

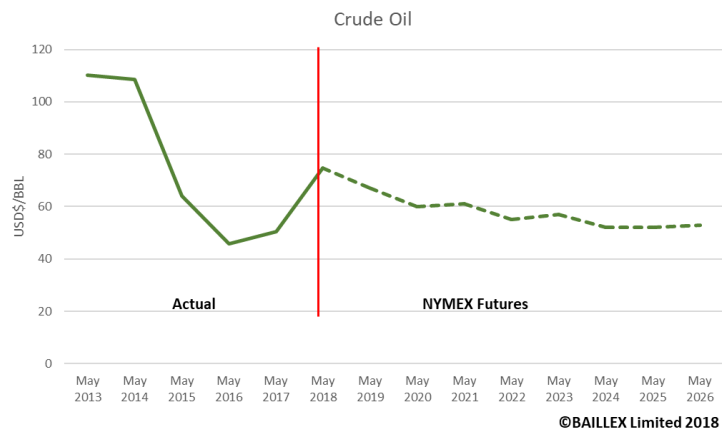
To decommission or not to decommission, that is the late-life question...

For the North West European Continental Shelf (NWECS) late-life and decommissioning market, the first half of 2018 has shown itself to be an interesting balance between the enthusiasm of increased near-term activity and the growing uncertainty created by operators selling assets in an improving market. This market, heavily influenced by the higher oil price, has provided most operators with improving cashflow, debt reduction options and the opportunity to once again plan and carry out exploration & development activity. It is far from a rush to spend the money and more of a crawl in the right direction.

Many other commentators will spend considerable effort in trying to qualify and quantify the impact the changing oil price may have on development activity, whereas, Baillex offer a view on late-life and decommissioning activity. As noted above, the improving oil price is a key driver and is, at time of writing, hovering close to \$80/bbl, field economics are significantly better compared to recent history. With higher oil prices and lower operational costs, operator profitability is greater than at any other time in the past decade.

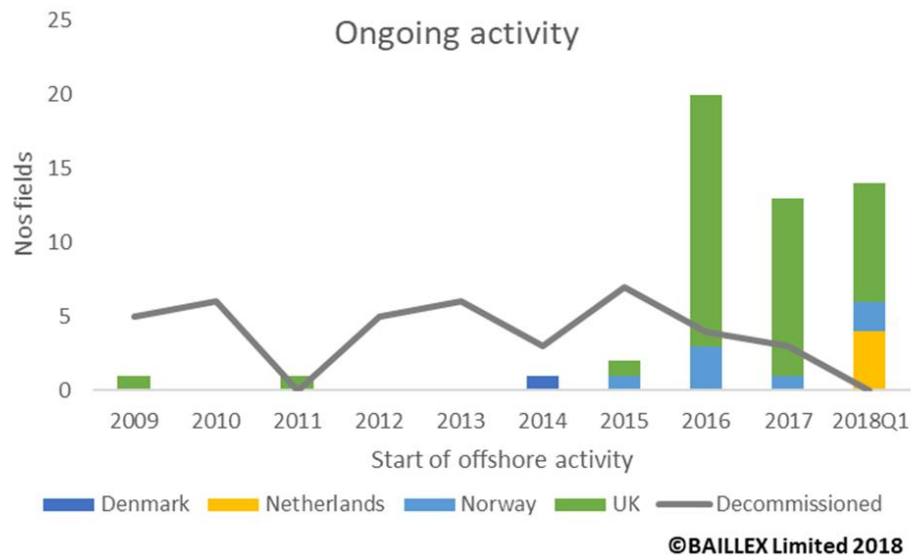
Over the medium term, the wider markets have a lower oil price expectation than we currently see in the market, Nymex Futures suggest an oil price in the mid-\$50/bbl through the early to mid-2020s. If we assume that the current low operational and decommissioning costs are only going to rise, then now would seem like the best time to carry out decommissioning activity, or is it? In reality, the current oil price, low operational and decommissioning costs may actually drive decommissioning activity, beyond 2020, further to the right, hence the uncertainty going forward.

