

April 18, 2024

A COMMERCIAL PERSPECTIVE ON U.S. OFFSHORE ENERGY POTENTIAL

FOCUS

Congressional Testimony for the U.S. House of Representatives Natural Resources Subcommittee on Energy and Mineral Resources Oversight Hearing Titled “Assessing the Solutions to Secure America’s Offshore Energy Future”

Enverus is a software, analytics and AI company focused on the energy sector. I serve as a director within the Enverus Intelligence Research (EIR) division, which publishes research focused on the oil, natural gas, power and renewable industries. Our role here today is to provide a commercial perspective on U.S. offshore energy potential and the region’s position in the global market.

Our analysis, based on current market conditions, suggests that U.S. offshore oil and gas production is unlikely to return to growth. We forecast that the current slate of sanctioned projects can keep the region’s oil production near flat for only two years (**Figure 1**). Exploration drilling, which is needed to replenish discoveries to maintain or grow production, has been declining by a 14% annual rate since 2014 (**Figure 2**).

It is well known that growth momentum has shifted in previous decades from the offshore region to onshore, namely to shale resources. But we forecast U.S. onshore oil growth to moderate significantly by the end of the decade (**Figure 3**). We estimate that each of the main shale oil basins holds between three and 10 years of economically attractive drilling inventory, which represents a sharp reduction from industry estimates years ago. Producers’ desire to preserve scarce shale inventory – in conjunction with a diminished role of growth-oriented private capital and investors’ desire for capital to be returned to shareholders rather than reinvested for growth – all contribute to our forecast of lower domestic oil-production growth onshore.

Shale’s diminishing role – in conjunction with a dearth of exploration activity and growth potential, globally – provides an opportunity for the U.S. offshore region. We believe the global oil market is structurally undersupplied for the long term (**Figure 4**). OPEC has regained control of the oil market. Investors are looking for new potential sources of supply. A change to market conditions, such as higher oil prices and/or new government-led initiatives, could inject growth potential back into the U.S. offshore energy sector.

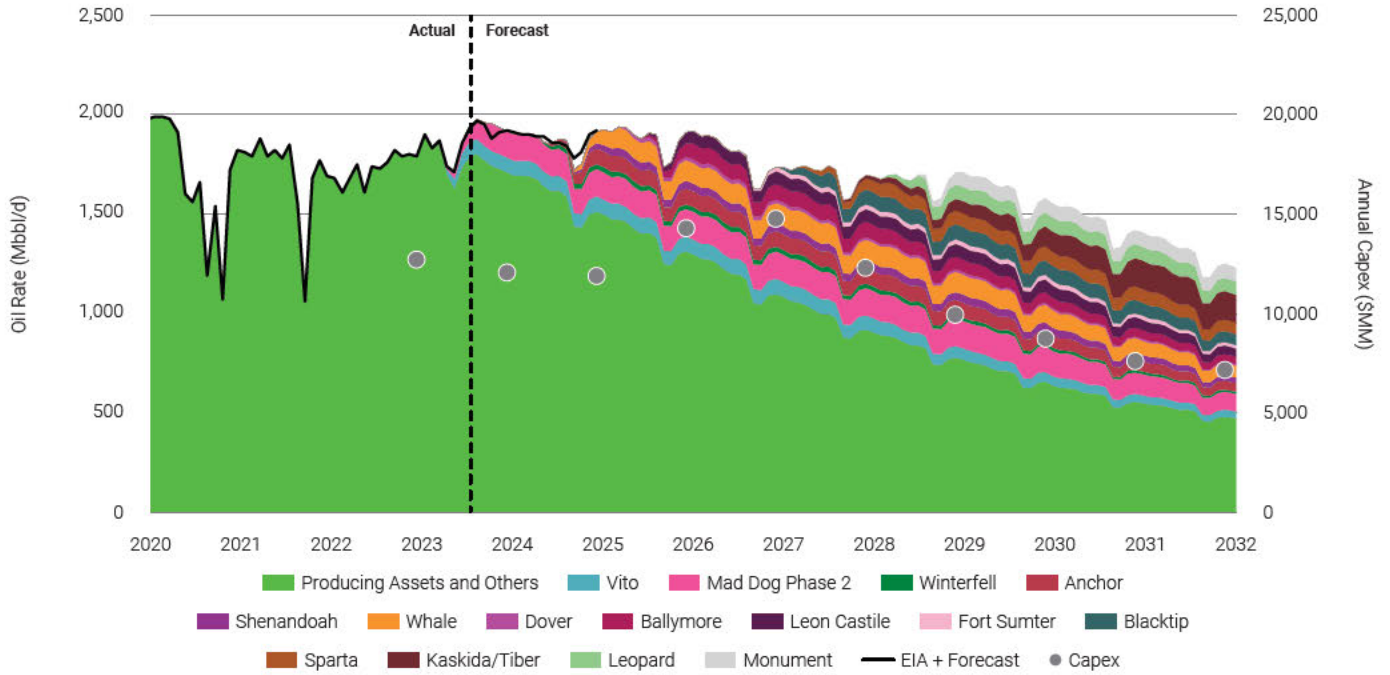
Indeed, there are already signs of green shoots. The most recent Gulf of Mexico Lease Sale #259 featured an increase in bid value on remote, high-impact acreage in the growing Lower Tertiary play (**Figure 5**). Recent application of hydraulic fracturing technology in the play has yielded some positive results (**Figure 6**). These tailwinds add to the region’s already-recognized attractive features like low emissions intensity (**Figure 7**), low above-ground risk and high estimates for undiscovered technically recoverable resources (UTRR).

