

Gambling in the Gulf

Can big oil bring its latest find to market? **Interviewed by Paul R. Harvey**

A group led by Chevron recently reported a discovery of up to 15 billion barrels of oil under the Gulf of Mexico. Company geoscientists say it's there, buried below 7,000 feet of seawater and four miles of earth.

What impact will the discovery, located less than 200 miles from the world's largest petroleum-consuming country, have on America's growing dependency on imported oil?

"If it proves to be a 15-billion-barrel field, and in the near future we find another 15-billion-barrel field, it would be the first time in over a decade that we found as much oil as we used in one year," says Bill Barnes, managing director of B&R Energy LLC. "Those are sobering statistics."

Smart Business spoke with Barnes about the enormous challenge of drilling for deepwater oil in the Gulf of Mexico and when it might influence the U.S. market.

How has the oil industry responded to the Gulf of Mexico find?

The industry is taking a wait-and-see approach. We've all heard of promising new fields, some of which hold up. One or two wells won't make a field, but a potentially large discovery is better than finding a dry hole.

Last year, Mexico's Pemex announced a find of up to 10 billion barrels — a fountain of black gold — but that's since been revised down to about 43 million barrels.

What are the challenges of tapping deep-water oil?

This well requires leading-edge-technology drilling. So far, there have been 14 technological records set drilling this well. Then there's the cost. This type of project is something only the giants can take on, with expenses approaching \$120 million per well.

Another issue is the vulnerability to hurricanes. And because the water is too deep for a pipeline, the oil, which will



Bill Barnes
Managing director
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likely be gas at those depths, will have to be liquefied and loaded directly onto ships. It's amazingly complicated, and the risks are high.

When will the Gulf of Mexico oil impact the marketplace?

Production won't start until 2010. Full production certainly would not begin until 2013, and most of these types of projects are delayed a few years. So we're probably looking at 2015. By the time it gets to production, it may offset some of our country's oil depletion and may help us maintain our current production levels.

Will other companies expand their Gulf of Mexico exploration?

At \$80 to \$120 million per well, only a handful of majors could drill there. One of the rigs used in the Gulf exploration has been under a long-term lease for \$195,000 per day. The lease is coming due for renewal at a cost of \$500,000 per day, plus all of the expenses relating to it.

These wells present considerable risks, and you don't know for sure if any oil exists until you drill. I'm sure Chevron is

relying on seismic analysis, which shows structure but doesn't necessarily show hydrocarbons. Companies must project substantial potential profits to take on these risks.

What political issues surround the Gulf discovery?

Throughout history, the oil business has been incredibly vulnerable to political events. It was interesting that Mexico's recent oil discovery was announced just prior to parliament's vote on the Pemex budget. The U.S. Gulf discovery certainly wasn't timed, but surely one of the partners realized that with an upcoming Senate vote on offshore drilling, the announcement of a large find might spur interest in passing the legislation.

Until Congress announced royalty relief for companies taking on these experimental offshore projects, these wells could not be drilled and we would not have this additional 3 billion to 15 billion barrels of oil to help shore up our energy security.

Could the promise of huge Gulf reserves and other finds slow the recent push for alternative fuels like E85, which are motor fuel blends of 85 percent ethanol and 15 percent gasoline?

We'll have E85 because the federal government wants it. It's not viable without federal subsidies. It falls under farm policy, not energy policy. E85 production uses almost as much hydrocarbon energy as it provides, meaning it offers only a marginally positive net energy.

We need to develop alternative sources that make money sense. Meantime, we'll have to increase offshore drilling and develop areas like the Arctic National Wildlife Refuge (ANWR). I don't know how long we can keep producing and using more oil than we find.

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