

UKCS Capital Expenditure Survey 2014

A survey of activity relating to oil and gas fields and associated infrastructure on the UK Continental Shelf (UKCS) was conducted in autumn 2014 during a period of rapidly falling oil prices. The annual joint DECC–Oil & Gas UK survey was conducted by Oil & Gas UK who have collated the data and provided it to DECC. The survey covered operators' intentions to invest in UKCS oil and gas production. It also collected information on projected operating and decommissioning costs and on oil and gas production. The survey excluded exploration and appraisal activity. This note is restricted to development capital expenditure in the period up to 2019.¹

Summary of results

The survey indicates total development capital expenditure (i.e. excluding expenditure on exploration, appraisal and decommissioning) relating to existing fields and significant discoveries of some £14.8 billion in 2014. Operators' expectations of future capital expenditure as reflected in the Survey will have anticipated some fiscal relaxation but in general did not build in the effect of a prolonged period of much lower oil prices than in recent years. Despite that, the reported survey data suggest that expenditure will fall significantly in 2015 and subsequent years. Much uncertainty applies to such projections but DECC's central estimates are for spend of £10.8 billion in 2015 and £8.3 billion in 2016. These estimates assume lower oil prices reduce both the volume and cost of development capital expenditure.

After 2016, the survey indicates a sustained high level of development capital expenditure but such projections are inevitably very uncertain. It is extremely unlikely that all of the possible projects will go ahead as reported, at least on the timeframe indicated, but against that the survey excludes activity relating to new and some recent discoveries and extends beyond the time horizon for planning many incremental projects.

Background

Operators were asked to report their investment intentions for all oil and gas field developments and projects where development data were available. They placed each field or project in one of the following categories:

Sanctioned fields - fields, including sanctioned incremental investments, which are in production or under development assuming minimum ongoing investment (e.g. mandatory environmental or safety projects, etc.)

'Probable' incremental projects - projects which are not yet sanctioned but with at least 50% probability of being technically and economically developable

Probable new field developments - new fields which are not yet sanctioned but with at least 50% probability of being technically and economically producible

'Possible' incremental projects - projects which are not yet sanctioned with a significant but less than 50% probability of being technically and economically developable

Possible new field developments - new fields which are not yet sanctioned with a significant but less than 50% probability of being technically and economically producible

Operators were asked to include any developments which have the potential to become commercial at some time in the next 10 years. They were asked to indicate the probability of each new field or project going ahead and to use the central (most likely) case in the event that there was uncertainty about the timing of expenditure. Operators' estimates (of costs and production) were meant to be consistent with commercial development.

1. A report by Oil & Gas UK on the full range of findings from the survey and a parallel survey of exploration and appraisal activity, *Activity Survey 2015*, was published in February 2015 and is available online at www.oilandgasuk.co.uk/.

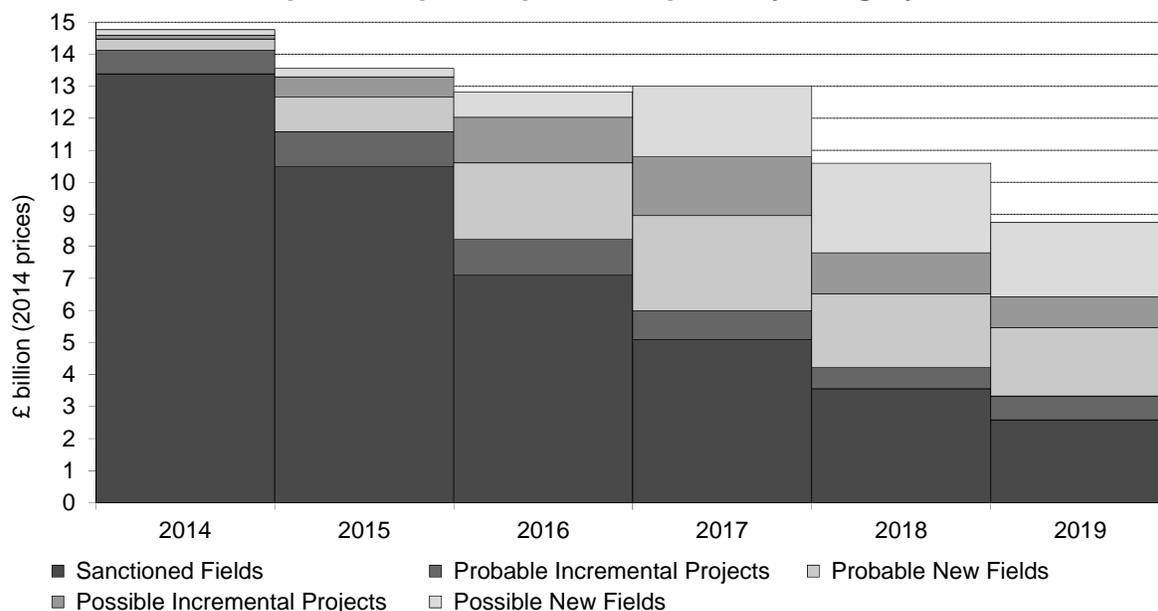
Capital expenditure plans by category

The results of the survey are summarised in Table 1 and illustrated in Chart 1. Expenditure has been included on the scale and at the time reported by the operators though it is likely that at least some of the less-certain projects will slip or even not materialise. The table also includes weighted totals which reflect the probabilities assigned by the operators. The resultant profile for total development capital expenditure is close to but generally below that for sanctioned fields plus probable projects.

Table 1: Total development capital expenditure plans by category

(£ billion, 2014 prices)	2014	2015	2016	2017	2018	2019	Total for 2015–2019
Sanctioned Fields	13.4	10.5	7.1	5.1	3.6	2.6	28.8
Probable Incremental Projects	0.7	1.1	1.1	0.9	0.7	0.7	4.5
Probable New Fields	0.4	1.1	2.4	3.0	2.3	2.1	10.9
Sanctioned plus Probable	14.5	12.7	10.6	9.0	6.5	5.5	44.2
Possible Incremental Projects	0.1	0.6	1.4	1.8	1.3	1.0	6.1
Possible New Fields	0.2	0.3	0.8	2.2	2.8	2.3	8.4
Sanctioned plus Probable plus Possible	14.8	13.6	12.8	13.0	10.6	8.7	58.7
Weighted Total	14.8	12.3	10.1	9.0	6.8	5.5	43.6

Chart 1: Total development capital expenditure plans by category



Compared with the intentions over the five years following the survey conducted in 2013, the 2014 survey indicates significantly lower expenditure with a similar share of sanctioned spend but a lower share for probable and higher share for possible spend.

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