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Norway Drillers Hit Worst Dry Spell in Decades as Reserves Wane
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By Marianne Stigset

March 3 (Bloomberg) -- Statoil ASA and Eni SpA are among companies with plans to drill a record number of wells in Norway's far north this year to help the world's second-largest gas exporter to sustain output. So far, they've struck out.

All four wells drilled in the Barents and Norwegian seas this year have failed to find oil or gas, adding to two dry wells in the North Sea, the biggest number of failures to start the year since the country's oil era began in 1966, according to government data. Oil companies plan as many as 22 wells in Norway's Arctic this year, up from 12 last year.

Helge Lund, chief executive officer at state-controlled oil company Statoil, says the industry has been unable to "crack the code" of the Barents Sea, off Scandinavia's northern tip.

Norway, where energy production makes up about 25 percent of the economy, is pushing into the Arctic and relying more on gas because oil output has slumped 50 percent since peaking in 2000.

The Barents Sea "is extremely important for Norwegian oil production given that the mature areas are in extreme decline," said Torbjoern Kjus, an analyst at DnB NOR ASA in Oslo. "Every dry well is a setback, but we have to keep trying where there might be resources left if we're going to maintain Norwegian production going for as long as possible."

Resources Cut

Explorers drilled 16 dry wells off Norway last year, part of the reason the Petroleum Directorate cut its estimate for undiscovered gas by 31 percent, or by 570 billion cubic meters.

That's equal to almost six years of production for Norway.

Norway estimates the Norwegian Sea holds 455 billion cubic meters in undiscovered gas and the Barents Sea 520 billion cubic meters. Total undiscovered gas resources may be 1.26 trillion cubic meters, the directorate said in January, down from an estimate of 1.82 trillion cubic meters last year. The country had proven gas reserves of 2 trillion cubic meters in 2009.

"It's disappointing that we haven't seen any results yet," said Thina Saltvedt, an analyst at Nordea Markets in Oslo. "Norway is important for the oil market because we export a lot of the oil we produce and not least because we have a stable political situation."

Statoil last week started work on its last well for the year in the Barents Sea, in the Skrugard area. The other four wells will be drilled by Total SA, GDF Suez SA, Dong Energy A/S and Lundin Petroleum AB. Eni also postponed two wells in the Salina and Boenna prospects until next year because of a rig delay, said Andreas Wulff, a company spokesman, by phone.

Heilo Prospect

GDF will begin drilling at the Heilo prospect in August or September with the Aker Barents rig, which will then move on to work for Dong, GDF spokesman Ulf Rosenberg said. Rocksource ASA, which owns 20 percent in Heilo, estimates the chance of a discovery at more than 50 percent and sees recoverable resources at 200 million barrels of oil equivalents, according to a statement on its website.

The Barents Sea has two developments, Statoil’s Snohvit gas field, and Eni’s Goliat, an oilfield that is scheduled to start pumping in 2013.

“A dry well is disappointing, but every new well is a new possibility,” Ola Anders Skauby, a Statoil spokesman, said by phone this week. “We still believe in the Barents Sea.”

A find at Skrugard would be positive for investments at Snohvit, Skauby said. Statoil and partners including Total, GDF, RWE AG and Hess Corp. are hoping to find more gas to enable a second liquefied natural gas plant at Melkoeya, the onshore production facility near Snohvit. An investment decision is scheduled for 2013.

Challenging Targets

The lack of discoveries is challenging targets to maintain production offshore Norway and imperiling the development of a second gas hub in the Norwegian Sea. Statoil missed production targets last year and has said a goal of keeping output in Norway at current levels until 2020 is “ambitious.”

Appraisal wells last year around Royal Dutch Shell Plc’s Gro discovery in the Norwegian Sea have indicated resources may be at the lower end of a 10 billion to 100 billion cubic meters estimate. Total, Europe’s third-largest oil company, also reduced the size of its Victoria find in the area after more drilling in 2009.

The Norwegian Sea is also home to Shell’s Ormen Lange, Europe’s third largest gas deposit, where the company announced a dry appraisal well last month. The Petroleum Directorate and the company are assessing the field after estimated reserves at the field were cut by 24 percent last year following two appraisal wells.

Protected Waters

Det Norske Oljeselskap ASA, a Trondheim, Norway-based explorer, on Feb. 28 also reported a dry well in a prospect east of the Ormen Lange field.

Continued failure may increase pressure on the government to open up protected waters off the Lofoten and Vesteraalen islands in the Norwegian Sea. Norway is also targeting areas to the east, after signing a maritime delimitation treaty with Russia in September, settling a four-decade dispute. The treaty needs to be ratified by both parliaments. The waters along the Russian border, as well as the unexplored area around the Jan Mayen Island are described by Norway as carrying the potential to prolong petroleum output. There are no resource estimates.

The government is set to reach a decision this month on whether to start a study of the consequences of exploration off Lofoten and Vesteraalen, where 3.5 billion barrels in oil and gas is estimated to lie.

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