Energy Intelligence

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OIL DAILY®

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In Brief

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Tamarack Expands Clearwater Footprint in C$1.4B Deal

Canadian oil producer Tamarack Valley Energy said Monday that it has reached a C$1.425 billion (US$1.1 billion) cash-and-stock deal to acquire privately held Deltastream Energy.

Tamarack said the acquisition will make it the largest producer in the Clearwater conventional heavy oil play in central Alberta, which it describes as the "most economic play in North America."

"This transaction builds on the company's core position in the Clearwater," Tamarack CEO Brian Schmidt said in a press release. "Deltastream brings scale and a leading economic development drilling inventory, comprised of high-quality, long-life assets with low sustaining capital requirements that enhance capital allocation flexibility."

The Deltastream acquisition will add over 500 net future development locations in areas adjacent to Tamarack's core Nipisi and Marten Hills operations, according to the company, as well as boost its output in the Clearwater play to an expected 23,000 barrels of oil equivalent per day (94% oil) in 2023.

Per the terms of the deal, Tamarack will pay Deltastream C$800 million up front and C$300 million over the course of 18 months. Deltastream will also receive about C$300 million in equity in the form of roughly 80 million Tamarack shares valued at C$3.75 per share.

The deal is expected to close by the end of October.

Low Cost, High Reward

The Clearwater heavy oil play lies north of Edmonton and features low-cost wells and stellar break-even prices under US$30/bbl, according to Tamarack.

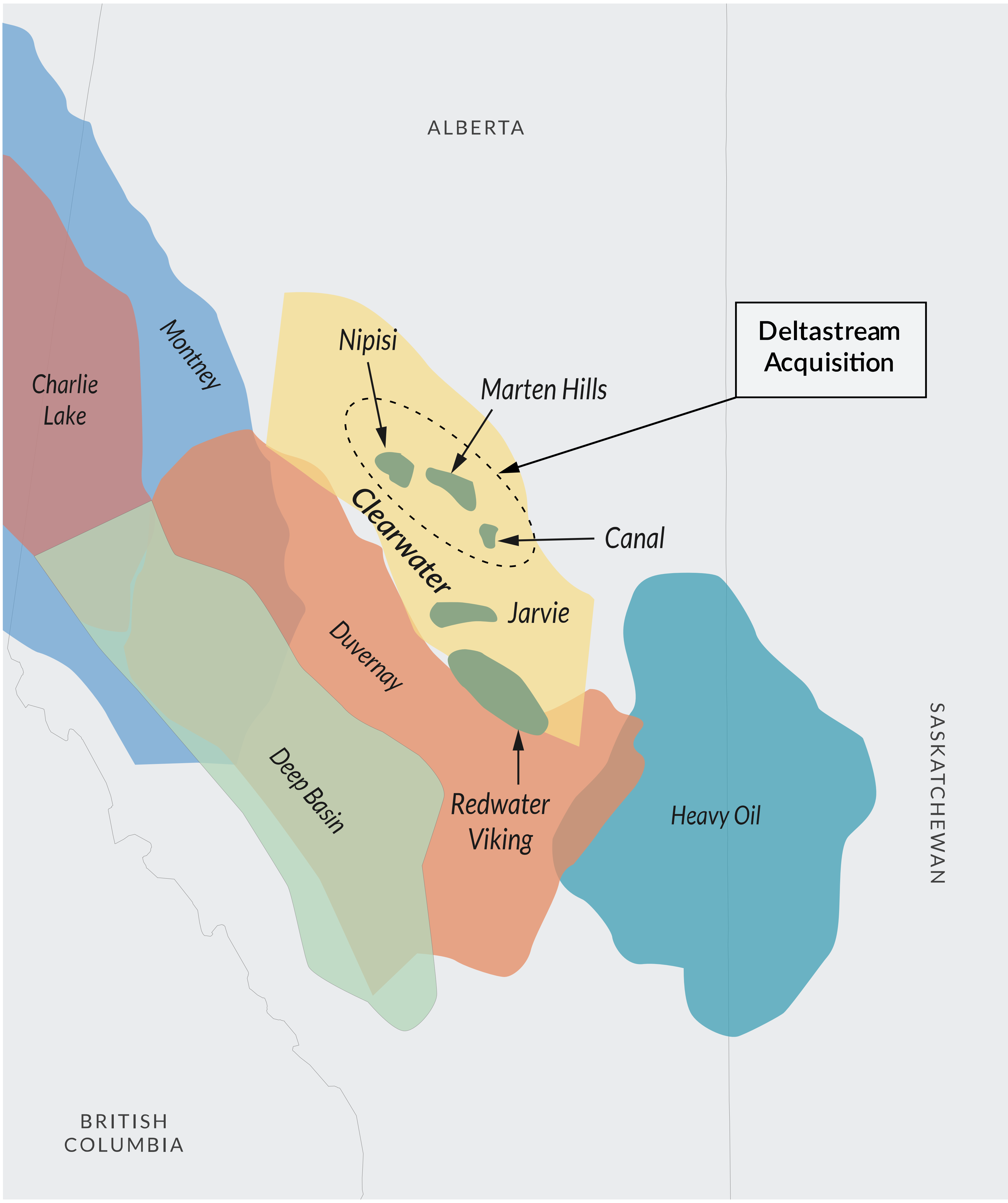
The play's stellar economics have made it an attractive target for E&P bargain hunters, particularly Tamarack, which has built up a large position in the play over the last couple years through a series of acquisitions.