To summarize: Exploration drilling has waned in the U.S. offshore region in recent years. But growth potential has also weakened onshore and in other energy-producing countries. The global oil market is projected to become increasingly undersupplied from non-OPEC regions. Long-term investors are seeking new sources of supply. The U.S. offshore region offers many attractive features to such investors. A moderate change in market conditions could cause the region to realize more of its growth potential.

ANALYST

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FIGURE 1 | Production Forecast for Sanctioned Projects in U.S. Deepwater Gulf of Mexico



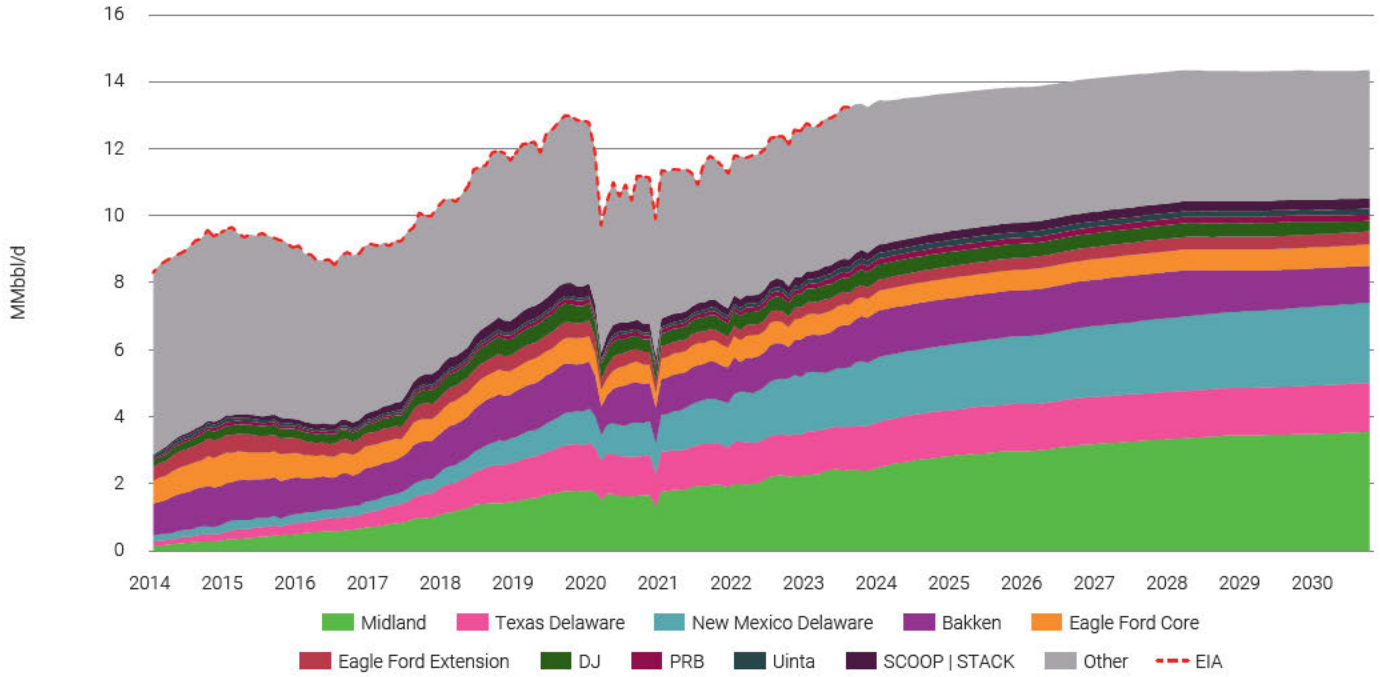
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FIGURE 2 | U.S. Deepwater Gulf of Mexico Exploration Trends



