Oil and Gas News Briefs
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Pandemic accelerates discussion of 'stranded assets'

(Bloomberg; Sept. 18) - What had seemed like an abstract debate about leaving oil, gas, and coal in the ground to fight climate change has suddenly become real. Activists have long fought for less fossil-fuel production. Now with the pandemic crippling economies worldwide, reducing energy use and prices, drillers and miners are looking at projects that are no longer viable. Some companies are even abandoning investments, leaving deposits worth billions in the ground to languish as so-called "stranded assets."

While environmentalists applaud, fund managers, banks, and regulators worry that project financing could sour and collateral become worthless. Consultants at Oslo-based Rystad Energy estimate that the pandemic's long-term impacts on the market could result in about 10% of the world's recoverable oil resources, or some 125 billion barrels, becoming stranded. The debate about stranded assets has been pushed along by investors, stock exchanges, banks, and regulators that have grappled with how companies should reflect the hazards of global warming on their balance sheets.

Investors say fossil fuel companies need to calculate the financial risks of their climate policies and incorporate those in public documents, while some investment managers face pressure to dump the companies altogether. "Every major bank, the world's largest insurers, its biggest pension funds and top asset managers are calling for the disclosure of climate-related financial risk," former Bank of England Governor Mark Carney, who is also the U.N. Special Envoy on Climate Action and Finance, said in February.

Big Oil changing to a new business model

(Bloomberg commentary; Sept. 16) - For most of the past century, Big Oil executives found it pretty easy to explain to investors how their businesses worked. Just find more of the oil and gas that everyone needed, extract and process it as cheaply as possible, and watch the profits flow. That's all over now. It's clear that oil bosses are struggling to sell their plans for a future in which the world wants more green energy. Last year for the first time in history, solar and wind made up most of the world's new power sources.

"This is a time of energy transition," said Daniel Yergin, oil historian and vice chairman at consultancy IHS Markit. "The supermajors were born of the trauma of the late 1990s," he said, and now "this global trauma of the pandemic will also be a decisive period." Legacy energy companies are sketching out new strategies that in the near future — as soon as 2030 in some cases — would eliminate hydrocarbons.

The industry would like everyone to believe it's turning its back on fossil fuels for the good of the planet. After decades of denying its role in global warming, however, the reality is that Big Oil has been forced to change by green campaigners, politicians, and pension funds. What is the future of Big Oil? As the legacy business fades, the theory goes, investments in renewables, biofuels and electric vehicle charging will pay off. The Not-So-Big Oil of tomorrow looks greener, smaller, nimbler — and less profitable, more indebted and paying lower dividends. That spells the end of a business model.

Saudi Energy Minister criticizes OPEC members that exceed quotas

(Bloomberg; Sept. 17) - Saudi Arabia has showed its determination to protect the oil recovery, warning short sellers not to challenge its resolve and delivering a rare public rebuke to a close ally that had been over-producing. After a meeting with fellow OPEC+ ministers on Sept. 17, Saudi Energy Minister Prince Abdulaziz bin Salman dropped clear hints that there could be a change of direction in production policy before the group's next ministerial meeting in December.

"We will never leave this market unattended," the prince said. "I want the guys in the trading floors to be as jumpy as possible. I'm going to make sure whoever gambles on this market will be ouching like hell." There are growing signs that the second wave of the coronavirus pandemic is hurting oil demand once again, as people and businesses around the world face tightening restrictions on their activities.

Prince Abdulaziz confronted the challenge of a weakening oil market with a bluntness rarely seen inside the coalition. He opened the meeting with a forceful condemnation of members that try to get away with pumping too much. While the prince didn't name any offenders, sitting in silence alongside him was UAE Energy Minister Suhail al Mazrouei, who had made a rare post-pandemic trip from to Riyadh to atone for exceeding his output target. The UAE has become one of the worst quota-breakers in OPEC+, making just 10% of its pledged cuts in August, according to the International Energy Agency.