Most recently the company closed a deal in June to acquire privately held Clearwater pure-play Rolling Hills Energy, and in February it closed its acquisition of privately held oil producer Crestwynd Exploration.

Other firms have been active in Clearwater as well. Calgary-based Headwater Exploration in particular made waves in the play last year with its acquisition of oil sands heavyweight Cenovus Energy's assets in the Marten Hills area of the play.

In a separate announcement, Topaz Energy said it will obtain a newly created 5% gross overriding royalty on all current and future oil production from Deltastream's Clearwater acreage.

Tamarack Valley Builds Clearwater Footprint



Source: Tamarack Valley Energy, RBC Capital Markets

Jeffrey Cavanaugh, New Orleans

US Targets Low-Carbon Tech With ‘Earthshots’ Program

US Energy Secretary Jennifer Granholm traveled to Houston last week to launch the latest in the US Department of Energy’s (DOE) initiatives aimed at accelerating development of low-carbon and decarbonization technologies.

Dubbed “Earthshots” — an invocation of both the 1960s era Moon Shot program that got the US to the moon and President Biden’s once and current “cancer moonshot” — the program is aimed at driving down costs of key technologies to underpin the energy transition.

So far, the DOE has focused on four areas — geothermal, carbon capture, long duration storage and hydrogen — with a total of six to eight focus areas planned. In some cases, Congressional funding bolsters the programs.

Below, Energy Intelligence looks at the goals for the technologies the DOE has begun targeting.

Hydrogen Shot: The goal is to reduce the cost of clean hydrogen to $1 per 1 kilogram within one decade, i.e. by 2031. That’s a reduction of 80% from current levels, according to the DOE.

Here, the agency has money to spend, with $8 billion from the 2021 infrastructure bill to spend on “regional clean hydrogen hubs,” $1 billion for a clean hydrogen electrolysis program and $500 million for clean hydrogen manufacturing and recycling initiatives.

The recently passed Inflation Reduction Act (IRA) contained first-ever tax incentives for “clean” hydrogen — although they are more limited for blue hydrogen produced from natural gas.

Long Duration Storage Shot: The goal is to reduce energy storage costs by 90% compared to the 2020 cost of lithium-ion batteries in storage systems that can deliver 10 hours of duration within a decade.

When the agency debuted the program last year, it included a $17.9 million funding opportunity to scale up battery and storage systems manufacturing. Since then, government funding itself has scaled up: in May, the Biden administration sought public input on the structure of a $505 million initiative to underpin long duration storage that was provided for in last year’s infrastructure bill. The IRA also included new tax credits for energy storage aimed at reducing capital costs.

Carbon Negative Shot: The goal is to reduce the cost of carbon dioxide removal and store “at gigaton scales” for less than $100/net metric ton of CO2 equivalent within a decade.

As the technology develops, permitting will be key to developing the kind of large-scale "hub" model of carbon capture that proponents believe is necessary to bring costs down. DOE estimates that 100 saline geothermal wells will be needed, given additional funding from the infrastructure bill and then-prospective expanded tax credits which later passed, the DOE’s Brad Crabtree said in July.

There are also signs of wariness from communities where the developments would be cited: last week, a key parish in Louisiana voted in favor of a moratorium on injecting CO2 underground.

Enhanced Geothermal Shot: The goal is to reduce the cost of geothermal power by 90% over the next decade. Here, too, laws passed during Biden’s tenure give the DOE more to work with. The bipartisan infrastructure law that Biden signed last year earmarked $84 million to support pilot demonstration projects to help spur further growth in the geothermal sector. The recently passed Inflation Reduction Act includes a 30% tax credit for companies that want to invest in geothermal infrastructure or produce geothermal energy.

In July, the DOE said it plans to invest up to $165 million to expand deployment of geothermal energy in the US. The department has also invested $44 million to help spur innovations at its geothermal field lab.

Emily Meredith, Washington

Shale Players Eye Pneumatics in ESG Push

A number of US shale operators have rolled out programs to replace natural gas-fired pneumatic devices on oil field equipment with air-driven ones, part of a massive effort to lower greenhouse gas (GHG) emissions and boost the companies’ green credentials.

Air-driven pneumatics can cut emissions in a big way, the companies say. For example, EQT, the US’ largest natural gas producer, told Energy Intelligence earlier this year it plans to reduce its annual emissions footprint from 1 million tons to 300,000-400,000 tons just by replacing pneumatics.

For some operators, however, the transition hasn't been easy. Denver-Julesberg (DJ) Basin-focused Civitas Resources, which claims to be Colorado's first carbon-neutral producer, found that the pneumatics inventory estimates from some of its legacy companies were not completely accurate.

"We ended up having to do a hand count of our pneumatic devices," Chief Sustainability Officer Brian Cain said at the DUG Bakken + Rockies conference in Denver in June. "Why? Because we found that some of our legacy companies underestimated their pneumatic devices by as much as two times. And that's really significant in terms of knowing your numbers, in terms of knowing what your efficiencies actually are."

'Getting Burned'

Travis Wofford, a partner at law firm Baker Botts in Houston, told Energy Intelligence last week that he has seen at least one operator "get burned" by inaccurate counts of pneumatic devices.