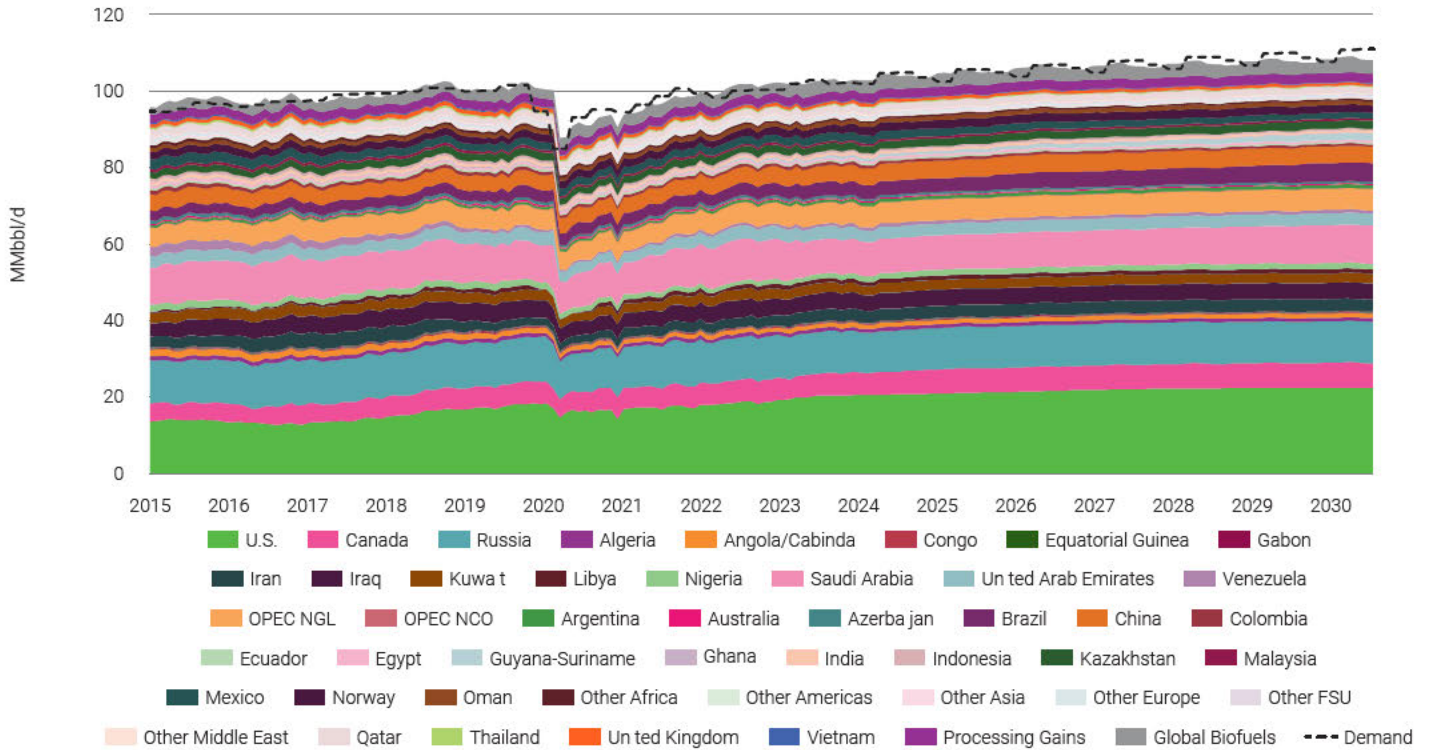
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FIGURE 3 | U.S. Oil Production Forecast



