News : Shell trims capex guidance, as gas leads sharp output reductions

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- Total Q2 output falls 6% on year
- North Sea Penguins project startup delayed into 2024
- European supply in 'good place' going into winter

Shell on July 27 accelerated planned capex cuts, trimming the top of its 2023 guidance by $1 billion to $23 billion-$26 billion as it tries to cut costs in the face of industry inflation and its own falling oil and gas output.

In a Q2 results statement, Shell left in place capex guidance for 2024 and 2025 of $22 billion-$25 billion. Capex in its Upstream and LNG-focused Integrated Gas units is expected to stay flat at $13 billion/yr from 2023-25, however, CEO Wael Sawan stressed efforts to re-evaluate the business and cut costs, seen in recent upstream divestments and a review underway of the Singapore refinery and chemicals facility.

Shell reported total Q2 oil and gas production down 6% year on year at 2.73 million b/d of oil equivalent.

Among its ongoing projects, Sawan signaled further delays to the UK Penguins oil and gas project in the North Sea, expected to produce 45,000 boe/d at peak and originally approved for development in 2018. The fabrication of the production vessel in a yard in China was severely delayed by the pandemic, however, it is now in Norway for what Sawan called "last technical works, and we would hope to see it in position to be able to start producing next year."

On the outlook for European supply, Sawan told journalists, Europe was "in a good place" ahead of winter, given rising gas storage levels and increasing renewable energy capacity, and added he saw a "bit of a reprieve" stemming from soft Chinese industrial demand for LNG. The challenge, he said, was now the longer term need to ensure security of supply and affordability, alongside emissions reduction goals.

"Longer term we need to continue to make sure Europe is investing in the infrastructure to give it the resilience into the future. The challenge is not for this winter or the next winter — it's how you create an energy policy for several years out," he said.

Across Shell's Upstream and Integrated Gas units, gas production was down 9% year on year in the second quarter at 7.32 Bcf/d, with gas production showing signs of being increasingly concentrated on LNG.

In its Upstream unit, hydrocarbon output fell 11% year on year to 1.70 million boe/d, however, gas volumes plummeted 29% to 2.43 Bcf/d, while oil output was down just 3% at 1.28 million b/d. Maintenance and asset sales both played a role, Shell said.

However, within Integrated Gas, overall liquids and gas production rose 4% to 985,000 boe/d, supported by new fields ramping up, although liquefaction volumes dropped 6% to 7.17 million mt.

Q3 reductions

For the third quarter 2023, Shell signaled likely further year-on-year output reductions. Upstream output is expected to be in a range of 1.6 million-1.8 million boe/d, compared with 1.79 million boe/d in Q3 2022.

Integrated Gas production is expected to be in a range of 870,000-930,000 boe/d, compared with 924,000 boe/d in Q3 2022, reflecting maintenance at the Prelude Floating LNG facility offshore Australia and in Trinidad & Tobago.

"We will undertake considerable planned maintenance activities including the Prelude and Trinidad & Tobago Integrated Gas assets in the coming months," Sawan said.

Shell also reported lower refining margins and lower trading earnings. Its indicative refining margin for the second quarter plunged to $9.01/b from $28.04/b in the Q2 2022 and from $15.01/b in Q1 2023.

Summarizing the results, Sawan reiterated Shell's commitment to net-zero emissions in its business by 2050, saying Shell aimed to be "the investment case through the energy transition," notably in areas such as biofuels, EV charging, low-carbon hydrogen and carbon capture and storage", as well as a limited power business.

However, he acknowledged lower Q2 financial results "were impacted by lower commodity prices, planned maintenance and the skew of our LNG portfolio towards the Northern Hemisphere winter."