"I wouldn't say that it's ubiquitous that every single operator at this point is checking that as part of the diligence, but I think that the sophisticated acquirers are paying attention to the categories of the facilities associated with the assets," he said.

Inaccurate counts can increase integration costs on the back end for acquirers, since it is up to them to replace obsolete equipment. And that pressure is even higher now as operators increasingly base their brands on lower emissions footprints.

"That means that they will be going out and doing the replacement, they will be going out and retraining people in the field, their service providers are required to abide by certain standards as well," Wofford said. "And so that increased expense, it affects their bottom line."

Inventories

While Civitas did not respond to several requests for further comment, operators in other basins told Energy Intelligence that inventory accuracy when it comes to pneumatics is an issue for the industry as a whole.

"An operator does have to be very prudent," Brian Woodard, Director of Government and Regulatory Affairs at Chesapeake Energy, told Energy Intelligence last week. "And there is a lot of manual analysis to where you have to get on location and ensure through an asset integrity check that you evaluate it for any actuating device in the field."

For its part, Chesapeake has identified 19,000 pneumatics that need to be replaced or fitted with vent capture systems, with 95% of retrofits to be completed by the end of the year. While Chesapeake has developed many of its own asset inventories, the company recently acquired developed properties in the Marcellus and Haynesville Shales. Woodard told Energy Intelligence the company sends out trained field teams to check asset integrity whenever an acquisition is made.

"For anyone that is acquiring, there's a certain element that you can have a general reference based on facility design of what you should have on location," he said. "But there's still a general duty to get out there and analyze your facility to understand what you have."

Budgets

Meanwhile, companies with smaller budgets are looking for other ways to cut emissions from pneumatics. Appalachian Basin pure-play CNX Resources — which has a planned budget of $470 million-$500 million this year compared to Chesapeake's $1.75 billion-$1.95 billion — is choosing to install lower-cost vent-capture devices on its pneumatics instead of replacing them altogether.

"That way we can do more projects and actually reduce more overall emissions, as opposed to, say, a 5% goal reduction at a super-high cost," Ravi Srivastava, President of New Technologies at CNX, told Energy Intelligence last week. "You have to be smart about some of these things."

CNX has also recently formed a group within its staff to focus on regulatory reporting to verify and validate the emissions data it sends to various agencies.

"We understand there are a lot of a lot of complexities out there, and having the right inventory is one huge part of it," Srivastava said on the sidelines of the recent Hart Energy ESG conference in Houston. "We want to make sure that we have confidence in the numbers that we're reporting to the second decimal point. We're not there yet. This group is in early stages, but we have deployed the people and the resources to get to that point."

Caroline Evans, Houston

US Regulator Proposes Well Control Rule Changes

The Biden administration said Monday it would tighten parts of a landmark offshore safety rule that was loosened in recent years by predecessor Donald Trump.

The changes, which are set to appear in the Federal Register this week, focus on well integrity and blowout prevention. They include requirements that blowout preventers to be able to close and seal the wellbore to the well's kick tolerance design at all times, that remotely operated vehicles be capable of opening and closing each shear ram on a blowout preventer and that independent third parties to be accredited by a "qualified standards development organization."

The proposal also removes an option for operators to report failure data to designated third parties, requiring them to report to the Bureau of Safety and Environmental Enforcement (BSEE), and it requires failure analysis and investigations to start within 90 days instead of the current 120.

"These proposed revisions to the Well Control Rule are the result of knowledge and experience gained by stakeholders and BSEE since the 2019 rule was implemented," said BSEE Director Kevin Sligh. "They will protect workers' lives and the environment from the potentially devastating effects of blowouts and offshore oil spills."

Blowout preventer failure was one of the culprits in the Macondo well explosion in 2010 in which 11 workers died. The first version of the Well Control Rule was adopted in 2016 following investigations into the Macondo disaster.

But the Trump administration rolled back certain provisions in 2019, including the need for BSEE to certify third-party inspections of critical drilling equipment such as blowout preventers.

National Ocean Industries Association Erik Milito said the organization was reviewing the proposed changes.

"The 2019 revisions to the Well Control Rule addressed technical problems and cleared up ambiguity with the original rulemaking," Milito said, adding that 274 of the 342 provisions in the rule were left unchanged. "Any further updates to the Well Control Rule should follow a similar tailored approach that does not result in unintended adverse safety consequences."

