GoM: Prospects

The US Gulf of Mexico (GoM) is no stranger to adversity. Over the last four years exploration and production (E&P) activity in the GoM has been paralysed by a string of setbacks that have acted to reduce capital investment and harm the region’s production profile. The trouble started in the latter half of 2008 as the credit crisis began to unfold. Crashing commodity prices and restricted access to capital slammed the brakes on upstream activity and 2009 proved to be a rather mute year. In the wake of this financial malaise the industry looked towards 2010 as a year of recovery. However, in April, the region was rocked by the Macondo tragedy. Deepwater E&P activity subsequently ground to a halt as President Obama’s deepwater drilling moratorium turned in to what the press coined the ‘permatorium’. Over 18 months has now passed since the deepwater Horizon incident, and the wider global industry appears to be on the verge of another strong growth cycle. The question is, will the GoM sustain the pace?

Pre Credit Crunch GoM

Prior to 2008 the Gulf of Mexico was a region in the ascendency. Whilst shallow water activity was experiencing long-term decline, the deepwater market was booming. By 2009 production from deepwater projects, specifically BP’s Atlantis and Thunder Horse, Shell’s Mars, Ursa and Auger, and Chevron’s Tahiti, began to provide significant returns. Indeed, these projects, amongst a host of similarly productive fields, reversed declining production rates and made 2009 the most productive year in the GoM’s history. Moreover, these deepwater fields played a pivotal role in reversing 17 consecutive years of decline as 2009 US crude production finished 8.2% higher than that of 2008.

However, in the latter half of 2008 the picture began to change. Falling commodity prices and restricted access to credit reduced activity in the Gulf as oil companies reduced their E&P budgets. At the same time the onshore shale industry drew investment away from the GoM’s shallow water regions. Finally, in 2010, the Macondo disaster and the ensuing drilling moratorium, brought activity to a standstill. Whilst field completions in 2008 and 2009 provided the impetus for 2010 to post another crude oil production record, a lack of investment in the region’s deepwaters would soon begin to have negative effects. Indeed, deepwater oil production in the first six months of 2011 finished 14% lower than the same period in 2010 – a direct result of reduced E&P activity bought on by the adverse market conditions and drilling moratorium.

2011 in Review

As 2010 drew to a close the Gulf’s oil industry was hoping and praying for a reversal of fortunes in 2011. However, 2011 kicked-off much like 2010 finished – with a severe lack of new permits being issued for deepwater drilling. Indeed, new deepwater permits remained unforthcoming throughout the first five months of 2011 and it wasn’t until June that things began to change.

Since June the issuance of new permits has increased substantially with October 2011 finishing higher than any month since December 2009. Moreover the number of new deepwater well spuds has increased in the last quarter leading to vastly improved utilisation rates for the region’s fleet of deepwater drilling rigs. The importance of the GoM to US crude production was underlined in June 2011 as ExxonMobil announced its Hadrian discovery which could be the most significant find since BP’s billion barrel Thunder Horse discovery in 1999.
On top of a recovery in well permitting and drilling activity a number of significant projects have been executed through 2011. New fields being brought on-stream have included Anadarko’s Callisto (MC 876), Helix Energy’s Phoenix (GC 238), LLOG’s Condor (GC 448), Eni’s Appaloosa (MC 460) and ATP’s Anduin West (MC 754). These five fields were developed via subsea tie-backs to existing platforms - an increasingly common development scenario as the region’s extensive infrastructure of floating production hubs and pipelines continues to grow.

In spite of recent difficulties the US GoM continues to set the pace in the development of the ultra-deepwaters. Indeed, in November 2011 FMC Technologies announced that one of its subsea trees had been installed on the Shell operated Tobago field at a record water depth of 2,934 meters. The new record surpasses FMC’s and Shell’s previous milestone of 2,852 meters on the Silvertip field. Both Tobago and Silvertip are part of the wider Perdido development, which also holds the record for the industry’s deepest platform installation at 2,438 meters.

Subsea tiebacks aside, a number of floating production projects have also progressed through 2011. The region’s first FPSO installation, the BW Pioneer, is installed on Petrobras’ Cascade field (WR 249) and, despite a number of setbacks, is expected on-stream shortly. The GoM is also playing host to two current TLP developments: Chevron’s Big Foot (WR 029) and Shell’s Olympus (MC 807-B). The US$4bn Big Foot project was sanctioned by Chevron in December 2010 and Daewoo Shipbuilding and Marine Engineering subsequently won the hull construction contract whilst detailed engineering for the topside went to KBR. Big Foot is expected on-stream in 2014.

**A look forward - 2012 and Beyond.**

While 2011 can be summarised as a year of partial deepwater recovery and continued shallow water stagnation, 2012 stands to be much more positive, in the deeper water at least.

Here, Infield Systems’ forecasts upstream Capex to increase by as much as 38% year-on-year in 2012 as operators push forward with their development plans and execute projects that have been delayed due to the drilling moratorium.

More broadly, GoM offshore Capex is forecasted to increase from US$9 billion in 2011 to over USD12.5 billion per annum by 2015. Deepwater (more than 500 metres) activity is expected to account for over 76% of total North American offshore infrastructure investment to 2015, with pipelines, subsea equipment, and floating platforms forecasted to assume 94% of this spending.
Over the next five years a forecasted 49 deepwater fields are expected to be brought in to production in the Gulf – the majority of which are expected to consist of subsea tiebacks to existing fixed and floating platforms. The relatively shorter lag time (the delay between discovery and development) for these projects will help to sustain production rates in the near-term. In the longer-term, major project developments, including the installation of a forecasted 13 floating platforms (five TLPs, five Semi-subs and three Spars) by 2016, will provide the additional capacity required to push GoM crude production above and beyond its 2010 record.

**Political Will**

On March 30th 2011 President Obama addressed Georgetown University in Washington and announced his administration’s target to reduce US oil imports by a third over the next ten years. To help achieve this ambitious goal the president outlined a three part strategy which focuses on the development of domestic energy reserves, increasing fuel efficiency and encouraging the growth of renewable technologies. Given the longer-term nature of the latter two, Obama must be placing a central emphasis on increasing the domestic production of identified resources. Therefore, crude reserves in the GoM will be right at the very heart of this strategy. Indeed, Department of the Interior Secretary, Ken Salazar, recently announced a new GoM lease sale to take place on December 14th, 2011. The political will is clearly there, but we’ll have to wait for the sale’s results to know if operators have the same appetite.

Whilst the GoM has admittedly seen tough times in recent years, political will power is now starting to suggest a much more positive future, and it is hard to envisage a future for US oil production and consumption without deepwater E&P activity at its core.