

Insight Conversation: Tony Durrant

The CEO of Premier Oil, a UK independent upstream oil and gas company with interests in the North Sea, the Falkland Islands, Southeast Asia and Latin America, sits down for a conversation with Nick Coleman

Why would anyone invest in the declining North Sea?

The UK North Sea, on most people's estimates, is something like two-thirds of the way through its producing life, having produced about 40 billion barrels out of a possible 60 billion barrels. Twenty billion barrels is a lot of life left in the UK. What you have seen as the province becomes more mature is that it becomes less material for the bigger companies. I think over the next one to two years there will be more and more examples of the majors, the bigger companies, in effect selling assets to mid-cap companies like ourselves for whom the UK North Sea is still very material, and there are many opportunities. It's not just frankly that the majors are selling – it's that over a period of time now, maybe as much as five years, they've not been actively investing in opportunities. For us, first of all we have some growth opportunities in our portfolio already. Secondly, we see the opportunity to take on assets that the majors are really not investing in, and there's still plenty of life in those assets for the future.

What are Premier's North Sea investment plans beyond the Tolmount gas project?

We've actually as Premier taken that decision, at our June board meeting. All the approval processes



are now under way, both with our joint-venture partners and indeed with the government. We expect to be signing crucial contracts in August and work commencing in earnest at that point. Tolmount is a very exciting project for us; material for us. These projects can be material for us, even if they're not material for the majors. That will provide a long-life gas production stream for us and our partners over a long period of time.

Finding new oil projects in the UK North Sea – and I should probably except the West of Shetland region from this – is tough, because the exploration is very mature. Where I think there is lots of life is in incremental reserves surrounding existing projects and existing infrastructure. The Catcher field, which we brought on stream last December, is doing very well today, but the Catcher field is surrounded by a number of prospects and discoveries which were not part of the initial development. They are probably not material, certainly not in terms of the majors. But the infrastructure is in place. We should be able to bring on incremental reserves and incremental production in the area around Catcher. By the way, the same is true of Tolmount. That will be incremental gas in the future. In the short and medium term, our attention beyond our existing fields is going to be focused on bringing additional resources on in what you might call near-field areas.

Do you share concerns about the handover of pipelines such as Forties and other infrastructure from the majors to smaller, less established players?

Ineos, the new owner of the pipeline system, were extremely responsible and extremely responsive to all their customers – people like ourselves – when there was a small crack that developed in the Forties pipeline system. I would have no qualms about Ineos and the way that they've operated the Forties pipeline system since taking over from BP. Some of the major infrastructure pipelines are being handed over to what you might call financial investors, infrastructure funds, and that I think is a trend that we shouldn't fear at all. Those infrastructure funds have a very

low cost of capital. We saw only in the last week a Kuwaiti fund buying in with a very low cost of capital to infrastructure.

From the oil industry's point of view, particularly if you're a mid-cap independent, it's a very value adding process for an infrastructure fund who is interested in a utility-type return to own some of the infrastructure that we're utilizing. We can then focus on development drilling, the addition of reserves, the sub surface, which is our natural skill set if you like, and pay the infrastructure utilities a rate of return which they will seek over a longer period of time. I actually think it's a very positive thing for the independent sector and not at all a bad thing for the UK industry as a whole at this stage of its life.

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Should ageing pipelines and platforms be replaced with a more dynamic system based on floating infrastructure?

We do need to get our product to market, and pipelines are still very often the most productive way of doing that. Floating production, where the infrastructure can be moved from a shorter life field onto another shorter life field in the future, I think is a very important part of the UK North Sea going forward. We happen to be focused on floating production and we have nine floating production fields around the world, six of which we operate. Our Catcher field in the UK North Sea is a new FPSO so that suits us very well. In the longer run,

when it comes to abandonment of those facilities, frankly it is a lot cheaper and easier to abandon a floating production system than one that is fixed in the ground. From our point of view as a mid-cap, that reduces our long term exposure to abandonment costs.

Are you concerned about the stability of the UK government and Brexit?

In the spectrum of industries that are the focal point of lots of discussion the oil industry is relatively immune to Brexit in the sense that we're a dollar revenue industry. We have mostly dollar costs and we borrow in dollars. We don't have the foreign exchange exposure to euros that many other industries have. On the regulatory side, frankly the UK North Sea invented safety cases and other regulatory regime elements. And we've given those to the rest of the world. We've been operating under UK standards – if anything, those standards have been exported both to Europe and the rest of the world. The direct impact of Brexit I think is relatively low on the oil industry.

It is true of course that we will as an industry buy equipment from Europe from time-to-time and therefore the whole debate about tariffs, or free trade, is relevant to us. But in general, we are less exposed. We are a dollar industry that's been very well established in the UK over many years. I think though like every other businessman in the country, we favor stability, certainty and predictability. Thus of course the uncertainty that we're all reading about and seeing in the newspapers and elsewhere is not good. I do think the sooner we can get back to a more stable future, the better for all businesses.

Does Premier expect to make faster progress on the Falklands Sea Lion project and are there concerns about Argentinian opposition?

Like many other offshore projects, especially in new areas, there was a dramatic slowdown in the pace of the sanctioning of those projects, largely driven by the oil price. Very few projects of that nature got sanctioned during the 2014–17 period. Particularly where you have a new oil field in a new basin, as we do have in the Falklands, there are a certain amount of

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startup costs for the first phase. That puts the breakeven cost of our Falklands project somewhere in the low \$40s. Clearly when the oil price was below that, we were not going to sanction that project. We're in a different world now. We can see our way forward to higher stable oil prices. The economics of that project now look attractive. We've used the time in effect to engineer the project.

It's a very similar project in many ways to our Catcher project. We have some synergy across those projects. We're making good progress I would say on finalizing the engineering elements of the project. As Premier we have to raise the funds for that project and that's what we're very actively engaged in. That was also a feature of the last three years. Raising capital in our sector was challenging. There's been a noticeable change in the appetite of external investors – equity, debt, banks, et cetera, for oil projects in the last 12 months, so we're pretty busy on that and remain hopeful that we can put a satisfactory financing package together for the Falklands. We've told everybody we would target year-end this year for that, which would allow us to sanction the project sometime in 2019.

There has been a lot written and talked about the relationship between the UK and Argentina in respect to the Falklands, and indeed of future hydrocarbon production in the Falklands. The reality is that the relationship between the UK and Argentina has improved immeasurably in the last few years. There have been many areas of discussions between the two governments – future trade arrangements, for example. My impression is that the Falklands is really not very high on the list of topics being discussed between the two governments, and that's fine with us because we'd just like to get on with the project. ■