Caroline Evans, Houston

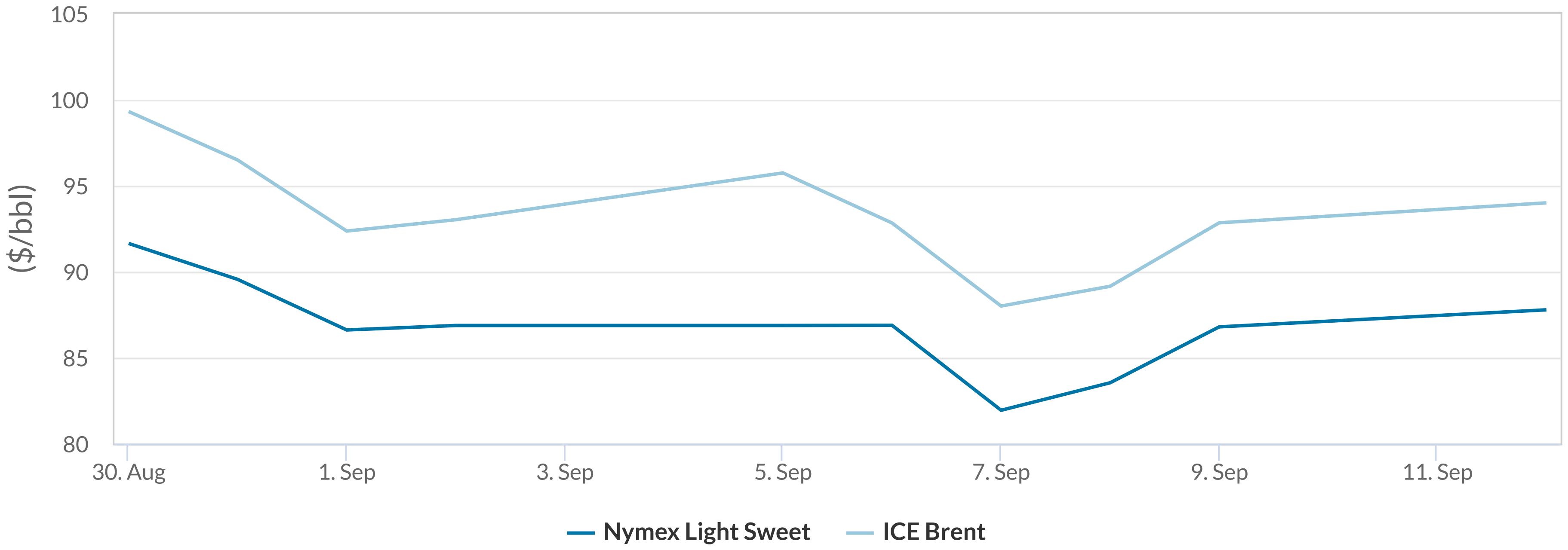
Oil Prices Gain Ground But Uncertainty Persists

In rare unison, all leading crude oil and refined product contracts ended higher on Monday despite ongoing uncertainty over the direction of demand and supply in the coming months.

Global crude oil benchmark Brent started the week on its front foot after slipping below $88 per barrel last week. On Monday it pushed over $95/bbl before losing traction and closing at $94/bbl, a $1.18 gain on the day. In the US, West Texas Intermediate (WTI) added 99¢ to settle at $87.78/bbl.

ICE BRENT VS. NYMEX WTI FUTURES

Front Month Contracts



Traders remain in two minds and bearish sentiment remains dominant, trading data from speculators suggests, even after Monday's gains.

Banks and funds mostly see prices sliding on the back of lower demand from ongoing lockdowns in China, higher oil prices, government actions to curtail demand in Europe and economic headwinds.

However, bulls see tight supply on the horizon due to insufficient global refining capacity, lower Russian crude and product exports and the failure of the US to reach a deal with Iran.

Crude oil and gasoline prices have fallen in recent days, while diesel prices have held up amid ongoing fears that the world might soon run short of the middle distillate, especially now that Russia has halted all natural gas supplies to Europe and more diesel is needed to replace gas for industrial use and power generation.

US diesel was up 3% in early trading on Monday, but the ultra-low-sulfur diesel contract on the Nymex ultimately finished up by less than 1%, adding 2.5¢ to close at $3.6031 per gallon.

Gasoil in London held onto a 3% gain in the October contract, which is the new front-month future after Monday's expiry of the September contract.

Going Up

Over the weekend, US Treasury Secretary Janet Yellen on CNN warned that product prices could rise over the winter when the EU bans most imports of Russian crude and products as well as tankers from carrying that oil.

G7 countries are designing a price cap mechanism that allows tankers to carry Russian fuel if traders buy it at or below the lower price set by the G7.

The price cap should keep the oil flowing while limiting Russia's income, but Moscow has vowed to only sell to countries that ignore the cap. This means that all oil that Russia sells should sail on non-Western vessels. However, there are not enough of those to ship all of Russia's current exports.

The softer oil price seems to suggest that the EU shipping ban might have a limited impact, even though the current price mechanism could lead to much lower exports from Russia starting Feb. 5, when the EU imports ban on products takes effect.

In and Out

Financial players continue moving rapidly in and out of the oil market, riding the waves of price changes, data from the US Commodity Futures Trading Commission (CFTC) show.

Regulatory data for the week ended Sep. 6 showed that speculators, who hold oil as a price bet, sold diesel and Brent futures contracts that would benefit from rising prices but barely added to their short positions that would gain value in case of falling prices.

Banks and funds holding Nymex WTI futures added to their bets on higher prices last week, according to the CFTC.

This positioning suggests that financial players continue to think that the oil price has bottomed out despite ongoing volatility that drags prices down at times.

Open interest in ICE Brent futures contracts — the total number of contracts held by all players, including producers, consumers, traders and speculators — dropped in early September to its lowest level in seven years.

Open interest fell below 1.8 million contracts as players lowered their exposure to the oil contract. Trading volumes have also been dropping, adding to price volatility.

Trading analyst Walter Zimmermann with Icap Technical Analysis pointed out in a note that a steep economic recession might be well around the corner, based on the asset allocations of investors.

In September 2007, just before the 2008-09 financial crisis, investors had a peak of 68.1% of their holdings in stocks and 9% in bonds before stock holdings deflated to 40.8% by March 2008. In November 2021, they held a peak 71.4%. History might repeat itself, Zimmermann noted.