"Using tactics to over-produce and hide non-compliance have been tried many times in the past and always end in failure," the prince told the OPEC+ committee that monitors the output cuts. "They achieve nothing and bring harm to our reputation and credibility."

[U.S. diesel, jet fuel, heating oil stockpiles highest since 1991]

(Bloomberg; Sept. 17) - The oil market has a diesel problem and it's not letting up. While crude stockpiles in the U.S. are at the lowest April, supplies of distillates, which include diesel, heating oil, and jet fuel, skyrocketed to the highest level for this time of year in U.S. government data going back to at least 1991. At the same time, demand for such fuels, often viewed as an economic barometer, is the lowest since late July.

It's a stubborn glut that is presenting a headache for refiners that need to meet demand for gasoline, but also require an outlet for the diesel that will inevitably be produced as they ramp up output. A lull in air travel due to the coronavirus pandemic has also caused jet fuel to pile up, contributing to the growing supply. The result is brutal for companies trying to make money turning crude into gasoline and diesel.

A key metric that measures diesel's premium to West Texas Intermediate crude futures, known by traders as the diesel crack spread, plummeted to $6.56 a barrel on Sept. 16, the lowest since 2010. The slide in the crack is the "worst possible scenario for refiners," Bob Yawger, director of the futures division at Mizuho Securities USA, wrote in a note. Refiners have little incentive to run their plants harder in the wake of weak margins and record distillate inventories. "If they don't crank up the run rate, they will never burn off the crude oil overhang already in storage," he said.

[U.S. proposes tighter bonding rules for offshore producers]

(Bloomberg; Sept. 18) - The U.S. is looking to tighten requirements on bonds posted by a growing number of bankrupt oil producers to deal with abandoned offshore wells that could eventually become environmental disasters. The Interior Department is proposing rules to strengthen the bonding criteria after companies have filed for Chapter 11 and escaped financial obligations to cap their non-producing wells, said Walter Cruickshank, acting director of the department's Bureau of Ocean Energy Management.

The measure, proposed with the Bureau of Safety and Environmental Enforcement, will be subject to a 60-day public comment period. "Our current rules that were written back in the 1990s have fairly broad criteria and really left it up to our regional directors to interpret and apply them as they wanted," Cruickshank said. Explorers are projected to spend about $1 billion a year for the next half decade to decommission hundreds of aging wells in the Gulf of Mexico, according to the industry consultant Wood Mackenzie.

The government is looking to ensure those costs don't shift to taxpayers as the deep oil crash drives more companies to bankruptcy. If the rules are finalized without changes, Cruickshank said some companies will have to seek additional financial assurance to cover decommissioning liabilities, based on department analysis of their credit ratings, financial strength of co-owners on leases, the value of the reserves and other factors.

International lenders ready to help finance Russian LNG project

(Reuters; Sept. 18) - International lenders have lined up about $9.5 billion in financial support for a Russian liquefied natural gas project, a document seen by Reuters showed, even as such projects come under greater scrutiny over climate concerns. The $21 billion Arctic LNG-2 project is expected to start production in 2023 and reach full capacity of almost 20 million tonnes per year by 2026.

While the energy industry touts gas as a cleaner alternative to coal or crude, it's a source of carbon emissions and critics say LNG projects are hard to reconcile with the transition to a low-carbon world envisaged in the Paris climate agreement and the European Union's Green Deal economic plan. The interest of international institutions, however, gives a boost to the Arctic LNG-2 project, led by Russian gas producer and LNG exporter Novatek as Moscow plans to raise its share in the global LNG market.

Among the lenders is French state investment bank and credit agency Bpifrance with an offer of $700 million in credit finance; the China Development Bank, expected to offer a facility worth $5 billion; and Germany's Euler Hermes with a covered facility of $300 million, the document said. The Japan Bank for International Cooperation is also seen providing a facility of $2.5 billion, and Italy's SACE a covered facility of $1 billion.

