



## A belated response to CGES

Posted by [Heading Out](#) on September 6, 2006 - 10:57am

Topic: [Supply/Production](#)

Tags: [cges](#), [chevron](#), [insurance](#), [jack 2](#), [mars](#), [thunder horse](#) [[list all tags](#)]

While I was gone Dave kindly replied to Dr Drollas' [comments](#) to my post regarding [Depletion and the CGES](#). Since today was the day that Chevron announced the [Jack prospect test result](#), it might be considered that this speaks more to his argument than mine. The well showed that from about 40% of the pay zone they were flowing 6,000 bd, and a second well to further define and appraise the field will be drilled next year.

Further within the considerable comment that has been provided on a number of stations was the comment that this is the "final frontier" for oil exploration. Actually it probably isn't. There are still some places further North that have not yet been fully explored, but it is getting very close to the limit of where we can afford to economically look. We are, by the geological definition of where oil is likely to be found, starting to run out of places to look for these large fields.

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Today's find was a record in a number of ways

More than a half a dozen world records for test equipment pressure, depth, and duration in deepwater were set during the Jack well test. For example, the perforating guns were fired at world record depths and pressures. Additionally, the test tree and other drill stem test tools set world records, helping Chevron and co-owners conduct the deepest extended drill stem test in deepwater Gulf of Mexico history.

The oil that was found was thus expensive to find, and will also be expensive to produce. It is also far enough out into the Gulf that the platforms that will produce it will run into the same risks that hit [Thunder Horse](#) and the [Mars](#) platforms, and which, should more hurricanes hit the area, may make it more difficult to [find insurance](#).

"The harsh reality is that there's just not as much insurance available this year as there was last year," said Al Reese, chief financial officer at ATP Oil & Gas, based in Houston. "There are some companies that only got limited coverage or were unable to obtain coverage at all this year. It's very, very scary."

The problems of getting insurance for work in the GOMEX were discussed [last October](#), again in [March](#) and are unlikely to have eased since then. Remember that over a hundred rigs were lost to hurricanes last year and that more damage in the future is going to make the problem of getting insurance only worse.

Deep water fields (and this I heard today referred to as very deep water) have been expected to provide a blip to world production as it was found, but the number of places to look are limited,

depending as success does, on suitable geology. This is now starting to be produced around the world, including those fields listed offshore Brazil, and various countries of Africa.

The advent of Peak Oil does not say that discoveries will stop, nor that the world does not have significant amounts of oil left, both to find and produce. Rather it marks the point where production reaches a maximum, which may be only indirectly related to the remaining size of the reserve base. (From the point of view that it is more directly related to the mechanics of production). And production from very deep water may be slowed for a variety of reasons. And interestingly, since the field will not be more fully defined until more wells have been sunk and appraised, will it be entered into the books as a 3 or a 15 billion barrel field? It has, after all, not been that long since there was a large find reported down [Mexico way](#).

Which brings me back to the discussion on depletion and reserves that I started with. And rather than reiterate again in detail what has been said, let me try and simply explain my comment about "overbounding simplification."

Reserve additions each year come about either from the finding of new fields or by re-assessing the amount of oil that exists/can be recovered from existing fields. Depletion of reserves occurs when the amount added is less than the amount that has been produced. That is the simplicity of the CGES argument. However, by going back to 1954 and comparing overall numbers this hides within that summation any trends in the data that have developed over this time interval.

Further, and I tried to illustrate this by reference to oil fields in KSA, the estimated reserve growth can be achieved not by finding new fields, nor by finding that the field is bigger than before, but from an assumption that more oil can be extracted from the same overall Original Oil In Place. No more oil has been found in this case, it is merely assumed that a greater percentage can be recovered and thus the reserves grow. Well they sometimes can, but as Shell learned at [Yibal](#) sometimes they can't, and the reserve estimates are overstated. That was the concern - I expressed it with the note that recovery factors for the KSA fields had been increased, except for the Abqaiq field, the one closest to being fully extracted, where the recovery factor was lowered.

Because CGES just built in changes in reserves without indicating the potentially questionable nature of some of the ways in which reserve values have been added, they glossed over (oversimplified) the situation in a way that left, to my eye, a somewhat rosier picture of the future than seems justified.



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