John van Schaik, New York

IN BRIEF

Shawcor Exploring Targeted Oil Divestments

Energy services supplier Shawcor is exploring a sale of some of its oil and natural gas businesses as part of a rebranding effort that includes a name change.

The Toronto-listed player said Monday that it had started a review of “strategic alternatives” for the business lines, the Pipeline Performance Group (PPG), Shaw Pipeline Services (SPS) and Oilfield Asset Management (OAM). No specific timeline has been established for the review, and it might not end with a sale, Shawcor said.

Shawcor is also changing its name to Mattr during the first quarter of next year.

“Rebranding our company is an important step to better reflect the energy, creativity and innovation of this organization, and our leadership in providing high-value, materials-based products to industrial and critical infrastructure markets,” said CEO Mike Reeves.

PPG is a supplier of coatings to the offshore pipeline industry, while SPS provides pipeline girth weld inspection technologies both onshore and off. OAM, meanwhile, supplies downhole tubular inspection, repair and inventory management services to the Western Canadian energy market.

The company is aiming to focus its portfolio on its Composite Systems and Automotive & Industrial segments, which “align closely with our materials technology competencies, are best positioned to benefit from favorable long-term macroeconomic trends and consistently offer high returns on invested capital,” Reeves said.

Shawcor CFO Tom Holloway said increasing oil-field activity and a full backlog for the company means “the moment is right to realize optimal stakeholder value from a sale or other transaction of these businesses.”

Caroline Evans, Houston

Lopez Obrador Welcomes US 'Tone' on Trade

Mexican President Andres Manuel Lopez Obrador on Monday struck a conciliatory note on a major dispute with the US over Mexican energy policy, saying Washington had adopted a more respectful attitude toward his position.

He spoke on the same day senior US officials, led by Secretary of State Antony Blinken, were due to hold economic cooperation talks with Mexican officials in Mexico City.

In July, the US trade representative demanded dispute settlement talks with Mexico, arguing Lopez Obrador's drive to tighten state control of the energy market was unfair to US companies and likely in breach of a regional trade deal.

Lopez Obrador, who has cast his energy policy as a matter of national sovereignty, at the time responded defiantly, saying he would defend Mexico's position at an independence day military parade taking place this coming Friday.

However, on Monday he said he would no longer refer to the energy dispute during his Friday speech because US President Joe Biden had responded to his concerns positively.

"There's a different tone. There's a respectful attitude. Rather, it's a reaffirmation of respect for our national sovereignty," Lopez Obrador told a regular news conference, referring to a letter he said had received from Biden.

The US energy complaint, which Canada immediately joined, is arguably the biggest dispute to surface under the United States-Mexico-Canada Agreement (USMCA) since the North American trade deal came into effect in 2020.

If unresolved, it could lead to the imposition of hefty trade tariffs against Mexico, analysts say. (Reuters)

DATA SNAPSHOT

Oil and Gas Prices, Sep. 12, 2022

All data are produced by Energy Intelligence in cooperation with Refinitiv.

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	+1.16	94.00	92.93
Nymex Light Sweet	+0.99	87.78	87.41
DME Oman	+0.83	93.53	90.68
ICE Murban	+1.17	95.51	93.45

INTERNATIONAL SPOT CRUDES

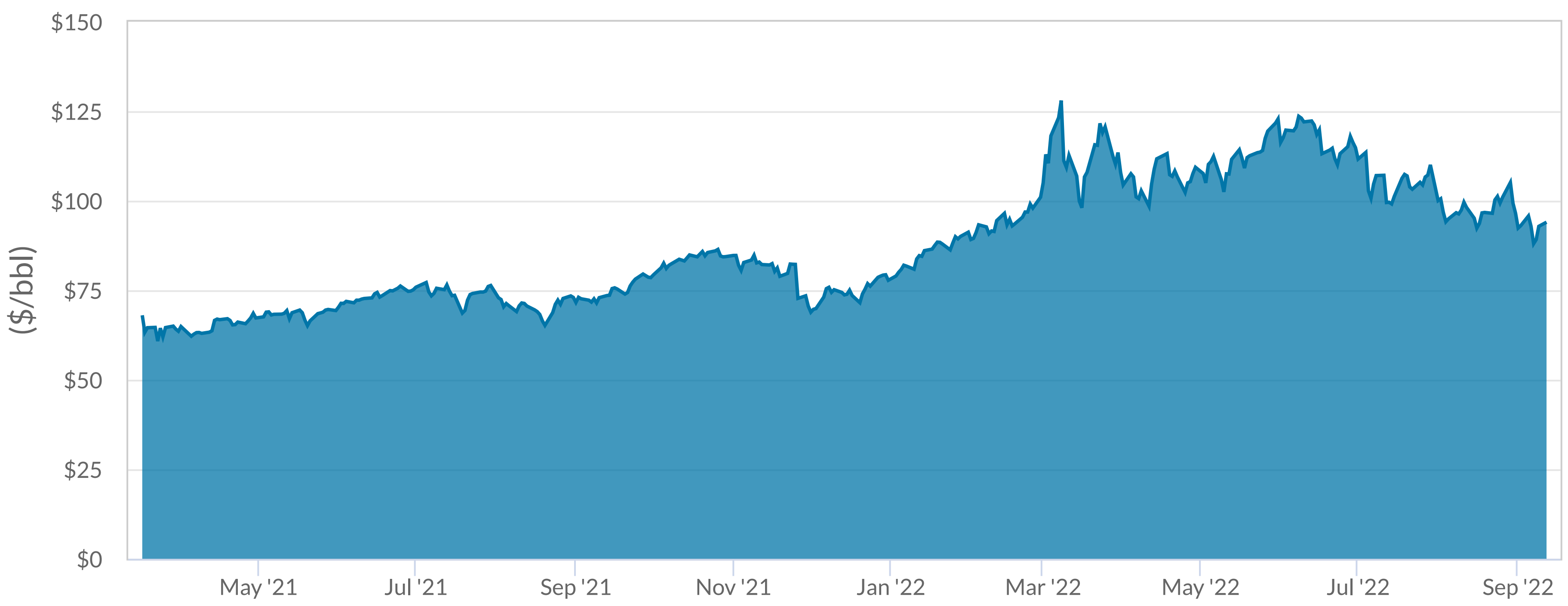
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+1.78	93.45	91.67
Dubai	+1.95	92.35	90.40
Forties	+3.70	93.68	89.98
Bonny Light	+3.40	96.88	93.48
Urals	+3.40	75.38	71.98
Opec Basket*			95.28

