BUSINESS RECORDER
Founded by M.A. Zuberi
Aug 09, 2020
PRINT EDITION ►
BR MARKETS ►

OPINION

Changing dynamics of oil and gas industry

BR Web Desk 12 Mar 2020

There is great opportunity for foreign exploration and production (E&P) companies as well as for domestic private sector business houses to participate in Oil & Gas ventures in Pakistan. Pakistan's oil and gas landscape is poised for tremendous growth.

Here is why: Pakistan's rig count over the past 12 months has gone up from 26 rigs to 35 active rigs. This represents a significant increase of 35% between Jan 2019 and Jan 2020.

The number of active rigs in a region or a country, commonly known as the "rig count" depends upon appetite and confidence level of the oil and gas operating companies to drill more wells (or not). In other words, global oil and gas Industry considers the "rig count" as an indicator for "health check" of oil and gas activity.

Rig count is monitored worldwide to keep an eye on "activity level" and "activity trend" of a region or a country. Exploration wells are drilled to discover new reservoirs with production potential, drilling new development wells also known as infill drilling in already discovered reservoirs, and work over of existing old wells is done to repair old wells. All of these activities simply put - to increase production.

A survey conducted by these writers last year shows there are 50 drilling and workover rigs in the country and hydraulic horse power (HHP) of rigs in Pakistan include 300 HHP, 650 HHP, 750 HHP, 1000 HHP, 1200 HHP, 1500 HHP, 2000 HHP, 2500 HHP and 3,500HHP. This indicates a vibrant variety of well requirements from ultra-shallow depth wells to medium, deep, and ultra- deep type wells.

Going forward, with increase in planned well count by operating companies, it is expected the rush to increase exploration and production will continue resulting in rig count to further go-up very significantly.

OGDCL and PPL, the two largest domestic Exploration & Production companies in Pakistan, have announced their business plans and expect to double their well count FY 2020 for exploratory drilling, development drilling and working-over existing wells.

The safety and security situation has significantly improved in the country. Far flung and remote locations where drilling is often required, were previously no-go areas are now accessible for large numbers of seismic crews and heavy equipment to conduct seismic

surveys. These are fundamental requirements to acquire geophysical data and to determine high potential sweet spots for exploration &marking well locations to drill.
In addition to OGDCL and PPL, other E&P operating companies in Pakistan are also looking at increasing their well count that will further increase drilling activities and increase rig count.

There are 11 active E&P companies in the country while other players are showing interest: These are six domestic E&P companies:

1- Oil & Gas Development Company Ltd -OGDCL
2- Pakistan Petroleum Limited -PPL
3- Mari Petroleum Company Limited -MPCL
4- Pakistan Oilfields Limited - POL
5- Pakistan Exploration Private Limited - PEL
6- Orient Petroleum Private Limited - OPL

Five foreign international E&P companies

1-Ente Nazionale Idrocarburi-ENI, Italian
2- Magyar Olaj-es Gazipari-MOL, Hungarian
3-Polskie Gornictwo Naftowe I Gazowinctwo- PGNIG, Polish
4- United Energy Pakistan Limited - UEPL, Chinese
5- Kuwait Foreign Petroleum Exploration Co.- KUFPEC, Kuwaiti

Above mix of operating companies show that in addition to OGDCL, PPL and MPCL as public listed NOCs, there are 3 other domestic operating companies actively involved in exploration and production of hydrocarbon. Among the five foreign International E&P companies there are three European, one Chinese and one from the Mideast are actively pursuing exploration and production in Pakistan.
Pakistan's Ministry of Petroleum & Natural Resources has made a big push in recent months and conducted road shows and meetings in global O&G hubs in Canada, the US, Russia, China and the UAE, as a result several international E&P companies have shown a lot of interest and making rounds to Pakistan including ministerial level delegation from Russia with Gazprom showing keen interest in Pakistan's E&P landscape.
Daily oil production in Pakistan stands at 87,286 bbl. as shown in Table-1 with two-thirds Oil is produced from the north country and remaining third from the south. Daily gas production is a touch below 4 billion cubic ft. with nearly even split production between north and south. Daily production of LPG is at 1,521 metric ton, with two thirds from the north and remaining third from south country.

Table-1

Daily Production	Oil bbl	Gas million cubic ft.	LPG metric ton
North country	58,249	2,170	1,096

South country	29,037	1,781	425
Total	87,286	3,951	1,521

Table-1.1

Oil + Gas+ LPG Barrels of Oil Equivalent
458,463
352,003
810,465

One quarter of the 158 oil producing fields are in the north country, as shown in Table-2 and the remaining two thirds in the south. About one fifth of the 178 Gas producing fields are in the north and the majority four fifth in the south. LPG producing 37 fields nearly equally split between north and south of the country.