The line-up described in the document, if backed in full, would cover the need for the external financing, earlier estimated by Novatek at $9 billion to $11 billion. The project's equity partners include France's Total, China National Petroleum Corp., China's CNOOC and the Japan Arctic LNG consortium comprised of Mitsui and state-owned JOGMEC, formally known as Japan Oil, Gas and Metals National Corp.

Delivery of new tankers will match start-up at Russia's Arctic LNG-2

(Argus Media; Sept. 11) - Russia's Arctic LNG-2 project is set to receive the 10 recently ordered Arc7 ice-class liquefied natural gas carriers in two phases to meet demand as the second and third trains at the project are commissioned. The first group of five carriers is slated for delivery in September-December 2024 and the second five in September-December 2025. The deliveries are likely to be aligned with the expected commissioning and ramp-up of the second and third trains at the Novatek-led project.

Five other Arc7 carriers, also ordered by Smart LNG — a joint venture between Russia's state-owned Sovcomflot and Novatek — are scheduled for delivery in March-December 2023 to meet loading demand from the first Arctic LNG-2 liquefaction train that year. At full capacity, with all three production trains in operation, the $20 billion terminal will be able to produce 19.8 million tonnes per year of LNG. All 15 ships have been ordered from the Rosneft-led Zvezda shipyard in Russia's Far East.

U.S. LNG export volume starts to recover

(S&P Global Platts; Sept. 17) - LNG tanker queues have begun to form on the U.S. Gulf Coast this week, as three of the country's major export facilities began ramping up production on improved export economics, particularly for sales to Europe. A total of seven tankers are in holding patterns just off the Gulf Coast, with an additional two currently loading, data from S&P Global Platts Analytics showed Sept. 17.

Four of the tankers were queuing just off Port Arthur, near where the largest U.S. LNG export facility, Sabine Pass, is located. Another two tankers were in a holding pattern just offshore of Freeport LNG, while one other tanker, the LNG Juno, has been lingering on the coast for more than two weeks with no clear implied destination. Another three tankers were shown in transit to the Gulf Coast.

The uptick in tanker activity coincides with a sharp ramp-up in feed-gas utilization among U.S. exporters since the start of September. Feed-gas uptake on the Gulf Coast has increased by almost 60% from pre-Hurricane Laura levels, when both Sabine Pass LNG and Cameron LNG were taken offline as a safety precaution. Total U.S. feed-gas demand was nominated at 7.442 billion cubic feet on Sept. 17.

Rising natural gas prices in Europe benefit U.S. LNG sales

(The Wall Street Journal; Sept. 16) - Natural gas prices have surged in Europe following a plunge in the spring, offering much-needed relief to U.S. exporters. Spot prices for gas at the Title Transfer Facility, a virtual trading hub in the Netherlands, have rallied 265% from their trough in late May, even after slipping over the past week. Prices have gone from just under $1 per million Btu to $3.63 in under four months, according to S&P Global Platts. The rebound is good news for U.S. exporters.

Gas prices have bounced back faster in Europe than in the U.S. and Asia, after having fallen further with COVID-19 lockdowns. Europe plays a key role in the international gas market, though Asia is by far the biggest buyer of U.S. gas. Gas is primarily burned to heat homes and offices in Europe, unlike in the U.S., where power generation is the main source of gas demand. Historically, Europe has absorbed fuel that isn't needed in other regions, partly due to flexible, commercially operated storage facilities and an electricity market that can flip from coal to gas at speed.

But with storage facilities filling up because of the drop in demand, buyers canceled dozens of cargoes and prices sank to levels at which U.S. exports to Europe were money losers. Now a combination of factors is turning it around. Demand from factories has revived along with the region's economy. Maintenance work at French nuclear stations has required more gas-fired electricity. Rising prices for carbon credits have encouraged power plants to burn gas instead of coal and lignite. Thanks to the surge, European gas prices have recovered to levels at which US. LNG exporters can profit.

