



Oil Companies Run Out of Time to Drill in Canada's Arctic

Description

The Arctic is believed to hold a third of the world's undiscovered natural gas resources. Further, it's thought to hold 13% of the world's undiscovered crude oil resources, or about 90 billion barrels of oil. The problem is that this oil and gas is in one of the hardest to reach places on earth. As a result, just finding these energy resources will take a lot of time and even more money. Unfortunately for oil companies, they're running out of time.

With leases set to expire in 2020, a joint venture led by **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) is shutting down its Beaufort Sea drilling operations in the Canadian Arctic. The company and its partners **Exxon Mobil Corporation** ([NYSE:XOM](#)) and **BP plc** ([NYSE:BP](#)) are suspending operations as the companies seek to have its current lease retroactively extended to 16 years. In so doing, the trio is joining **Chevron Corporation** ([NYSE:CVX](#)), which already suspended its exploration efforts as a result of the clock ticking down.

Not enough time to plan

The biggest issue drillers are facing right now are regulatory hurdles that are proving to be a logistical nightmare. The main issue stems from the fact that before oil companies can drill test wells just to see if the oil and gas is really there, they need to have everything in place to stop a potential oil spill.

These rules, which were put in place after BP's Deepwater Horizon disaster in the Gulf of Mexico, would force companies to have the standby capacity to drill a relief well to stop a blowout in the same season the blowout occurred. That's an impossible task as wells in the Beaufort Sea need to be drilled so deeply that it would require multiple seasons to complete just one well, let alone a relief well.

In fact, the initial test well that Imperial Oil, Exxon Mobil, and BP are planning to drill would be drilled to a depth of more than six miles below the floor of the Beaufort Sea. That would not only be one of the deepest offshore wells ever drilled, but it would be by far the deepest well in the Arctic.

A well that deep would encounter intense reservoir pressure, which is why a relief well is the current best option to stop a blowout as it would relieve some of that pressure. That said, it might not be the only option, which is why the oil companies want more time for technical studies, so they can develop a

better emergency procedure.

In it for the long term

None of the partners want to abandon their plans to drill in the Arctic because there's just so much untapped oil and gas potential. Further, these companies are no strangers to planning long term as oil companies look out decades, not quarters. That's evident by the fact that Exxon and Chevron waited more than 30 years before turning the Hebron oil discovery offshore Newfoundland into a commercial oil project. That field was initially discovered in 1981, but the US\$14 billion development project didn't begin construction until 2013 for a field that won't produce a drop of oil until 2017.

While a typical offshore oil field goes from discovery to first oil in about a decade, oil discoveries made in the Beaufort Sea could take even longer to bring online. Not only will it take years just to drill exploration and appraisal wells, but given the high costs of drilling in the harsh environment, plus its remote location, any discoveries could be placed on hold until oil and gas prices are high enough to justify the investment and the risks needed to bring these fields online.

Investor takeaway

The Arctic is believed to hold vast, untapped oil and gas resources. However, oil companies seeking these resources have run out of time as they don't think they can even begin drilling before their leases expire in five years. It's a reminder to energy investors of just how long term energy companies plan, which then reminds us that we need to be invested in energy for the long haul.

CATEGORY

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Author

mdilallo

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