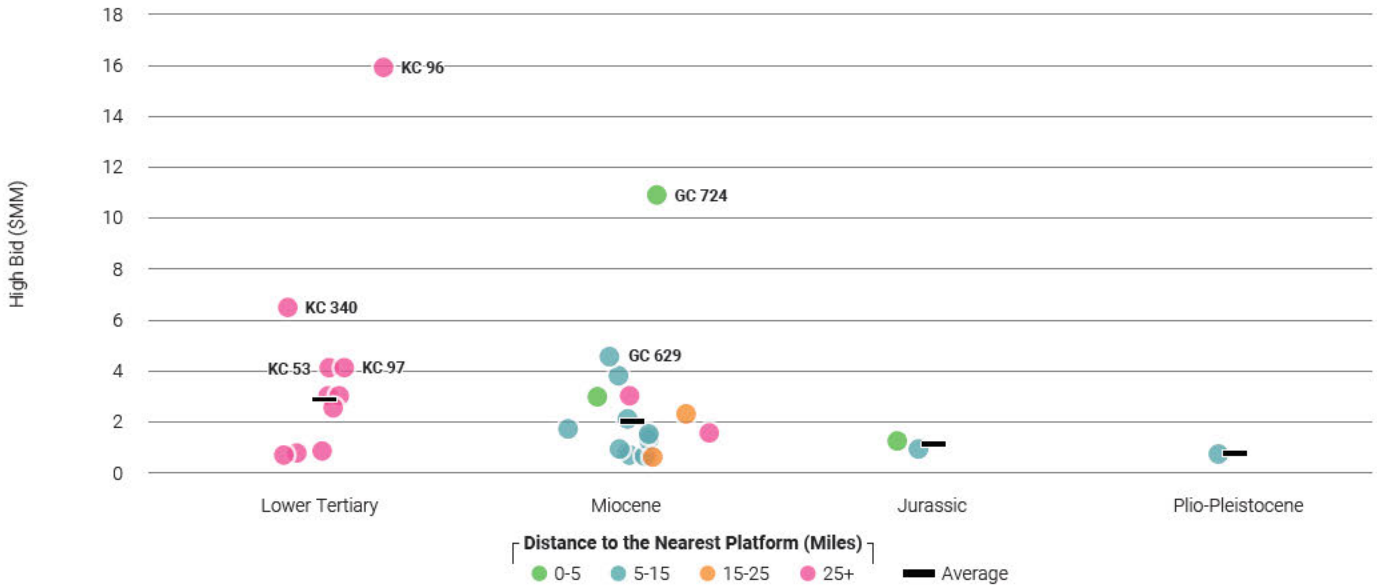
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FIGURE 4 | Global Oil Supply and Demand Forecast