[China's natural gas demand growth rate slowest in 5 years]

(Reuters; Sept. 17) - China's natural gas consumption is expected to grow at 4.2% in 2020, the slowest pace in five years, a government research report said, after the coronavirus pandemic slowed economic activity and dented demand for energy. Demand for natural gas grew just 1.5% in the first half of the year, the report by the oil and gas department at the National Energy Administration said, forecasting total 2020 consumption of 11.3 trillion cubic feet.

The report forecasts China's natural gas production this year at 6.67 tcf, up 9% from 2019, while gas imports in 2020 were expected at 4.95 tcf — of which 1.765 tcf will come from pipeline gas and 3.177 from liquefied natural gas shipments. "The coronavirus outbreak has had a major impact on China's economic, societal and energy development. Consequently, the growth rate of the demand for natural gas has been suppressed significantly," the report said.

[China in talks to build billion-dollar oil and gas railway in Argentina]

(Asia Times Financial; Sept. 18) - A Chinese energy company is in talks to build a billion-dollar railway in Argentina that would move oil and gas from the massive Vaca Muerta shale region to the port city of Bahia Blanca, its president for Argentina said Sept. 17. PowerChina is in talks with Argentina's state-owned rail entity ADIF for the rail line, which would act as a link between the isolated shale region and the petrochemical and refinery hub, Tu Shuiping said in an interview.

"There is a concrete plan that we have been working on for almost two years. We were talking with people from ADIF to see how the project can be presented and then seek joint financing," Tu said. Cash-strapped Argentina, which is mired in recession and debt default, has struggled to capitalize on Vaca Muerta, one of world's largest reserves of shale oil and gas. To continue growing, Vaca Muerta needs greater investment in exploration and production, as well as pipelines, storage terminals and railways.

The project's cost is estimated between $1.2 billion and $1.5 billion, Tu said, adding that China could provide the financing. The explosion in shale drilling propelled the United States to become the largest producer of crude oil worldwide, but other countries, such as Canada, Russia, and Argentina, have not yet been able to capitalize on their shale holdings. The rail line could also be used to ship sand for hydraulic fracturing, Tu said.

[First $50 million of federal aid will help clean up dormant B.C. wells]

(The Canadian Press; Sept. 18) - The first half of a C$100 million federal fund directed at cleaning up dormant oil and gas wells in British Columbia has been disbursed.

Provincial Energy Minister Bruce Ralston said work is underway to reclaim wells that have been inactive for at least five years and aren't likely to come back into service. He said applications to receive a share of the second $50 million instalment will open Nov. 1, allowing B.C.-based firms to hire workers to clean up about 2,000 dormant wells.

The program provides up to $100,000, or 50% of the cost of site cleanup, whichever is less. Indigenous communities, local governments, and landowners may identify priority sites until the end of this month. Ottawa pledged $1.7 billion in April to help Alberta, Saskatchewan, and B.C. clean up inactive and so-called orphan oil and gas wells, with B.C. set to receive $120 million.

There are about 7,000 dormant wells in B.C. and 770 orphan wells, meaning the sites were operated by companies that are insolvent, cannot be located, or no longer exist. The $15 million orphan sites program administered by the B.C. Oil and Gas Commission was flooded with more than 1,100 applications when it launched earlier this year. The federal aid will supplement that funding.

Analysts say tax changes would be negative for Russia's oil industry

(S&P Global Platts; Sept. 17) - The Russian Finance Ministry has proposed a major overhaul of the country's oil taxation system, which if approved could have a significant long-term impact on the country's oil sector. The ministry wants to move away from the current system of numerous tax breaks that are conditional on operational criteria, including reservoir performance, which the ministry has little control over or ability to monitor and predict. This system would be replaced by wide-scale use of an excess profits tax, which already is in place at some fields in Russia.

Oil and gas revenues play a key role in the state budget, making the industry a logical target for tax hikes during economic crises, including the current downturn caused by the coronavirus pandemic. Russian producers often complain that frequent changes to oil taxes complicate planning long-term projects. Finance Minister Anton Siluanov said Sept. 16 the ministry is proposing cancellation of the zero-rate mineral extraction tax on high-viscosity oil, as well as export duty tax breaks for brownfield projects. Siluanov estimated the export duty changes would cost industry Rb30 billion (US$400 million).