*Opec price assessed.

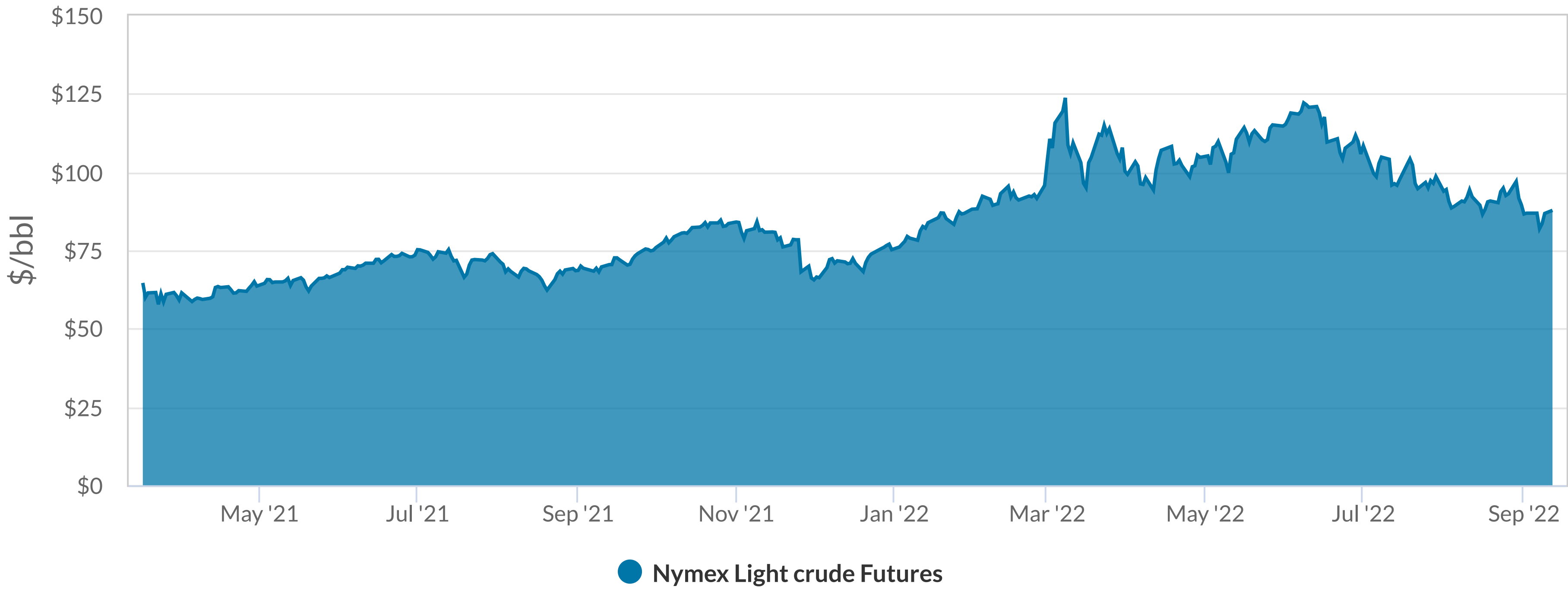
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	+0.91	88.18	87.27
WTS (Midland)	+0.91	87.98	87.07
LLS	+0.86	90.48	89.62
Mars	+0.66	87.43	86.77
Bakken	+0.91	92.68	91.77

