



Shhhh! Maybe they won't notice

Posted by [Heading Out](#) on September 28, 2005 - 12:44am

Topic: [Supply/Production](#)

Pssst! Has everyone gone to bed? Can I whisper?

"Maybe he's right?"

Who's he? Actually Ali al-Naimi at the World Petroleum Congress in Johannesburg. And I am urging a bit of caution, from the other side this time, about the announced increase in Saudi reserves that has been debated already, just a little further [down the page](#). And here is why. Firstly although, based among other things on the recollections of ex Saudi-Aramco employees posted at one of their sites, they have done extensive aerial surveying of the country in the past to determine where the major fields are, they are now, presumably with the latest techniques, refining those surveys with 3-D seismic profiles and can obtain more accurate assessments of the sizes of their fields. Further at \$60 - \$80 a barrel for oil (they have the reserve, they decide the price) a significant amount of what might have been difficult oil to get (along the lines of the Haradh development, for eg) economically in the past may well now be considered, to be countable. And in addition, they have some new technologies that they are fielding, the intelligent well program for example, that may allow them to have a better control over getting oil from wells in late stage production. And of all the folks around, these have been as aggressive as most in funding some of this new technical development. So it may well be that all these issues have come together all at once to allow them to re-evaluate their overall absolute ultimate production levels. And so to cheer some folks up, they put it all together and make this announcement.

So, sayeth the audience, is this his resignation letter ? Will Heading Out be heading out, and joining the Dark Side? Has that little worm turned one time too many?

Err, no, not exactly. Because actually nothing much has changed. In fact since last week, our situation, and theirs, has got a fair bit worse. Unlike a number of others who work everything to the proven reserve numbers, I have been more focused on the more immediate term. Saudi Arabia may (as Colorado does) have lots more oil than it is currently producing. But if it is not readily producible at high rates of production (as for example the oil shale in Colorado isn't) nothing much has changed. Now if Saudi government fund a refinery to process the Manifa oil, then the world gains a million barrels a day of oil, that it currently doesn't have. Then I get a bit more excited. But, in reality, I don't see anything in this speech that helps the situation. (And if they start building that refinery now, as they may be, it will still be a few years before we see anything significant flowing into a tanker).

In earlier posts the need for oil rigs has been postulated as a vital pre-cursor to production. Aramco do not have enough to meet their current targets and have borrowed some and ordered others, to help meet a target that I have seen promised as 11.8, 12 and 12.5 mbd within the past week. (And since that target is 5 years from now, and they have admitted to about 1 mbd of depletion a year in current production, that means they have to actually drill new wells to

And what is the situation with oil rigs ? If I may steal a quote from the [FT article](#) that Prof G just cited.

High oil prices and the desperate search for new oil supplies needed to meet rampant demand from the US and China have made rigs difficult to find and expensive to hire. Rigs cost \$90m-\$550m to construct, depending on how sophisticated the structure and how deep the water in which it will drill. A rig ordered today is unlikely to be ready before 2008 or 2009, analysts said.

As a sign of just how precious rigs are becoming to the market, Anadarko, the biggest US independent oil company, this week set a record by committing to a rig six years in advance; commitments in the past were made months ahead of time rather than years.

Initial reports from companies are ominous. Global Santa Fe reported it could not find two of its rigs. Rowan Companies reported four rigs damaged, with two having moved, one losing its "legs" and the fourth presumed sunk. Noble has four rigs adrift, with two run aground one into a ChevronTexaco platform.

And there are a number of other grim numbers out there, not only from Rita, but also from Katrina. Remember that the Saudi were going to borrow 5 rigs from the Gulf - I wonder if they left yet?

So if they can't get enough rigs before the end of the decade, then by the time they can further increase production up to even 15 mbd we'll be well into post peak concerns and so their reserves will be of even more value, and thus they may, at that time be able to declare more formations producible. But it really doesn't change where we are today one iota. (And yes I am aware that the article discusses offshore rigs, and part of Saudi production is onshore. However the scarcity of rigs and support infrastructure is general).

So why did he say it? Along with much of the rest, I guess it was aimed to be one of those "don't worry, children, Daddy's here" type speeches. There is some need to stop governmental concerns about world oil supplies from getting out of hand. Will it be successful in that regard. It hasn't been to date, and we haven't heard all the results of the damage and losses from the Hurricane Season yet. Until we do, then the true situation will remain unclear. But I have to say it does not look all that good.

And if I could end with a hint. At this stage in the battle of credulity, it is rather futile to any purpose just to say "We found more oil." In the same way as they have spelled out where their increased production will come from, it would be helpful if there were some indication as to where these new resources are, and in what form.



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