

Continued Record Investment in UKCS

Jane Whaley, Associate Editor

The recent announcement of the 24th UKCS Licensing Round awards came at the end of another record year for the UK oil and gas industry. Over 700 million barrels of oil equivalent (MMboe) were discovered in 2006, the highest level since 2001, and a high percentage of wells found potentially commercial oil and gas accumulations.

A total of 104 companies, including 17 new entrants, were awarded 246 blocks in this latest round, bringing the number of companies in the UKCS altogether to 160. Of the 150 licences offered, 79 are traditional licences, compared to 70 in the 23rd round last year, 65 are Promote Licences, compared to 75, and, as in 2006, six are Frontier Licences.

According to Jim Hannon, of Hannon Westwood, the UKCS intelligence company, this all adds up to a very exciting period for the industry. "A high technical success rate, with the potential for bringing fields into production in as little as three years, makes the area very attractive to new entrants" he says.

The introduction of initiatives such as the Promote and Frontier Licences has proved both popular and successful (see *Geoexpro* Vol. 3, No. 6 for explanation of UK Licence types). A significant number of Promote Licences have continued into their third and fourth years and two discoveries, Sheryl and Oak, have already come out of this initiative. Jim Hannon also thinks that the fallow acreage initiative, whereby blocks or discoveries that have not been drilled for 3 years or more are either worked up or divested, is also proving to be a success. "This is the important contribution of the 'majors' to help the work going on in the North Sea," he explains. "Very few of them participated in the 24th round, but through this initiative they are now either working their acreage or giving it up. Our intelligence indicates that a few years ago the majors typically held 60% of the acreage in the North Sea as non-core and under-drilled, with little incentive to hand it back; this has now been reduced to 40% and declining."

"The entrance of fresh, new companies to the UKCS adds a



Photo: Kat Hannon

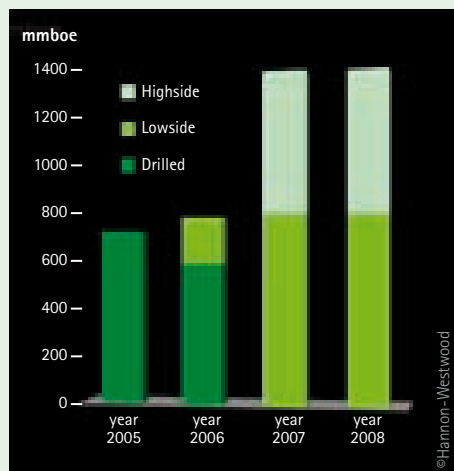
lot of dynamism to the system, although it also leads to a certain amount of instability," Jim adds. "Many of these companies are young and small and have no income stream; their financial object may prove to be acquisition or takeover rather than production, a positive outcome for them, though not necessarily for the industry. We expect to see a certain amount of consolidation over the next few years, with large companies buying or merging with smaller 'Promote' concerns as a way of getting into the North Sea."

Jim Hannon believes that the biggest potential barrier to continuing success in the UKCS stems from the pace at which exploration is proceeding. "The 24th Round has commitments to 17 firm and 13 contingent wells," he explains, "bringing to over 200 the number of committed exploration and appraisal wells in the UKCS pipeline for the next two to three years. Because of rig constraints, we can only drill about 55 to 60 vertical exploration wells annually, so it will

be two or three years before we can drill the wells in the queue. There is a danger that the backlog could result in the new entrants becoming frustrated and disappointed. If that happens, money will start to move elsewhere, as companies look for payback in less than three years. In addition, the smaller companies need rapid success, as they tend to work with borrowed money – too much delay and they could go under."

"The interest in the UKCS is still strong," Jim adds. "However, the UK authorities may need to think about the pace of activity and the time needed to absorb well results. Companies seem to be coping with annual rounds, but they may not be getting sufficient time to plan and think through results properly."

With a DTI inventory of 2,000 undrilled leads and prospects, a large stock of small discoveries waiting to be developed and an estimated yet-to-find total of 20 billion barrels or so, the UKCS should remain an exciting and vibrant arena for many years to come.



The success rate for finding and appraising hydrocarbons in the UKCS has increased from over 50% in 2005 to around 75% in 2006. At the same time, the finding rate has also increased, from around 14 MMboe per well in 2005 to 23 MMboe per well last year.