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Cost escalation driven by a spike in commodity prices in 2021

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Abstract

Southwestern Energy Co. has agreed to acquire Haynesville shale producer Indigo Natural Resources LLC for $2.7 billion. The deal adds to Southwestern Energy's northeast and southwest Marcellus assets, increases high-return dry gas inventory with 149,000 net acres and some 1,000 locations in the gassy Haynesville, increases net production to over 4 bcfed (about 85% natural gas), and expands 2022 estimated margins by 12% resulting from low cost access to premium markets in the growing Gulf Coast LNG corridor, the company said in a statement June 2. Indigo is one of the largest private US natural gas producers, with core dry gas assets across the stacked pay Haynesville and Bossier zones in northern Louisiana. Indigo currently produces 1.0 bcfd net and expects to produce 1.1 bcfd net upon closing. As of Mar. 31 and adjusted for the sale of its Cotton Valley assets, Indigo had $631 million of net debt and a leverage ratio of 1.1 times. Total consideration of $2.7 billion will be comprised of $400 million in cash, $1.6 billion in SWN common stock, and $700 million of assumed 5.375% senior notes due 2029. Southwestern expects to invest at maintenance capital levels again in 2022, with activity across all its operating areas. On the acquired acreage, the company expects to run a 4-rig program in 2022 to keep production roughly flat at 4.1 bcfd, placing 30-40 wells to sales. With a maintenance capital program, the company projects 14 years of economic inventory at current strip prices across its assets in Appalachia and Haynesville. Synergies are expected to be $20 million in G&A reductions with further operational and financial cost savings anticipated, the company said.

Introduction

The deal is expected to increase projected cumulative free cash flow to $1.2 billion from 2021 to 2023. The deal is scheduled to close in this year's fourth quarter, subject to regulatory approvals, customary closing conditions, and Southwestern Energy shareholder approval.

Empire Petroleum acquires operated New Mexico oil and gas assets

Empire New Mexico LLC, a subsidiary of Empire Petroleum Corp., Tulsa, has acquired producing oil and gas assets and related gathering assets in Lea County, NM, from ExxonMobil Corp.'s XTO Holdings LLC.

The acquired operated assets are comprised of 700 gross oil, gas, and injector wells and encompass about 40,000 net acres of Permian leasehold. The properties are characterized by high working and net revenue interests, producing some 1,100 net boe/d (67% oil), the company said in a release May 18.

Eunice Monument (EMSU) and Arrowhead Grayburg fields (AGU) lie on the northwestern edge of the Permian basin's Central Basin Platform in southeastern Lea County, about 15 miles southwest of Hobbs.

Empire believes the assets have current infill drilling and return-to-production well potential.

EMSU field was discovered in March 1929 with most field development occurring in 1934-1937 as the second largest carbonate reservoir in the Texas-New Mexico Permian area. USGS estimates known recoverable efficiency in Eunice field and surrounding satellites near 40% with primary and secondary recovery of an estimated 4.5 billion original oil bbl in place, Empire said. Well development in the EMSU was on 40-acre spacing and the field was produced under primary means until unitization of the field occurred in February 1985 as a secondary waterflood. Productive intervals at Eunice are mostly Queen, San Andres, and Grayburg formations.

Comet Ridge awarded new Mahalo permit in Bowen basin

Comet Ridge Ltd., Brisbane, has been awarded a new exploration permit in the Bowen basin of Queensland directly east of its three permits and two production licences in the region. The 338-sq km permit (ATP 2063), known as Mahalo Far East block, lies northeast of the company's development-ready Mahalo coal seam gas project. The award follows that of Mahalo North (ATP 2048) in April 2020 and Mahalo East (ATP 2061) in September 2020. All are owned 100% by Comet Ridge. The new permit contains a large volume of gas in place and provides significant upside to the Mahalo hub which is close to existing pipeline connections to the Australian east coast gas market, the company said.

