peak by 2030.

China is drawing up a new five-year plan for 2021-2025, which experts say will require stronger commitments to controlling coal consumption and promoting low-carbon energy to meet the 2060 target of carbon neutrality. Zhao did not give detail of the five-year plan, but said China would step up its efforts to control fossil fuel consumption and promote low-carbon technology, while promising more work to tackle climate change.

Analysts see growing trend in carbon-neutral LNG cargoes

(Australian Financial Review; Oct. 21) - Australia shipped its second carbon-neutral cargo of liquefied natural gas in what some analysts expect will become a big trend as energy users strive toward net-zero emissions and producers battle to extend the life of gas in the energy mix. French major Total shipped the cargo from the Ichthys LNG plant in Darwin to the Dapeng terminal in China with the carbon emissions countered by offsets sourced in China and Zimbabwe.

The shipment is about the fifth carbon-neutral LNG cargo worldwide so far, according to Bernstein Research, which expects the trend to take off despite an additional cost that averages about $US2.5 million per trip. The cost is "not cheap but it's the price of doing business in a net-zero world," Bernstein analyst Oswald Clint said, pointing to the restated commitments last week by big LNG buyers such as Tokyo Gas and JERA to decarbonize operations by 2050 but to keep gas as an important part of the energy mix.

Total's shipment probably cost about US$2.4 million to offset, based on 3.5 trillion cubic feet of gas, 640 kilograms of CO_2 per tonne of LNG and US$51 per tonne of carbon, noted Bernstein analyst Neil Beveridge. Gas exporters are equally keen to find ways to offset the climate impact of their product as they battle to secure the prospects for LNG amid intensifying pressure on its environmental credentials.