The plans follow earlier proposals from the Finance Ministry to amend the excess profits tax to regain Rb200 billion ($2.67 billion) of lost tax revenues. Analysts see the tax changes as negative for the industry. "While the news is negative for the industry, at this stage we would expect the draft bill to undergo a number of amendments and anticipate that discussions on the matter will continue," analysts at ATON said in a research note released Sept. 17. VTB Capital also deems the proposals as negative for Russian oil and gas companies' investments and detrimental for the industry's operating foundation.

[Indian state raises tax on natural gas to help cover budget]

(S&P Global Platts; Sept. 17) - An increase in taxes on natural gas in Andhra Pradesh, a key state in India where domestic gas produced from the Krishna Godavari basin is sold, would make domestic gas less competitive and pose a challenge to the central government's plan to raise the share of gas in the nation's energy mix to 15% by 2030, sources said. The state government increased the tax on gas from 14.5% to 24.5% on Sept. 12 to boost revenues after the coronavirus-inflicted lockdown hit its budget hard.

The tax increase comes at a time when domestic gas producers already are facing competition from relatively low-cost LNG cargoes available on the spot market. The tax applies to domestic gas production, not imports. The tax increase will add up to an additional 50 cents per million Btu to the cost of domestic gas in the state.

[Exxon, Chevron work with think tank to track methane emissions]

(Houston Chronicle; Sept. 17) - Oil companies including ExxonMobil and Chevron are partnering with an environmental think tank to track methane emissions coming out of the Permian Basin. The abundant flaring of natural gas in the West Texas oil and gas field has drawn concern from climate scientists, with methane being a far more powerful greenhouse gas than carbon dioxide.

"Climate change risks posed by methane and other greenhouse gas emissions are serious and warrant action," Bart Cahir, a senior vice president at ExxonMobil, said in a statement. The Rocky Mountain Institute, a think tank based in Colorado, has developed a computer program to track emissions coming out of oil and gas fields, allowing companies to not only report their emissions to investor groups but also track which technologies are best at reducing methane leaks.

The moves come as the Trump administration has rolled back methane regulations, saying companies are best equipped to manage the leaks themselves, despite criticism from some in the industry that the Obama-era regulations were fair and necessary. According to federal estimates, about 28% of the 570 million tonnes of methane emitted by the U.S. into the atmosphere each year comes from oil and gas drilling. Permian producers last summer were flaring at an all-time high of 750 million cubic feet per day.

[Report estimates cost of net-zero emissions at $1 trillion a year]

(Reuters; Sept. 16) - Achieving net-zero emissions by mid-century would cost an estimated $1 trillion to $2 trillion a year of additional investments, or 1% to 1.5% of global gross domestic product, a report by the Energy Transitions Commission (ETC) said Sept. 16. The ETC is a global coalition of 40 energy producers, industrial companies and financial institutions, including ArcelorMittal, HSBC, BP, Shell, and Bank of America, which are committed to achieving a carbon-free economy by 2050.

The ETC said the additional investments “are easily affordable, given current global savings and investments, particularly in the prevailing macroeconomic context of sustained low interest rates.” The report also said dramatic improvements in energy efficiency will have to be made; annual global electricity supply will have to grow four to five times; and the annual pace of wind and solar electrical-generating capacity will need to be five to six times the increase achieved in 2019.

Buildings, the transport and industrial sectors need to be electrified and hydrogen should be used where electrification is not possible, the report said. Other uses should be decarbonized with carbon capture and storage, and sustainable bioenergy. “There is no doubt it is technically and economically possible to reach the zero-carbon economy which we need by 2050 … not a plan which relies on the permanent and large-scale use of ‘offsets’ to balance continued emissions,” said ETC Co-chair Adair Turner.