# Suncor Energy Inc. Just Spent $105 Million on a Dry Hole

## Description

**Suncor Energy Inc.** (TSX:SU)(NYSE:SU) is the clear leader in the oil sands with a commanding position in that critical energy-producing region. However, the company is also looking to expand its horizons beyond the oil sands via investments to bolster its offshore oil production. Unfortunately, offshore investments don't always pay off. That was certainly the case of its latest venture after Suncor announced that the first exploratory well at its Shelburne Basin joint venture came up dry.



### Drilling into the Shelburne Basin

In 2012 and 2013, global energy giant **Royal Dutch Shell plc (ADR)** (NYSE:RDS.A)(NYSE:RDS.B) acquired six exploration licenses about 300 km offshore Nova Scotia for $918 million, giving it the right to explore for oil and gas over the next six years. The company thought there might be oil in the region because of the gas production already coming from the shallower waters of Nova Scotia. That said, while the Shelburne Basin is prospective for oil, it is classified as risky because these really are uncharted waters for the industry.

To mitigate some of that risk, Shell brought on Suncor Energy and leading American independent oil company **ConocoPhillips** (NYSE:COP) as partners just before prices collapsed in 2014. Dubbed the Deepwater Shelburne Basin Venture Exploration Program, Shell retained a 50% stake with Suncor Energy and ConocoPhillips acquiring 20% and 30% stakes, respectively.

Despite the subsequent worldwide slump in oil prices, the partners agreed to move forward with two exploration wells in hopes of finding oil. Unfortunately, the partners recently completed the first exploration well and deemed it to be non-commercial. While they still hold out hope that the other well will encounter viable hydrocarbons, the odds of success certainly decreased after the first well came up dry.

### Wading into deeper risks

Due to the differences in geology, oil sands are less risky to develop than offshore locations. That is largely because the oil is much closer to the surface and is in fairly contagious deposits. It is because of those differences that offshore exploration is a much riskier; the industry's success rate is roughly

50%.

ConocoPhillips has experienced the risks of deepwater exploration first hand in recent years. In April 2015, the company announced that an exploration well in Angola and one in the Gulf of Mexico were plugged and abandoned due to the lack of commercial hydrocarbons, costing the company US$142 million. Meanwhile, last quarter the company recorded two more dry hole impairments for prospects in the Gulf of Mexico. With its dry holes adding up, ConocoPhillips opted to exit deepwater exploration altogether.

That is the opposite approach of Suncor Energy, which recently said that it wanted to start diversifying away from the oil sands after wildfires impacted production this spring. As a result, it is turning more of its attention toward offshore projects both in the Canadian Atlantic and the North Sea, recently spending $50 million for a stake in the Rosebank project in the North Sea.

While that project is less risky because it is a confirmed discovery, Suncor Energy remains interested in acquiring additional offshore exploration licenses. Those explorations licenses are riskier investments and could mean that there will be a lot more dry holes in Suncor's future.

**Investor takeaway**

Suncor Energy wants to make sure it has more than enough oil resources to keep its production flowing and growing for decades to come. That requires the company to take risks, which don't always pay off. The hope, however, is that enough do pay off to more than offset the dry holes it drills along the way.



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