Primary Growth Drivers

Near-term production is expected to be supported by the ramp of YE14 start-ups (Tubular Bells, Jack/St Malo) and the 2015/2016 (6 and 4 projects respectively) start-up of several key deepwater projects. While the projects are expected to add an incremental 350 mbpd of crude (2016 vs. 2014), the longer-term outlook (2018+) has less visibility beyond the contribution from a few (Appomattox) deep-water projects that are largely anticipated to be sanctioned this year.

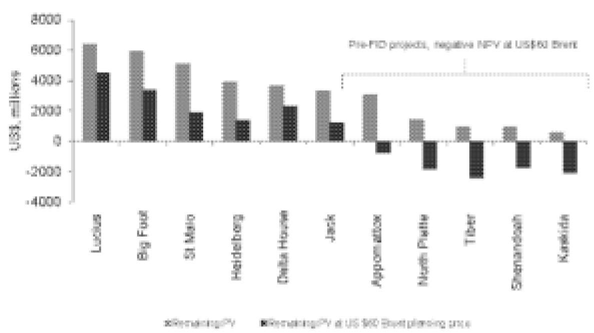
Primary Risks

The near-term risk to production is largely synonymous with a risk to project start-ups which we regard as generally modest relative to projects with exposure to broader geopolitical turmoil and/or a dependence on cooperation with state owned national oil companies. However, the longer–term sustainability of production from the GoM will be largely dictated by the pace of improvements in the underlying economics for deepwater projects driven by a recovery in crude prices and from significant cost concessions.

In our view, tracking the progress towards improvement long-term industry sentiment toward GoM Deepwater involves

- A pick-up in FID activity. Aside from Appomattox, few unsanctioned projects are considered 'locks' to proceed through to FID this year. The sanctioning (and timing of) of Shenandoah and Mad Dog Phase II will speak to progress on the lowering of the cost curve and a higher level of conviction in the sustainability of higher crude prices.
- Extension of Rig Contracts: Wood Mackenzie estimates that ~28 DW GoM rig contracts are set to expire over the next 3 years. About 1/3 of the rigs to expire in 2015 have already been released/cold-stacked while the nearly 20 rigs set to expire in 2016/2017 have as of yet not been released.
- A uptick in M&A activity: Since 2012, GoM-focused deals have declined to 8% of US deal flow in 2014 from 13% in 2012. With the short-cycle nature of the US onshore offering accelerated cost corrections and a widening valuation gap between 'haves' & 'have nots' at what point do discounted offshore valuations incentivize a pick-up in M&A activity?

Figure 96: Production outlook robust for sanctioned projects and for unsanctioned projects high in sunk costs



Source: Wood Mackenzie, Base case assumes LT (2018+) Brent of $92

Figure 97: 28 DW GoM rig contracts set to expire over next 3 years

2015	2016	2017
Discoverer Enterprise*	Atwood Condor	Atwood Advantage
DW Champion	Development Driller III	DW Invictus
Ensco 8501*	Discoverer Deep Seas	DW Nautilus
Ensco 8502*	Ensco DS-3	Maersk Viking
Ensco 8505	Ensco DS-4	Noble Bob Douglas
Ensco 8506	Ensco DS-5	Noble Sam Croft
Maersk Developer	Noble Jim Day	Noble Tom Madden
Noble Amos Runner	Noble Paul Romano	Pacific Santa Ana
Noble Danny Adkins		Rowan Relentless
		Rowan Resolute
		Stena IceMAX

Source: Wood Mackenzie, *Already cold/ready stacked or released, By MODU name