Table-2

Producing fields	Oil	Gas	LPG
Northern fields	41	38	17
Southern fields	117	140	20
Total	158	178	37

Barrels of oil equivalent data shows that north country produces 57% of the total fossil fuel, while 43% of the production comes from the south.
When you look around in Pakistan, all domestic and foreign E&P companies have strong balance sheets. Revenue linked with the International market price of oil, coupled with low cost of drilling and production in Pakistan ensure healthier margins of profitability.

The three national oil and gas companies public listed at Pakistan Stock Exchange are OGDCL, PPL, MPCL - consistently generate strong revenues, profits, creating shareholders' value and FY19 accumulatively generated $3.8 billion revenue with $1.3 billion profit (34%) after tax.
Another important factor contributing to healthy profits in Pakistan is the lifting cost of hydrocarbons among the lowest in the world. For example, FY19, lifting costs per barrel of oil equivalent (BoE) stood at $3.43 for OGDCL, $2.17 for PPL, $1.47 for MPCL.
PPL and MPCL, primarily gas producers, have lower lifting cost due to cheap gas production from shallower horizons in the south country.
Pakistan's total domestic oil production currently hovers below 100,000 barrels of oil per day (BoPD), with consumption demand around 600,000 BOPD, leaving deficit in supply gap filled by importing about 500,000 BOPD foreign oil.
Similarly, Pakistan's total domestic Natural Gas production currently stands around 4 billion cubic feet daily (BCFD), with consumption demand around 6 BCFD, thus supply gap about 2 BCFD.
To simplify matters, barrels of oil equivalent (BoE) is often used to be able to see total energy in terms of a single energy unit. Pakistan's current demand stands at approximately 1,700,000 BoE, where-as domestic production as of 30th June 2019 stood at slightly above 800,000 BoE, thus a supply gap of 900,000 BoE.
Estimated import bill for Oil & Gas imports this year is expected to be upwards of US$16 billion (State bank of Pakistan). This represents the single largest foreign exchange burden on the country's economy to meet domestic Oil & Gas demand. To reduce foreign exchange burden, the Government of Pakistan encourages foreign International E&P companies as well as domestic business houses with favourable policies and lenient terms for domestic exploration and production of oil and gas.

Why Pakistan?

* Mature regulatory framework
* 70% untapped sedimentary area
* Low well density 3 wells/1,000SqKm
* 1,100 Exploratory wells drilled
* 1,450 Development wells drilled
* 90 Oil and 310 gas/cond. discoveries
* 34% success rate
* Healthy gas price US$ 4-6/MMBTU
* Oil price linked to international market
* Local skilled human resources
* Low operating cost
* Low lifting cost

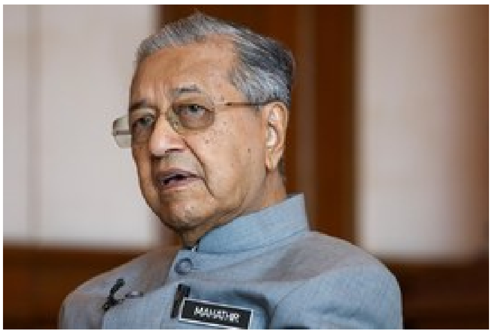
There is large deficit between growing consumption demand and domestic oil and gas supply. Cost of domestic drilling and production is low compared with majority of the E&P areas in the world. Sale price of Oil produced domestically is linked with international oil price. Gas price is more than double the Henry Hub Gas price - all these factors result in healthy after tax returns in Pakistan.
Pakistan's demand for oil and gas will continue to grow for the foreseeable future,

widening the gap between demand and supply, it is a great opportunity for foreign international E&P players as well as domestic private sector business houses to participate in oil and gas ventures in Pakistan.

It's a no brainer, Pakistan is a land of opportunity for E&P players.

(For comments, questions or clarifications, writers can be reached via email: saud@fpcbh.com&mansoorghayur@gmail.com)

BR WEB DESK ›



No apology for Kashmir remarks, keeping quiet not an option, says Mahathir Mohamad

Changing dynamics of oil and gas industry

Pompeo, Qureshi discuss Afghan peace process, reiterate support for regional stability

Moody's upgrades outlook, maintains B3 rating

PM to inaugurate largest-ever tree plantation today

Pakistan calls for global cooperation to break nexus between terrorism, organized crime

New survey launched: Rs171bn distributed under Ehsaas Programme so far

Textile exporters: SBP to start crediting duty drawbacks from Sept 1: Dawood

113 vehicles' entry from Afghanistan sans GDs: Finance Division working to assess revenue loss

Big retailers: Businesses not integrated with FBR computerized system to be sealed

China wants 'unpredictable' Trump to lose election: US intelligence

China-US ties plunge further over Hong Kong sanctions

READ MORE STORIES