Private Equity Finds Success In Gulf

HOUSTON–With many companies chasing onshore shale plays, or drilling in Brazil or Mexico, Wood Mackenzie says a changing dynamic in the Gulf of Mexico is emerging, as private equity-backed operators hunt for oil and gas.

An analysis from Wood Mackenzie, "Does Private Equity Have a Future in the Deepwater U.S. Gulf of Mexico?" explores what the future holds for these smaller, nimbler offshore players, from operational strategies and risks to potential exit strategies, the company says.

"With the region shifting from a period of expansion to a period of capital restraint, private equity-sponsored companies, focusing on investment discipline and efficiently commercializing prospects, have shown what it takes to compete," assesses Michael Murphy, research analyst with Wood Mackenzie's Gulf of Mexico team and lead author of the analysis.

According to Wood Mackenzie, private equity-backed companies are showing a willingness to take a countercyclical investment approach in the Gulf of Mexico. Forecast development capital spend in the Gulf is set to rise from a projected $1.0 billion in 2018 to $1.2 billion in 2020. It points out that this predicted increase will come at a time in which independents' development capital expenditures are projected to decline, from $1.4 billion in 2017 to $1.0 billion in 2020.

Although major companies represent the bulk of projected capital spending in the Gulf for the foreseeable future, the analysis says private equity-backed companies will play a larger role in the region long term. It observes that LLOG Exploration Co. represents the largest proportion of projected private equity-backed activity, with higher complexity Lower Tertiary Buckskin expected to come on line in 2019, followed by the Khaleesi and Mormont fields in 2021.

"Just as private equity's entrance into the lower 48 brought fresh impetus and renewed direction to exploration and production, private equity is bringing a different operational approach to the Gulf of Mexico," Murphy says. "Capitalizing on lower cost structures and focusing on quicker paybacks, these smaller, nimbler private equity-backed outfits have shown an ability to turn discoveries into dollars at a faster clip than their competition."

The average time from discovery to first oil for private equity-backed companies has been three years for fields sanctioned since 2010, compared with a six-year average for most majors and independents, Wood Mackenzie describes. Moreover, it says many smaller companies in the Gulf have been able to add production at lower costs than their larger counterparts. The average full-cycle capex for deepwater Gulf fields now stands at around $12 a barrel of oil equivalent for private equity-backed companies, about 40 percent lower than independents as a whole.

Private capital also is playing a critical role in rejuvenating brownfield assets in the Gulf, the analysis notes. The scale of opportunity for private capital is exemplified by EnVen Energy Venture LLC's redevelopment of its Brutus and Glider deepwater assets, which it acquired from Shell late in 2016. By targeting previously bypassed pay, Wood Mackenzie says, EnVen was able to increase production from those assets by nearly 30 percent from 2016 to 2018, an increase of more than 18,000 boe/d.

Ultrahigh-Pressure Prize

The analysis points to developing ultrahigh-pressure fields as the biggest prize in the Gulf. LLOG increased its working interest in the Shenandoah field following the Cobalt bankruptcy, Wood Mackenzie notes, demonstrating the company's willingness to take on larger risks as the value of its assets rival those of mid-sized independents. While developing the technology to unlock ultrahigh-pressure reservoirs is ongoing, Wood Mackenzie says it provides potential growth options, with the nearby Yucutan and Coronado fields as examples.

"Ultimately, the ability to exploit untapped reservoirs will separate the players from the pretenders," Murphy holds. "Ultrahigh-pressure reservoir development offers the potential for higher growth, but the proof of the concept remains to be seen. However, infrastructure-led exploration has provided companies with economic development opportunities. Companies such as LLOG, Talos Energy Inc. and Deep Gulf Energy LP have shown that value is there for those with the ability to execute and the willingness to take risks."

The analysis also explores some of the exit process challenges facing private equity-backed operators in the Gulf process, Wood Mackenzie says, with the Talos-Stone reverse initial public offering and Kosmos Energy's August acquisition of Deep Gulf Energy demonstrating potential exit paths. But, it notes there are barriers to exit; Talos had to get creative to go public and Deep Gulf Energy's major investment started 13 years ago.

"Deepwater could pose the 'Hotel California' problem for private equity funds–you can check in anytime you want, but you can never leave," Murphy says. "With a smaller buyer pool in deepwater and Wall Street focused on tight oil and favoring companies with large share buy-back programs, private equity-backed companies will need to consolidate and grow their reserve bases to become more attractive. This will provide stronger exit opportunities for funds looking to monetize assets." ❒

Texas Discovery Well Tops 2,000 Barrels A Day

HOUSTON–The Five Star 1H, a discovery well drilled by Boomtown Oil and Rocky Creek Resources in the Lavaca Trough, produced with an initial rate of more than 2,000 barrels of oil equivalent (63 percent liquids), in line with some of the best wells in the Karnes Trough of Karnes County, Tx., the companies say.

Rocky Creek Resources is a joint investment between Boomtown, Juniper Capital Advisors and Delago Resources that is focused on the Eagle Ford and Austin Chalk formations in Texas' Lavaca and DeWitt counties.

"As the second-largest Eagle Ford acreage holder in Lavaca County after Penn Virginia, this well solidifies the outstanding value proposition in our 26,000 net-acre position within the highly overpressurized oil window in both Lavaca and northern DeWitt counties," says Michael Rozenfeld, geology partner at Boomtown.

Boomtown says its second Eagle Ford well, the Klosel 1H, is producing 1,500 boe/d on an 18/64-inch choke, while its Shiner 1H, an offset to Penn Virginia's Lager 3H well, has been completed and has begun flowback.

The company, with assets and operations in Lavaca, DeWitt and La Salle counties, notes its acreage position is adjacent to some of the largest and most active operators in the Eagle Ford play. ❒

Coming In February

Official Convention Section for IOGA's annual meeting, March 5-7 in Evansville, In.