Mahalo Far East block also contains conventional sandstone reservoir potential beneath the coal measures that will be explored during appraisal of coal seam gas resources.

Comet has achieved commercial gas flow rates in its initial Mahalo programs, including the Mahalo-7 and Mira-6 lateral pilot wells in two separate pilot areas. The overall project has received environmental approvals and production leases for development.

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Lukoil subsidiary becomes sole owner, operator of Wolgodeminoil

Exploration & Development Quick Takes

Al Yasat Petroleum Operations Co. Ltd. has let a $744-million contract for full field development of the Belbazem offshore block to the National Petroleum Construction Co. (NPCC). The block, which lies 120 km northwest of Abu Dhabi city, consists of Belbazem, Umm Al Salsal, and Umm Al Dholou fields.

The award is part of ADNOC's efforts to maximize value from all Abu Dhabi fields as it expands oil production capacity to 5 million b/d by 2030.

The scope of the award covers engineering, procurement, construction, and commissioning activities for offshore facilities required to enable full production capacity of 45,000 b/d light crude with about 35°API gravity and 27 MMscfd associated gas from Belbazem.

The project includes three offshore wellhead towers, one in each of the block's three fields, interconnecting subsea pipelines, and cables to Zirku Island some 60 km from Belbazem. It also covers development of greenfield facilities for water injection, produced water treatment, gas compression, and associated utilities, as well as brownfield works for tie-in to existing infrastructure at the island.

Leading up to the award, Al Yasat undertook a front-end engineering design (FEED) competition and reduced the originally scheduled tender time by up to 12 months and enabled capex savings of about $190 million (OGJ Online, July 29, 2019). First oil is expected in 2023.

Al Yasat is a subsidiary of Abu Dhabi National Oil Co. and joint venture with China National Petroleum Corp. ADNOC and CNPC hold 60% and 40% stakes in Al Yasat, respectively.

Ithaca Energy lets contract for Captain field EOR project

Ithaca Energy (UK) Ltd. has let an engineering, procurement, construction, and installation (EPCI) contract to TechnipFMC for the Captain enhanced oil recovery (EOR) project in the UK North Sea.

Ithaca Energy sanctioned the Captain field EOR Stage 2 project after receiving field development plan addendum consent from the Oil and Gas Authority (OGJ Online, Apr. 8, 2021).

TechnipFMC will design, manufacture, deliver, and install subsea equipment including a rigid riser caisson, water injection flexible flowline, umbilicals, and associated equipment.

Captain field, in Block 13/22a, lies about 145 km northeast of Aberdeen in the outer Moray Firth in water depths of 105.5 m.

TechnipFMC has valued the contract at $75-250 million.

Captain is operated by Ithaca Energy with 85% interest. Dana Petroleum (E&P) Ltd. holds the remaining 15%.

Equinor, partners select joint development concept for Haltenbanken East

Equinor Energy AS and partners selected a concept for developing six discoveries in a joint unitization project on Haltenbanken in the Norwegian Sea. The development concept is a subsea tie-back to Åsgard B platform, using existing facilities and infrastructure, partner Spirit Energy said in a release May 19.

Haltenbanken East will be developed as a unit between four different licenses. It comprises six discoveries and three prospects with a combined volume in the order of 100 MMboe, mostly gas.

The project will be executed in two phases. In the first phase, six wells will be drilled on five of the discoveries. The second phase includes the last discovery and three prospects, planned to be drilled as sidetracks from existing wells.

The discoveries, said Gunn Gadeholt, asset manager at Spirit Energy, "were basically considered stranded assets–it would not have been economically viable to develop any of them on their own."

A final investment decision is expected in first-half 2022 with submission of a plan for development and operations (PDO) to Norwegian authorities in second-half 2022.

Equinor is operator in Haltenbanken East (57.7%) with partners Spirit Energy AS (11.8%), Vår Energi AS (24.6%), and Petoro AS (5.9%).