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES

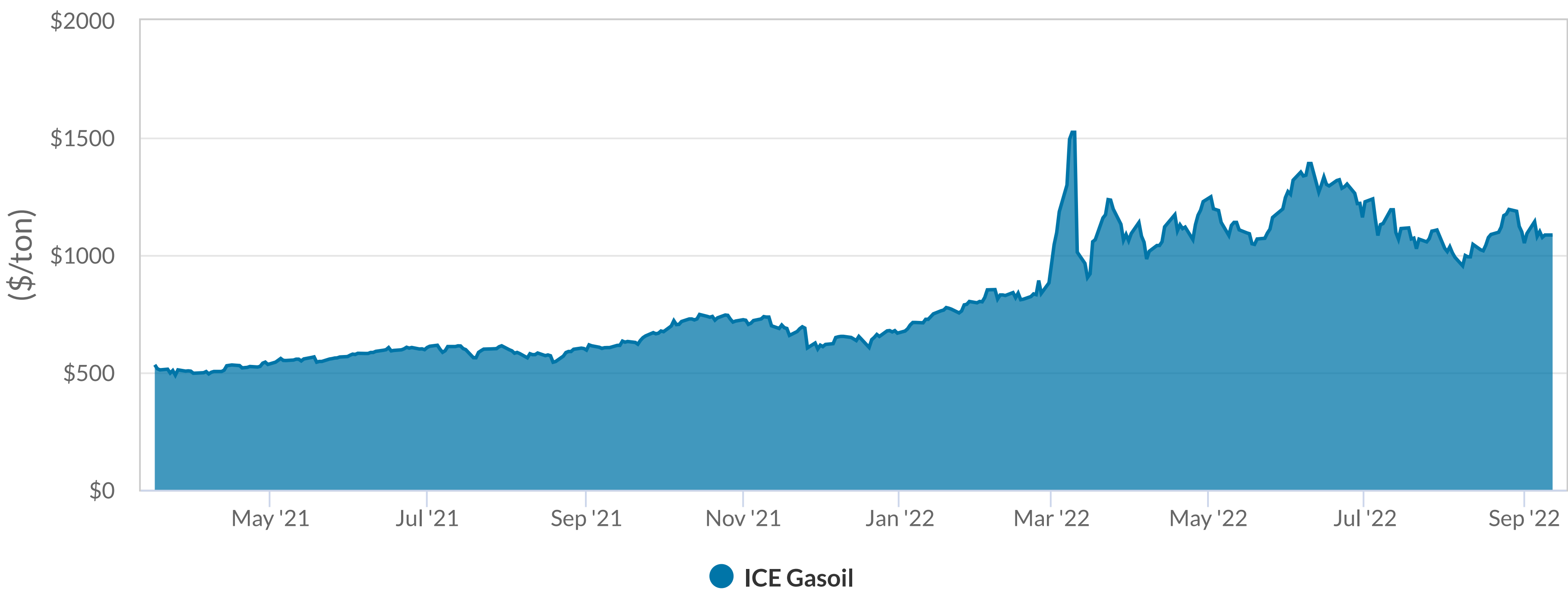


Energy Intelligence

REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	+1.17	244.48	240.97
ULSD Diesel (¢/gal)	+2.44	360.31	354.59
ICE			
Gasoil ($/ton)	0.00	1085.00	1092.50
Gasoil (¢/gal)	0.00	346.29	348.69

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES

US SPOT REFINED PRODUCTS

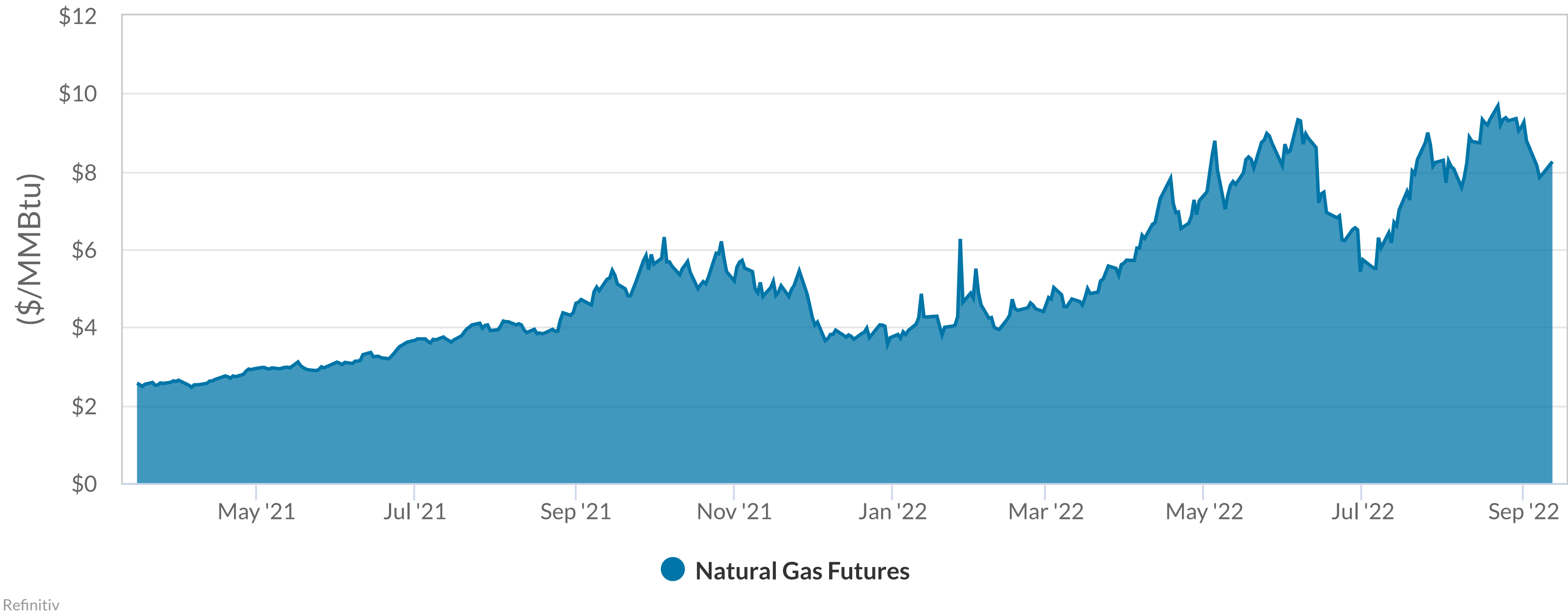
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	+4.55	271.74	267.19
No.2 Heating Oil	+2.87	346.48	343.61
No.2 ULSD Diesel	+3.37	363.73	360.36
No.6 Oil 0.3% *			89.31
No.6 Oil 1% *			83.38
No.6 Oil 3% *			75.69
Gulf Coast (¢/gal)			
Regular Gasoline	+5.55	257.74	252.19
No.2 ULSD Diesel	+3.12	355.48	352.36
No.6 Oil 0.7% *			84.04
No.6 Oil 1% *			84.04
No.6 Oil 3% *			69.49

