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Independents: Rising to the Challenge

William Schneider, Newfield; Tracy Krohn, W&T Offshore; Paul Ellis, Serica Energy; Martin Ferron, Helix Energy Solutions; Jean Claude Gandur, Addax Petroleum; Sandeep Khurana, Devon Energy; and Greg Carter, Nautilus Offshore

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Preface

This manuscript is intended to set the stage for a panel discussion, “Independents: Rising to the Challenge”, scheduled for Wednesday, May 2, 2007. The manuscript includes input from participants of this panel, who are:

- Tracy W. Krohn, President & CEO, W&T Offshore, Inc.
- Jean Claude Gandur, President & CEO, Addax Petroleum
- Martin Ferron, President & CEO, Helix Energy Solutions
- Paul Ellis, Chief Executive, Serica Energy
- William Schneider, VP-International, Newfield Exploration

The Moderators:

- Sandeep Khurana, Facilities Advisor- International Operations, Devon Energy Corporation
- Greg Carter, President, Nautilus Offshore Company

Abstract

The worldwide rising quest for energy has once again brought flexibility and risk-taking attitudes of the independents to forefront. The first and foremost challenge for independents is access to acreage. Besides, technical challenges still exist - rig availability, rising commodity prices, increasing service and supply costs, workforce issues, weather-related risk, and geopolitical concerns. Additionally, independents are facing a rapidly changing and competitive play field.

Nevertheless, independents are uniquely positioned where they can support both national oil companies and majors to bring production faster to the market. This panel will address some of the strategies that independents have taken to rise to the challenge of meeting world oil demand.

Who Are Independents?

An independent oil company or independents is primarily involved in the exploration and production side of the oil and gas industry. They have little, if any, refining and marketing

operations. As opposed to this major oil companies or majors have highly integrated exploration, production, refining, transportation and marketing operations. In the international arena, a government controlled oil company is referred to as a national oil company (NOC) whereas all other public or private equity holder companies are commonly referred to as international oil companies (IOCs).

For independent operators one of the keys to success is their ability to purchase and successfully operate producing assets from majors and large companies. Majors have been attracted to new mega projects in the global market that has diverted funds away from more mature areas. Assets that no longer fit the portfolios of majors were a great fit for independents because the assets typically had a large inventory of projects and a large land position. Assets divested by majors provided independents with production and room to grow. For such cases, the reserves are known, but the price of oil made a huge difference to independents revenue and value.

Another area that provided growth for independents is unconventional resources. Unconventional resources are an umbrella term for resources that are more challenging to extract than conventional resources. These resources include coalbed methane, tight gas, shale gas, tar sands etc. The extraction of these resources involves applying specialized technology to glean hydrocarbons that is not plentiful enough to attract large companies.

As independents evolved they started going overseas and in the deepwater arena. Like 19th- century prospectors, they have staked claims in exploration permits and started drilling in uncharted territories. They have directly partnered with national oil companies (NOCs). They advanced in deepwater applying known technology at a faster pace.

Today many of the independents' growth strategy are based on enhancing their position in the international arena and in the deepwater regions.

Challenges Independents Face

As the demand from energy has grown, the focus of oil companies has changed from rate of return on employed capital to increase in production. The production increase is constrained because of availability of land and reserves,