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US shale is lowest-cost oil prospect

Ed Crooks in New York

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Shale operations in the Permian Basin in Texas

US shale reserves are the lowest-cost option for future oil production and are likely to attract more investment than competing projects such as deepwater fields, according to a leading industry adviser.

About 60 per cent of the oil production that is economically viable at a crude price of \$60 a barrel is in US shale, and only about 20 per cent is in deep water, said Wood Mackenzie, the consultancy.

Companies with US shale assets are likely to be at a competitive advantage over the next few years.

Producers that rely on oilfields in higher-cost regions such as the North Sea and the deep waters off west Africa will have to cut costs or face shrinking output.

After the oil price plunge that began two years ago, production costs have been cut across the industry, but far more so in US shale.

Average costs per barrel have dropped by 30 to 40 per cent for US shale wells, but just 10 to 12 per cent for other oil projects, said Simon Flowers of Wood Mackenzie.

US shale regions that two years ago were in the middle of the cost curve for future oil supplies are now down towards the lower end.

Investments in the Eagle Ford shale of south Texas on average need a Brent crude price of \$48 a barrel to break even, on Wood Mackenzie's calculations, while projects in the Wolfcamp formation in the Permian Basin in west Texas need \$39.

"There are more opportunities to invest in the US, and that's where the investment will take place," said Mr Flowers.

"If your investment options are in deep water, you've got quite a task on your hands. You might be asking: 'Should we be getting into

tight [shale] oil?"

Brent was trading at \$47.59 per barrel on Wednesday.

US companies that have shale oil reserves, including Chevron and ExxonMobil, have stressed the flexibility of those assets, which are developed with many wells costing a few million dollars each, rather than the multibillion-dollar projects often required for offshore production.

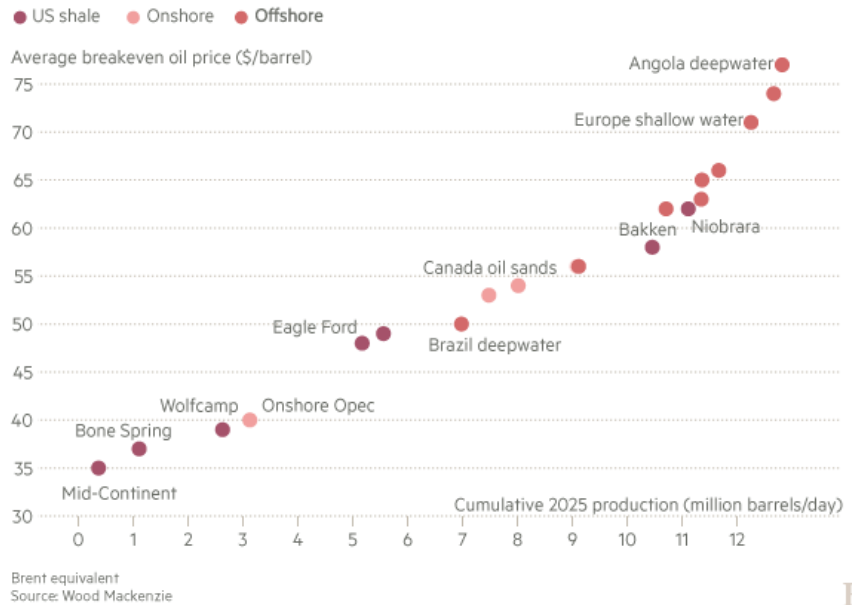
On Wood Mackenzie's calculations, Brazil's deepwater oilfields are so large that some will be commercially viable, but higher-cost regions could struggle to attract investment.

The number of large projects being given the go-ahead by oil and gas companies averaged 40 a year between 2007 and 2013 but dropped to just eight last year, according to Angus Rodger, also of Wood Mackenzie.

Although there has been a small flurry of investment decisions in the past few weeks, including the Chevron-led \$36.8bn expansion

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of Tengiz in Kazakhstan, Mr Rodger expects only about 10 new big projects will go ahead this year.

While the economics of US shale are generally more attractive, Mr Flowers said the time taken to mobilise finance and workers to increase drilling and production meant that global demand could outstrip supply in a few years. That could drive oil prices to \$80 to \$85 per barrel in 2019-20, he added.

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