EAG/15/03

DTI Exploration & Appraisal (E&A) drilling survey 2003

The Department recently carried out its annual voluntary survey of operators' intentions to drill exploration and appraisal (E&A) wells on the UK Continental Shelf (UKCS). Operators were asked as usual to give their intentions to drill E&A wells (excluding sidetracks) during the current year and the two following years under four areas: Southern Basin; Northern and Central North Sea (NNS&CNS); West of Shetland (WoS); and Other offshore UKCS. Operators assessed their intentions for E&A wells under three categories: certain, probable and unlikely (with a probability of 0.9 for the certain category, 0.5 for probable and 0.1 for unlikely). These probabilities were used to calculate expected intentions. A further question asked operators for estimates of expenditure up to 2006.

Summary of results from the 2003 Survey

Survey results show total intentions are some 20% lower than total intentions in the 2002 survey. Total intentions are low compared to recent surveys but close to the 1999 survey (i.e. with some 76 wells expected in the period 2003-2005 against 81 in 1999-2001).

The 30 wells expected in 2003 are close to the 32 E&A wells actually drilled in 2002 (excluding sidetracks).

Expectations for expenditure continue to be around £0.4 billion in the near future.

Expected E&A drilling

The table below shows the number of wells expected each year (weighted by the probabilities given above), together with the actual numbers drilled each year since 1996 for comparison.

- 'NNS&CNS' remains the area with the highest expectations; however, their proportion of wells drilled has declined from the year 2001.
- Activity in the West of Shetland looks likely to be slightly lower than in 2001 and 2002.
- Activity in the Southern Basin is expected to remain steady at the levels seen since 1999.

Table 1: Drilling Intentions by area

	Actual Wells Drilled							Intentions		
	96	**97**	**98**	**99**	**00**	**01**	**02**	**03**	**04**	**05**
Southern Basin	16	21	13	6	6	6	7	6	5	5
NNS&CNS	67	51	38	23	31	29	20	20	17	14
WoS	9	8	6	2	7	4	4	3	2	2
Other offshore	10	2	2	0	1	1	1	1	2	0
Total	**102**	**82**	**59**	**31**	**45**	**40**	**32**	**30**	**26**	**21**

Accuracy of surveys

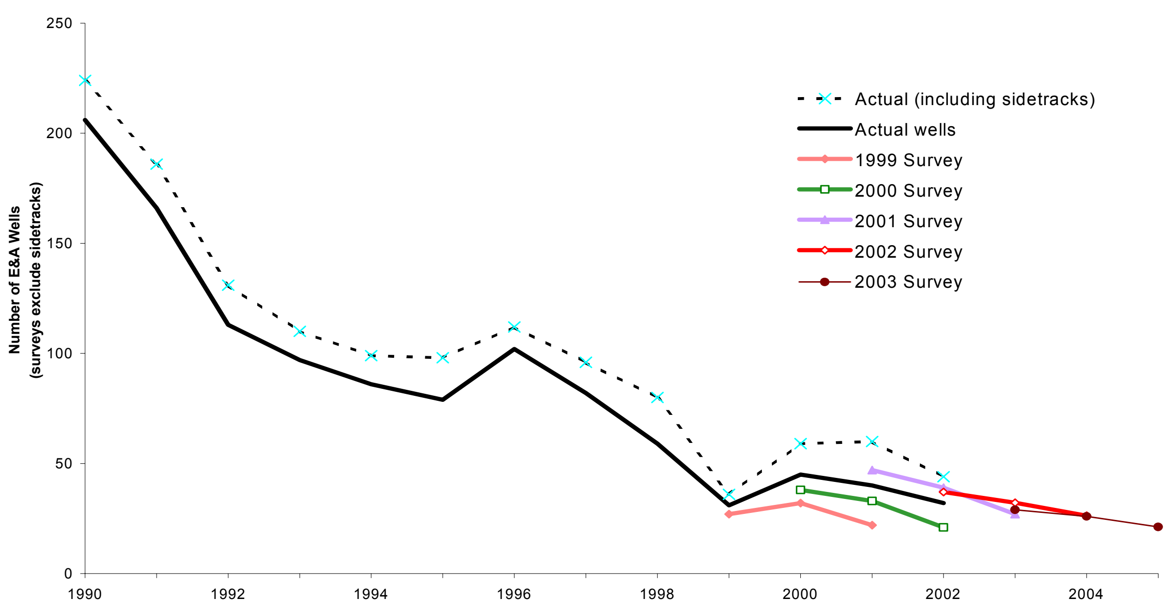
Table 2: Actual drilling against first year expectations

	Drilled	Expectations
1994	86	81
1995	79	112
1996	102	93
1997	82	90
1998	59	91
1999	31	27
2000	45	38
2001	40	47
2002	32	37

The table above shows the number of actual E&A wells drilled together with expectations. The number of E&A wells drilled in 2001 was lower than expectations for the time since 1998. The 2002 survey also has the number of E&A wells drilled lower than expectations, with both years some 15% lower than expectations. Since the overestimation of 1998 it may be possible that operators are beginning to have lower expectations and subsequently may even underestimate in the future.

