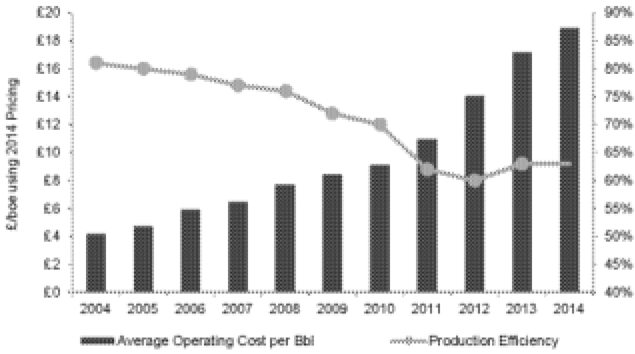
Why the UK isn't a good proxy for Norwegian (or global Non-OPEC) production

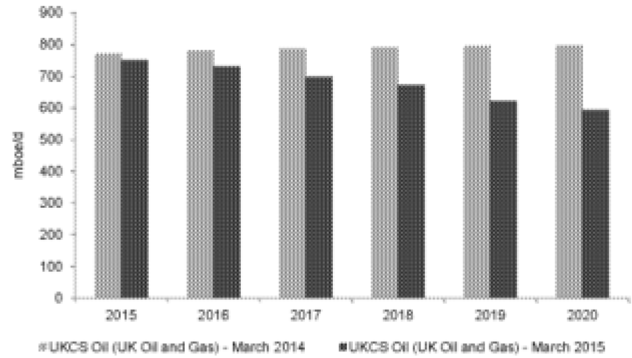
While some have looked at the UK as a cautionary tale for both the North Sea and as an example for global Non-OPEC production, we see limited read through. Like its neighbor, the UK has seen steadily declining production despite a significant increase in capital spent. However, we see a few meaningful differences: 1) fiscal policy (including the most recent tax change) has done little to encourage exploration in the region (unlike Norway), resulting in far fewer meaningful growth projects in the development queue (check the data on this), 2) aging infrastructure has become increasingly problematic (and in many cases borderline non-functioning), driving rapid increases in operating expenses and decreases in production efficiency, with increasing amounts of capital used for maintenance and asset retirement. In contrast, Norway has seen relatively limited operating cost inflation (declined in 2014), with nearly 50% of spend on producing fields free to support development drilling.

Figure 36: Cost inflation and poor production efficiency have remained key themes in the UKCS...



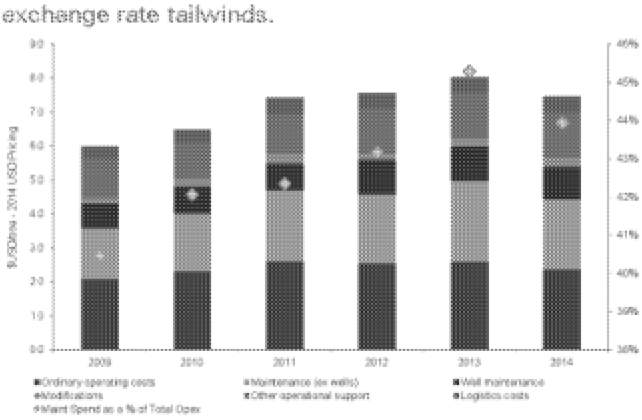
Source: DECC, UK Oil and Gas, Deutsche Bank

Figure 37: ...Leading to reductions in near-term production estimates amidst the fall in crude prices



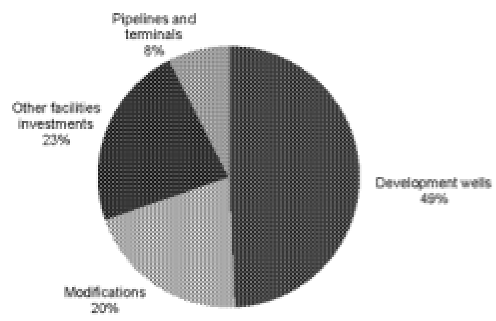
Source: DECC, UK Oil and Gas, Deutsche Bank

Figure 38: However, in Norway Opex ($USD/boe) inflation has been modest and declined in 2014 on exchange rate tailwinds.



Source: Deutsche Bank, Norwegian Petroleum Directorate

Figure 39: And non-development spending on currently producing fields represents ~50% of current field capex



Source: Deutsche Bank, Norwegian Petroleum Directorate