From One of Our Insiders: Some Thoughts and Data about Prices and Exploration

Posted by Prof. Goose on November 1, 2005 - 4:01pm
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I know the argument is consistently made that higher prices ALWAYS bring on increased exploration. It is also argued that higher prices make things more economical.

Tubulars (pipe) are up 300% with a waiting list for delivery. We have numerous projects pushed out due to delivery of tubulars already, and hurricane repairs are also being slowed by lack of tubular inventory and steel products. Cement and mud costs have doubled in 2005 as well.

The fallout in prices from Katrina/Rita/etc. in terms of jackup rig **daily** costs going into 2006 is:

H2O Depth	2004	2006
200	$30K	$90k
300	$35k	$130k
300+	$42K	$150k

The numbers for each project scheduled for next year have been rerun with these newer costs, and the higher costs have resulted in a preliminary project death rate of at least 25%. For those interested, this includes moving the expected sales price of the oil upwards to between $30-$40/bbl. Even with the new income calculations, many projects are simply too small to provide profit. Thus our project portfolio is actually shrinking in the face of current prices.

Small pockets of oil will not be worth recovering until the price of oil reaches a level of between $100 and $150/bbl. At those prices, rig costs begin to recede in importance. At current prices, it simply means that there aren't enough economic reason$ to drill and produce small fields or additions.

Now, think this through carefully. What happens now?