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Failure of Dunquin a sobering reminder of risks and costs in offshore exploration

THE announcements last week that the Dunquin North exploration well, some 150km off the Kerry coast, has been plugged and abandoned is a sober reminder of the significant risks and costs involved in oil and gas exploration offshore Ireland. To quote Kevin Biddle, European director of exploration for ExxonMobil, operators of the well, "It is disappointing that the Dunquin prospect has proved to be water bearing, with no commercially recoverable hydrocarbons."

A successful result at Dunquin had the potential to be a game-changer, in the same way as the discovery of the Ekofisk oilfield in 1969 changed the game for Norway.

Dunquin is reported to have a cost approaching €200m. While the information gathered will have a great deal of value for further evaluation, the absence of a commercial discovery probably means that the bulk of this money will be written off.

This highlights the extraordinary risks of drilling "wildcat" wells in unproven territory, such as the Porcupine Basin off the Irish coast, and further illustrates the total lack of realism of those who clamour for the immediate introduction of a Norwegian-style fiscal regime.

If the Dunquin North well had been drilled in

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projects are primarily interested in early, favourable results. Drilling expensive wells and hiding the results for decades doesn't seem to make much sense, when you could be producing oil or gas and making profits for all those years.

Another gem! "A dodgy deal was done in the 1980s to give favourable tax treatment to the oil industry."

The modification of the 1975 Licensing Terms was actually initiated by then energy minister Dick Spring on the advice of his officials, in the face of a steep decline in exploration offshore. Royalties on new production were abolished in 1987 like in the UK and Norway, to stay competitive, and because royalties are a very inefficient way of taxing high-risk, high-cost projects.

There are many other such myths, and those who promulgate them might well consider whether their constant carping puts off companies who might make the commercial discoveries, which we so badly need.

Exploration drilling in Irish waters is running at only one or two wells annually. A recent licensing round in



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Norwegian waters, and produced equivalent results, the partners in the enterprise would now be happy in the knowledge that the Norwegian government would be refunding 78pc of the costs. This is done in order to reduce the upfront risk of exploration, and is a major factor in maintaining a high rate of exploration drilling in Norway, despite their high rate of taxation on production projects. One can imagine the uproar if our government was now in the process of writing a cheque for €156m to the partners in Dunquin!

The results should also give pause to the purveyors of myths regarding the offshore industry.

One of these is that "oil companies know that there are massive resources out there, and are hiding the information from the Government, waiting for higher oil prices or better tax terms."

Well, they have been waiting a long time, haven't they? Exploration has been underway offshore Ireland for about 45 years, with not much by international standards to show for it. Leaving aside the fact that all data is made available to and analysed by the Department of Communications, Energy and Natural Resources, investors in high-risk, high-cost exploration

the UK resulted in the award of 167 exploration licences. Our most recent round, in 2011, delivered just 13 licensing options.

So where do we go from here?

Interest in the Celtic Sea has increased, following the appraisal drilling at Barryroe. A number of exploration wells are planned over the next few years. The State, in conjunction with the Italian company ENI, is carrying out the largest-ever 2D seismic survey off the west coast. This will evaluate new areas and fill in gaps between previous surveys, thus adding to the overall knowledge of the area.

Energy Minister Pat Rabbitte has stated in the Dail that eight of the 13 licensing options have been converted into exploration licences, with the possibility of a further two, which vindicates his policy of focusing on licensing options in the 2011 round. Thus, despite the most recent well result, the future looks comparatively good.

The Dunquin experience will no doubt inform his advisors and illustrate the necessity of maintaining the fiscal terms at a level that will continue to attract investment.

Fergus Cahill is chairman of the Irish Offshore Operators' Association