The following chart illustrates results from recent surveys, together with actual wells drilled (the fall shown over the forecast period of most surveys is expected since operators cannot assign wells a high probability of being drilled more than a year ahead):

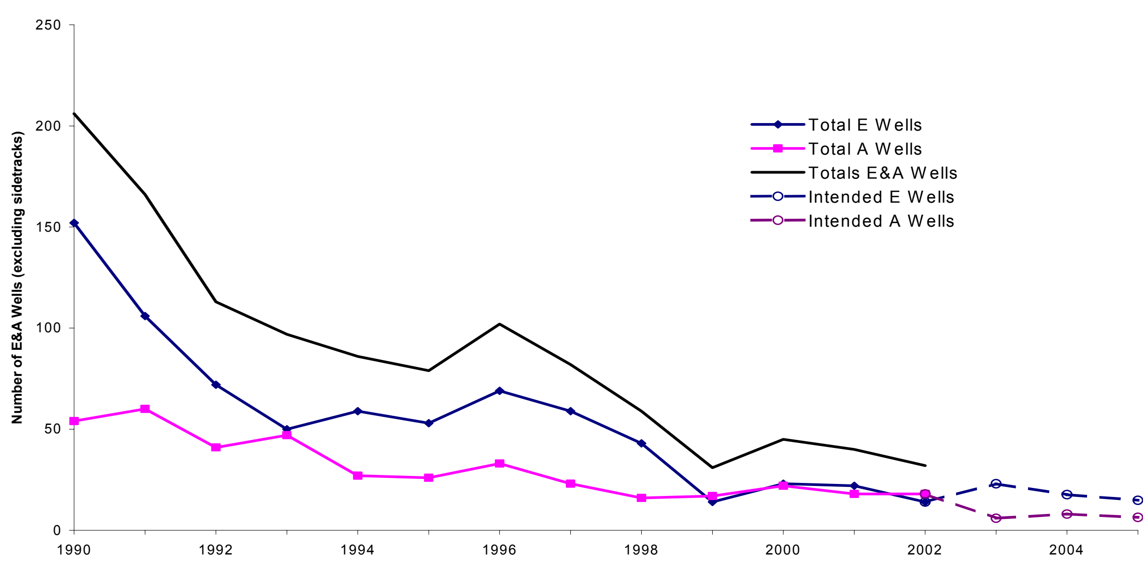
Chart 1: UKCS E&A drilling. Actual wells & recent survey results



The chart above shows that drilling levels are lower than in the previous survey (by some 20% in total) but the 2003 survey is approximately at the drilling levels shown in the 1999 survey. It should also be noted that the 2001 survey looks optimistic compared with the other surveys shown, and that the actual wells drilled in 2002 are close to the expectation of the 2002 survey.

E&A drilling

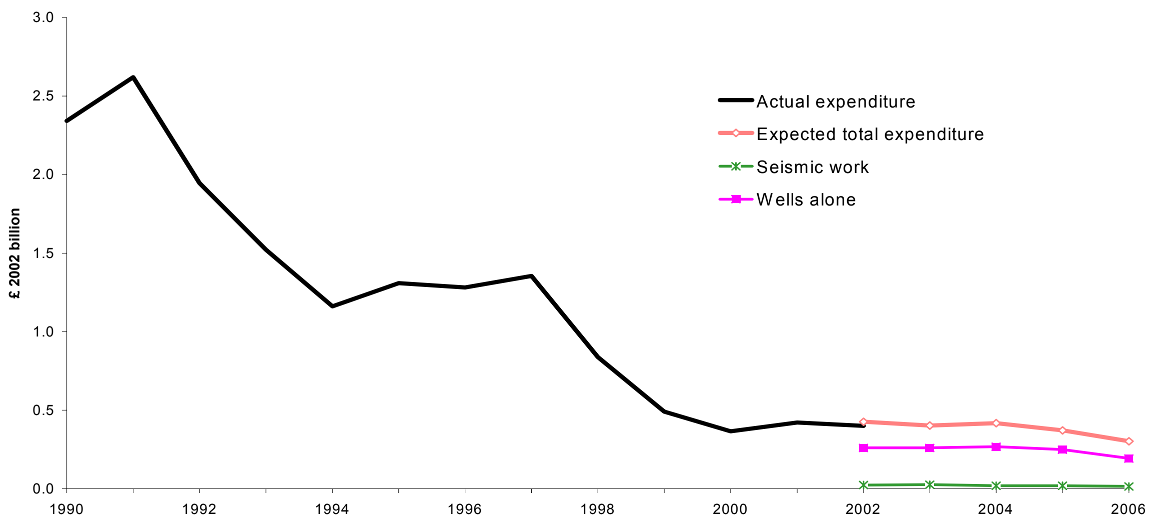
Chart 2: UKCS E&A Drilling. Actual and Intentions



This survey additionally asked for the number of Exploration wells intended. The chart above shows the E&A drilling levels divided into Exploration and Appraisal wells, together with the current survey results. The numbers of E wells and of A wells drilled have remained relatively steady since 1999. However, the intentions indicate a possible increase in Exploration drilling and a decrease in Appraisal. Intended E wells form between 69% and 79% of total E&A drilling.

Expected expenditure on E&A

Chart 3: UKCS E&A Expenditure. Actual & expected split by E&A



The chart above shows that operators expect total expenditure on E&A in 2003 and 2004 to remain around £0.4 billion, and fall only slightly to £0.37 billion in 2005 before dropping back to £0.3 billion in 2006.

Expenditure on wells forms between 61% and 67% of the total cost, and expenditure on seismic work forms between 5% and 7% of the total cost. The proportion of expenditure on wells against the total cost has increased slightly from the 2002 survey; while the proportion of expenditure on seismic work against the total cost has decreased.

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