the voice of australia's oil and gas industry

Media Release

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New analysis shows rising cost of petroleum exploration

The urgent need to address the global cost competitiveness of Australia's oil and gas industry has been highlighted by a new analysis that shows fewer exploration wells are being drilled offshore despite significantly higher expenditure.

An analysis of recent data released by the Australian Bureau of Statistics and APPEA shows the number of offshore wells drilled in Australia has fallen by more than two-thirds since 2003, while the total cost has increased five-fold (see chart below).

While the cost of individual wells varies considerably depending on a range of geographical, geological and technical factors, the average cost of drilling offshore wells is now more than $130 million.

APPEA Western Region Chief Operating Officer Stedman Ellis said the analysis is further evidence of the significant cost pressures on Australia's offshore exploration and production.

"These figures reflect a range of factors, including higher daily rig rates and the fact that drilling is shifting further offshore to deeper, more remote and more difficult waters," Mr Ellis said.

"The increase in drilling expenditure reflects broader cost pressures across the value chain from exploration to development and through to production. These are being exacerbated as the industry moves into more complex offshore areas. The low-hanging fruit has been picked.

"Australia is already at the top of the cost curve for bringing gas to market. Greenfield projects in this country can be almost double the cost of new LNG competitors in East Africa, North America and other locations.

"These cost pressures are responsible for a new pricing paradigm that has seen domestic gas prices rise to more sustainable levels."

The exploration cost analysis is contained in an APPEA submission to Western Australia's independent Economic Regulation Authority supporting its recent recommendation that the WA Government immediately abolishes its costly and inefficient domestic gas reservation policy. The submission can be found here.

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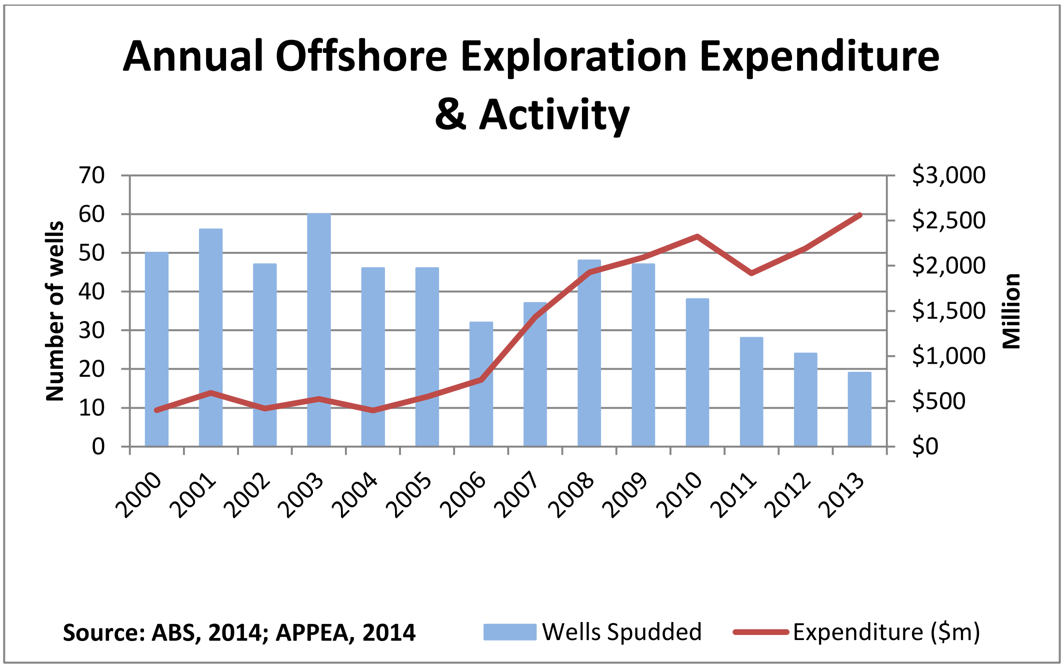
Mr Ellis said the ERA had supported APPEA's long-held view that the reservation policy threatened the state's energy security by discouraging investment in new domestic gas projects.

"Big industrial gas customers who benefit from gas reservation in WA have been trying to argue that record investment in offshore exploration shows the policy is not a disincentive to producers," he said.

"But they conveniently ignore the fact that while exploration expenditure has increased since the policy's introduction, the number of wells drilled has steadily declined.

"Australia's ability to develop new gas projects is already threatened by rising costs at home and growing competition abroad. Policies that dictate where and how gas can be sold represent a further barrier to investment.

"APPEA believes long-term energy security is best delivered through efficiently operating markets and by encouraging new entrants and competition, a view that is shared by other Australian governments that have considered and rejected the need for reservation policies."



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