



Contrarian thinking: the sun sets in Port Fourchon, Louisiana
Photo: Photo: AFP/SCANPIX

Shallow water proves to have long shelf life

The last of the supermajors may have left for deeper prospects in the US Gulf, but outfits with more independent thinking know that there is still money to be made

Luke Johnson

Houston 19 Jul 2017 12:00 GMT

Chevron's recently completed exit from the shallow-water US Gulf of Mexico in many ways signified the end of an era.

The US supermajor has been producing oil and gas from the US continental shelf for more than five decades, and has now become the last major company to leave.

But while the shallow waters off states like Louisiana and Texas have fallen out of favour with the industry's biggest operators, smaller and often privately held companies are finding new opportunities.

Shallow water is "attracting the contrarian thinkers, the people who are a little more independent in their thinking and... can generate value through operating a little bit more efficiently", says Mark Smithard, chief operating officer of US Gulf newcomer Cantium.

Louisiana-based Cantium, which is backed by private equity outfits York Capital Management and Sole Source Capital, recently purchased the last of Chevron's continental shelf assets.

Portfolio

The five fields and 300 active wells in the Bay Marchand and Main Pass areas comprise the entirety of Cantium's portfolio.

Having spent two and a half decades at Chevron and Texaco, Smithard is well acquainted with Cantium's new trove of assets. He and his partner built an entire business plan around acquiring these specific assets, into which they felt they could breathe new life.

“When one has owned an asset for 50 or 60 years, one gets into a particular mindset and a particular viewpoint. We just have the ability to look at it with a slightly different view,” Smithard says.

“We, like others, are bringing to bear a completely different paradigm” to the US continental shelf, he adds. Chevron sold the other chunk of top-tier shelf assets to Texas-based Arena Energy, one of the most active shelf drillers.

Cox Oil, another privately held player, bought most of the non-operated shelf interests in Chevron’s portfolio.

Another new entrant to the US continental shelf, and to the global oil industry, is Israel-headquartered Navitas Petroleum.

Navitas was the international arm of Delek but has recently set off on its own.

Unlike many of the other US shallow-water players, Navitas is on the verge of going public, with plans to launch an initial public offering in Tel Aviv, Israel in mid-July.

Like others in the region, Navitas saw a chance to pounce on some shallow-water assets at a time when others were turning away. “We saw an opportunity in the shelf and the swamps of Louisiana because a lot of people had just deserted those areas, so we were able to pick up leases very cheaply there and do some very good farm-in deals,” says Navitas exploration manager Peter Mikkelsen.

The company’s primary focus is currently on the Buckskin deep-water project in the US Gulf, but Mikkelsen says there are multiple prospects on its shelf acreage that are “quite exceptional”, and he expects to begin drilling within the next 12 months.

This burgeoning interest in shallow-water exploration coincides with official US efforts to entice more activity. The US Bureau of Ocean Energy Management (BOEM) has confirmed plans to lower the royalty rate for shallow-water leases awarded in next month’s offshore lease sale.

Reduction

With the change, the rate for oil and gas produced on newly awarded shelf blocks will drop from the current 18.75% to 12.5%, which is in line with royalties collected on federal land onshore.

The idea is to increase incentives for activity in a mature basin even when oil prices are low.

The BOEM acknowledged in its announcement that exploration, development, and production on the shelf “are in decline”, despite the existence of substantial critical infrastructure.

Companies such as Cantium are hoping to bring life back to the US continental shelf, but it will take some new thinking.

Smithard said Cantium has hired people with experience from all over the world, including Africa, China, India and Oceania.

“Things that we’ve seen around the world, we’re bringing concepts, ideas and a vision that we’ve developed in conversations over many long years,” he says.

“We think we can bring ideas (from) other arenas and we can leverage those to great effect here on the shelf.”