*Price in $/bbl. Percentages refer to sulfur content.

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	+15.50	826.50	811.00
ULSD Diesel	+12.75	1093.50	1080.75
Singapore ($/bbl)			
Gasoil	+1.26	130.95	129.69
Jet/Kerosene	0.00	130.20	130.20
VLSFO Fuel Oil ($/ton)	+17.65	656.61	638.96
HSFO Fuel Oil 180 ($/ton)	+11.28	425.37	414.09

NYMEX NATURAL GAS FUTURES



NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.25	8.25
Henry Hub, Spot	-0.03	8.08
Transco Zone 6 - NY	N/A	7.52
Chicago Citygate	+0.23	7.62
Rockies (Opal)	+0.11	7.48
Southern Calif. Citygate	+0.60	8.83
AECO Hub (Canada)	+1.14	3.40
Dutch TTF (euro/MWh)	-4.70	187.00
UK NBP Spot (p/th)	-10.00	325.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Sep. 12, 2022

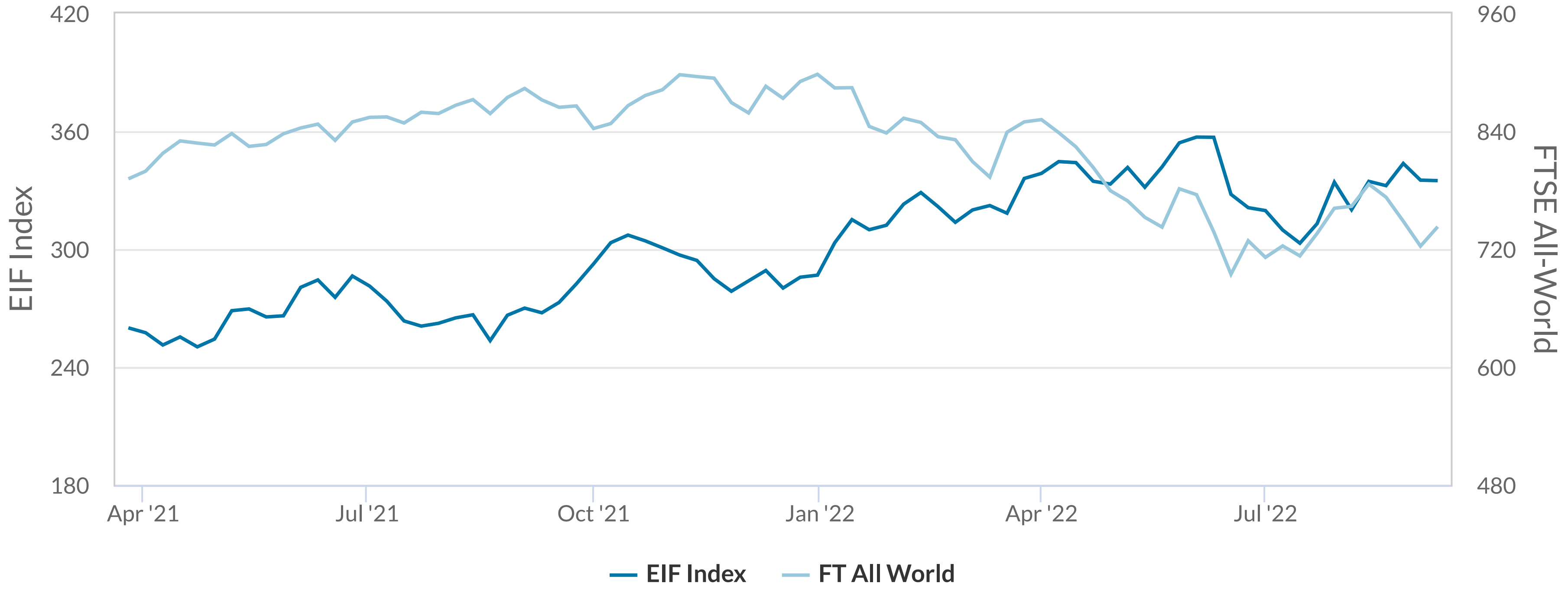
All data are produced by Energy Intelligence in cooperation with Refinitiv.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+4.92	334.88	+16.78
S&P 500	+43.05	4,110.41	-14.24
FTSE All-World*	+12.67	742.85	-17.57

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities