UK oil and gas production decline slows as investment rises by 60 per cent

2011-04-06 09:00:00 by Rons_ROV_Links

Capital investment in UK oil and gas exploration and production has increased by 60 per cent over the last two years, significantly slowing the rate of production decline from the UK continental shelf (UKCS), according to Oil & Gas UK's latest Activity Survey, published today (23 February 2011).

The survey, which incorporates the latest exploration, investment, production and decommissioning data supplied by all the leading exploration and production companies operating in the UK, suggests that investment, which in 2009 was just under £5 billion, could increase this year to around £8 billion (2010 prices). Provided all the development plans now being considered by companies come to fruition, annual investment could be sustained at this rate for the next five years. This will have a significant impact on the country's hydrocarbon production and could ultimately lead to the decline rate halving to around 3 per cent per annum to 2016, down from the basin's yearly average decline of 6 to 7 per cent over the past ten years. The investment could also lead to a further 10 -15,000 jobs in the supply chain across the UK.

Investment has been boosted by the approval of a number of new large field developments in the west of Shetland, the central North Sea and to a lesser extent, in the northern North Sea. Investment was initiated in thirteen new oil and gas fields in 2010 together with four major redevelopment projects on existing fields. There are also 67 potential new field developments with recoverable reserves of 3.1 billion barrels. The ten largest account for over 60 per cent of forecasted capital expenditure: four of these are west of Shetland, three in the central North Sea and three in the northern North Sea.

The sector has weathered the financial difficulties of 2008/9 to emerge as an industry with a vital contribution to make to the UK's future economic development as a strong source of primary energy, tax revenue, skills and technology.

Malcolm Webb, Oil & Gas UK's chief executive, said: "The importance of the UK's oil and gas industry in helping to rebuild Britain's economy must not be overlooked. Last year, the industry satisfied around 60 per cent of our energy needs, invested £6 billion, spent another £7 billion on operations, paid over £9 billion in tax and supported around 440,000 jobs.

"This is an encouraging illustration of what focused engagement with the Government, targeted investment incentives and most importantly fiscal predictability can achieve."

In 2010, the UK produced 850 million barrels of oil and gas equivalent (boe) or 2.3 million boe per day. Current plans now target reserves of 11.6 billion boe, 1.3 billion boe more than was anticipated a year ago, reflecting the outcome of increased exploration and appraisal activity across the UKCS and particularly West of Shetland. Oil & Gas UK believes there could be up to 24 billion barrels of oil and gas still to recover from the UKCS.

2010 saw 62 exploration and appraisal (E&A) wells drilled compared with 65 in 2009, with two thirds of these being exploration wells. Around one in three wells was successful, adding 300-400 million barrels of oil and gas to UK reserves. Oil & Gas UK anticipates a similar number of E&A wells in 2011 and forecasts E&A spend to exceed £1.3 billion, with most of this increase coming from exploration drilling and seismic surveys.

The survey also highlights the mature, high-cost nature of the UKCS basin. Unit operating costs have risen on falling production by 10 per cent in 2010 and new discoveries, while sizeable and numerous by recent standards, were materially smaller than those found in younger oil and gas provinces elsewhere. The industry also faces decommissioning costs of £29 billion over the next thirty years, an increase of 11 per cent over last year's forecast.

"Despite the current upturn, the UKCS faces a daily battle to remain competitive and any barrier to investment, whether under the control of Government or the industry, must be addressed," says Malcolm Webb. "The UK's need for oil and gas will not abate over the next ten years and will do so only gradually thereafter. We must ensure that as much as possible of the oil and gas we use is produced here to support this country's economic recovery and to improve our energy security. Otherwise, the UK will miss out on valuable tax revenues, jobs and technology development. It is therefore imperative that we build on the good progress made in our dialogue with Government to address remaining areas of uncertainty which may deter investment.

Mr Webb concluded: "There is huge potential in the UK's oil and gas province, as well as significant challenges. If the Government and industry works closely together to address these, this survey shows that we have the capability and resources to drive economic growth for decades to come, ensuring the UK oil and gas industry remains a significant sector well beyond 2030."