While some decommissioning projects have been delayed due to cash flow constraints, it is easy to assume that an improving financial situation will move on these delayed projects and improve the late-life/decommissioning market. For those operators, where cash flow has been identified as a key driver, we have yet to see any notable change in position. It looks like paying down debt and building up cash reserves are still higher priorities than starting previously delayed decommissioning projects. Many of the fields with delayed decommissioning have already ceased production, so it will be interesting to see how long the regulators allow them to wait before forcing a start of decommissioning. We will continue to monitor activity and track changes and report if the trend of delay continues.



Oil price futures. Source: NYMEX Futures

There is also the selling of North Sea assets to consider. With the current oil price close to \$80/bbl and futures suggesting a lower price going forward, it is of no surprise that some major operators are looking to sell off some of their North Sea assets. Led by the major operators, Chevron, ConocoPhillips, BP and Total, a notable number of NWECS, asset sales and ‘swaps’ are underway or in planning. It is likely that many of these fields will be taken over by smaller independent operators, who will look to extend the life and further delay decommissioning activity.



Ongoing decommissioning and planned decommissioning activity. Source: Baillex Limited

Current and Future Activity

The first quarter of 2018 has shown an increase in actual decommissioning activity, as an additional 14 offshore fields have moved from the *'planned decommissioning'* stage to *'ongoing decommissioning'*. There are now 53 fields across NWECS with ongoing decommissioning activity. By the end of 2018 this is likely to be close to 60 fields, with a further 25 likely to start in 2019 and another 33 in 2020. It is therefore likely, that within eighteen months, we will have around a hundred fields with ongoing (or recently completed), decommissioning activity.

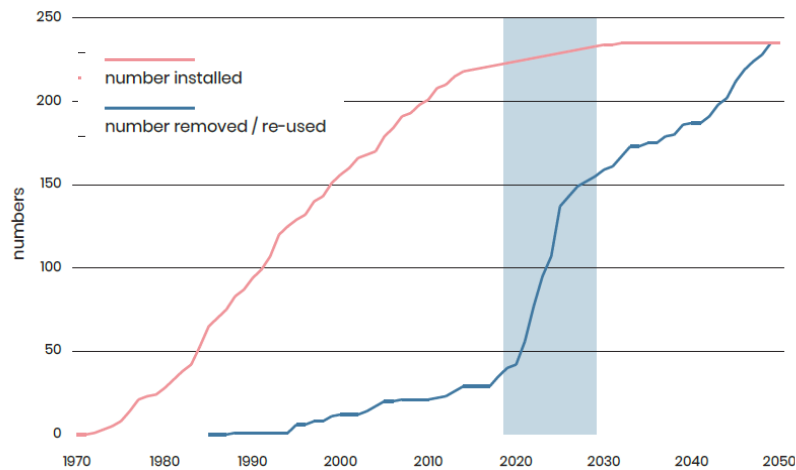
Almost all of these additional fields are in the *'planned decommissioning'* phase, with a high degree of confidence that these plans will translate into actual activity backed up by awarded contracts. We therefore have a more robust near-term (2018/19/20), market assessment with increased confidence in planned activity, whilst in contrast, plans for 2021 onwards looking more likely to move to the right with increased delays.

In line with forward views on decommissioning activity, Baillex's OFS Reality™ model has a late-life and decommissioning market that increases in near-term activity with greater volatility beyond this period. As the current late-life and decommissioning market has no historical precedence, the techno-economic assessments that underpin published views on dates and status are increasing complex and volatile. A point reinforced in published reports from various Governmental and Non-Governmental bodies. Baillex will continue to refine the OFS Reality™ model but the latest assessments combined with the trending delays of post-2020 activity suggest that rather than a large

single peak of activity, we are more likely to see an increase to around 50 fields a year starting *substantive* offshore decommissioning activity and then a more stable 40-50 fields per year all the way through to 2030.

