EIC INSIGHT REPORT UPSTREAM

Executive summary

With oil prices rallying above US$70/barrel towards the middle of 2018 there has been reason for optimism across the oil and gas industry. If these higher prices remain and recent efficiency improvements across the UK sector are maintained, activity on the UKCS should rise.

The Oil and Gas Authority estimates the overall remaining recoverable reserves and resources on the UKCS range between 10 and 20bn barrels of oil equivalent (Bboe). It estimates there are approximately 5.7Bboe of proven and probable UK reserves. These figures show that there is still significant future opportunity on the UKCS and that the basin has the capacity to sustain production for at least the next two decades.

Around 39 new fields were brought onstream between 2010 and 2014, while over the same period 2.6Bboe were sanctioned for development. However, these increases in production and the start-up of several large projects mask an overall reduction in investment in new projects. The UK has experienced a year-on-year decline in new projects approved for development. However, the UK sector is set for a resurgence in field investments during 2018 with as many as 13 projects likely to be sanctioned, compared with only four over the past two years. The largest of these projects will be Shell's Penguins field north-east of the Shetland Islands. The oil major approved the redevelopment of the site earlier this year, marking its biggest investment in the North Sea for six years.

The UK oil and gas supply chain has faced a tough period as revenues fell by more than £10bn from 2014-16. However, as companies have learnt to adapt to the new environment, revenues have stabilised over the past year. This highlights the work companies have done to manage their cost base. Innovation in digital and technology, diversification into other related sectors and realignment of portfolios through mergers and acquisition have been vital in allowing the supply chain to adapt to this environment.

Operators have indicated that this free cash flow generated is expected to be reinvested in new projects in 2018 as companies focus on investment instead on rebalancing their finances. Reinvestment in new developments may increase over the next two years if long-term confidence in the oil price continues to improve. However, as companies prioritise their portfolios the future will likely see a number of mergers, acquisitions and asset transfers. Recent deals offer the opportunity for new owners to invest in and grow assets, signalling a strong vote of confidence in the UKCS.