Independents are assuring the North Sea’s future

A “NEW” GROUP of companies is moving into the North Sea, companies with different economies of scale that can make a profit from assets steadily dropping on major operators’ list of priorities.

Independents are scooping up assets deemed uneconomical for major operators. These independents will likely provide a new lease on life to the “aging” North Sea for many years to come.

NEW E&P OPPORTUNITIES

The Fallow Initiative, together with the Promote License, and the divestment of assets by major oil companies, provides independents with the opportunity to either gain a foothold or to increase their stake in the North Sea.

Gaz de France, Apache, Talisman, Venture, Tuscan Energy, EnCana, and Paladin, to name but a few, have all benefited from majors selling off unwanted assets.

Gaz de France acquired a 55% stake and operatorship of the Anglia gas field in the southern North Sea in May 2002 from CalEnergy. Almost immediately Gaz de France drilled a new well that was completed last January from the platform. The company is examining further redevelopment of the field with the possibility of drilling two more wells beginning in early 2004.

The well drilled from the platform last year was a sidetrack of a junked well. The two new wells could be drilled from a mobile rig and tied into the platform via subsea completion.

Gaz de France also owns interests in more than 50 UK exploration licenses including several as operator. “We may be drilling an exploration well at the end of this year,” said Chris Clay, Asset Manager for the Anglia field.

“We also have some interest in predevelopment projects, including one that is on the median line between the UK and Dutch sectors.”

One reason for the Anglia field acquisition is the company’s goal of supplying 10%-15% of its own future supply of natural gas rather than having to purchase gas to supply its customers. To that end, the company also made acquisitions in Germany, Norway and North Africa. There likely will be future acquisitions.

Secondly there is an issue of margins. “If you think you can operate fields more economically than some of the majors,” Mr Clay said, “then that is where you can realize extra value.”

“Independents are more nimble in terms of their ability to make decisions and act upon the opportunities,” he added.

“The company is still trying to build up its business,” Mr Clay said, “and to a degree it is opportunity driven. If these opportunities come up in terms of other majors exiting (the North Sea), then we will certainly look at whether that presents an attractive opportunity.”

“Are we looking at projects that have probably much more modest value in terms of present value but still can generate very good, not better, rates of return,” Mr Clay explained.

“If companies can have the right focus and act on opportunities fiscally,” he continued, “the UK is still attractive. Financially, there probably aren’t going to be big projects anymore, but the returns on modest investments are still going to be quite high if you pick the right project.”

Apache earlier this year closed the acquisition of the Forties field as part of a $1.3 billion deal with BP for North Sea and Gulf of Mexico properties. The Forties assets were valued at approximately $630 million. The acquisition provides Apache with a 96% interest in the field.

“The Forties field has more value for us than it did for BP,” said Mike Harris, Director of Worldwide Drilling for Apache Corp in Houston. “With our operations and our different economic hurdles, we think we can make Forties economical for us.”

Part of that, Mr Harris said, is due to changes in the UK tax regulations making it advantageous to own properties if the operator is willing to spend money on them.

“We are willing to spend money on Forties,” Mr Harris said, “and BP has other things it wants to spend money on.”

Apache is presently in the midst of planning further development of the Forties field. Drilling is anticipated to begin in 2004. Options being explored include drilling additional development wells from the platform. Additional possibilities include drilling development wells with a mobile rig, possibly completing wells subsea tied back to the platform.

Apache is also on the lookout for additional acquisitions in the North Sea. “We will look at anything anybody wants to spin off,” Mr Harris said.

CANADIAN INDEPENDENTS

Canadian independents also find the North Sea attractive. Canadian Natural Resources (CNR) and EnCana have taken acreage positions in the area with acquisitions of producing properties and exploration prospects.

CNR’s strategy has been to boost its interest in North Sea fields in which it already was a partner. The company’s plan includes establishing control of core assets, adding value through cost reduction and capitalizing on exploitation and other acquisition opportunities.
In the Murchison hub area, CNR plans to drill 10 wells. Another eight are planned for the Ninian field and three for the Columba fields.

“We already understand these assets as we currently operate the Columba fields,” said CNR Chairman Alan P Markin, “and believe we can continue to add value and maximize reserves recovery through ongoing investment and active reservoir management.”

“We will also review the potential of the exploration acreage being acquired,” he continued, “as these interests have the potential to further extend the economic lives of the Ninian and Murchison production facilities.”

EnCana was formed in 2002 through the merger of PanCanadian Energy Corp and Alberta Energy Company Ltd. PanCanadian launched the original strategy to establish itself as a North Sea producer and grow its net operated production through exploration and strategic acquisitions.

The company’s interest in the region was driven by its explorers view that the North Sea, considered by some to be in decline as a hydrocarbon producing region, in fact presented new exploration potential.

Applying some new ideas about the region’s geography led to discovery of the world-class Buzzard field in 2001. Last year, EnCana completed an extensive appraisal program on Buzzard, and the development project is moving ahead.

Company officials characterize EnCana as “an opportunistic acquirer” that intends to build its North Sea assets into a core production region.

EnCana plans to drill at least five exploration wells per year in the Central North Sea.

Petro-Canada, one of Canada’s largest integrated oil and gas companies, also has been drawn to the North Sea. The company expects that knowledge it has gained working offshore Canada will serve it well in its North Sea activities.

Last year, the company boosted its ownership of the Clapham field to 100% by acquiring Shell and Esso’s license interests, and then fast-tracked the development.

Appraisal drilling began in September, and field development approval was received from the UK government in December; peak production of 15,000 b/d is expected this year.

“We have shown what can be achieved in a short time frame with focus, innovative thinking and a skilled and motivated team,” Petro-Canada President Norman F McIntyre said of the company’s first operated North Sea project.

The company expanded its presence further in the North Sea and internationally with the acquisition last year of most of the oil and gas operations of Veba Oil & Gas.