The Netherlands Decommissioning Market

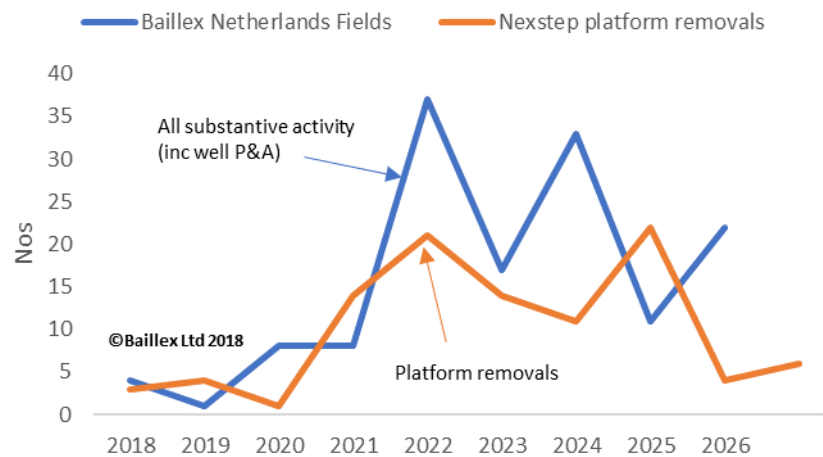
Early July saw the publication of Nexstep’s ‘*Re-use & Decommissioning Report 2018*’, providing an updated summary of activity across the offshore oil & gas sector for The Netherlands. In a similar style as the OGUK’s ‘*Decommissioning Market Insight*’ reports, the *Re-use & Decommissioning Report 2018* provides a range of useful statistics and data points built from Operator’s submitted plans but due to commercial confidentiality, does not provide the individual fields or operator’s identities. Detailed field-by-field data is available from Baillex Limited for those who require more than summary data or trends.



Nexstep Netherland platforms - Source: Nexstep, Re-use & Decommissioning Report 2018

Nexstep portray a clear expectation of dramatically increased decommissioning activity throughout the period 2020-2030 across the Dutch sector, as illustrated. In detail, there are more fields and platforms expected to be decommissioned across the Dutch sector in the next five years than in the previous two decades of decommissioning activity.

The Nexstep report acknowledges the challenges of providing robust techno-economic assessment but expects operators to change their plans (what is happening across the rest of NWECS). In summary though, there are some clear trends emerging across the late-life and decommissioning market in The Netherlands. The first clear trend is an expectation of significantly increased platform removal activity from 2021 onwards. In the Dutch sector, the majority of offshore wells are platform wells (on a host field or extended reach drilling (ERD) to near-by fields), so it follows that well P&A activity is also expected to increase from 2020 onwards as a prelude to platform removal.



The Netherlands fields and platforms decommissioning. Sources: Nexstep and Baillex Limited

Across The Netherlands offshore sector there are only eleven operators with over 200 fields. Of the eleven operators, five (Total, NAM, TAQA, Neptune and Wintershall) operate 85% of fields and much of late-life and decommissioning activity through to 2026. The supply chain targeting activity offshore The Netherlands can therefore focus on a relatively small target audience of dominant operators, alongside the increasing influence of the Dutch Government stakeholder, EBN.

Summary

In summary, the early part of 2018 has been a boost to the confidence that the NWECS late-life and decommissioning market is finally growing and delivering on the promised bow-wave of activity. This near-term optimism is tempered by a conflicting and evolving macro market that is likely to lead to increased mid-term delays and uncertainty across the NWECS region, not just with major operators changing out their portfolios but through mixed economic drivers. The recently released report on The Netherlands highlights the challenges in assessing the timing and activity trends underpinning the market, whilst also showing an uptick in near-term activity followed by a larger wave of potential but one that is likely to move towards the right.

The NWECS late-life and decommissioning market continues to evolve with surprises and frustrations evident in equal measures. Baillex Limited will continue to provide cost-effective access to the underlying detailed field data to allow for trend analysis but also for proper engagement direct with identified operators; thereby enabling the supply chain to test how the market works for them. In a changing and fast evolving market, it is the detail that gives the confidence to the trends.

Baillex Limited is a specialist offshore data provider, currently focused on the late-life and decommissioning markets. The **NWECS Decommissioning Projects Assessment Data** is an annual subscription data service with quarterly updates that provides a detailed list of all upcoming decommissioning activity, field-by-field, with clarity on decommissioning status and the year of the start of offshore activity.

The **NWECS Decommissioning Projects Assessment Data** is the most cost-effective decommissioning dataset currently available and with a unique 20% discount deal for Decom North Sea members represents great value. For more details visit **Baillex.com** or email info@baillex.com.