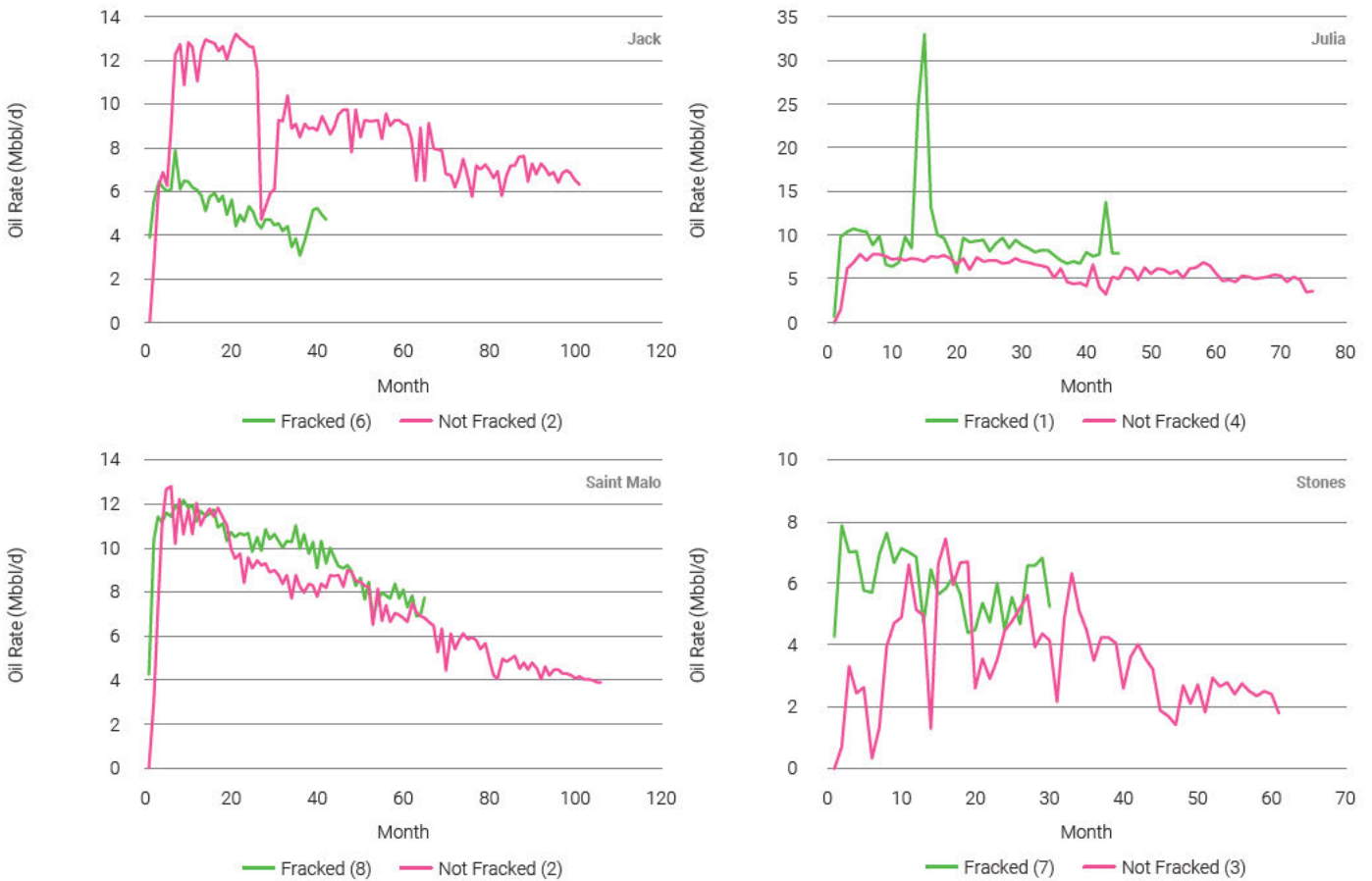
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FIGURE 5 | Blocks that Received Two or More Bids in U.S. GOM Lease Sale 259



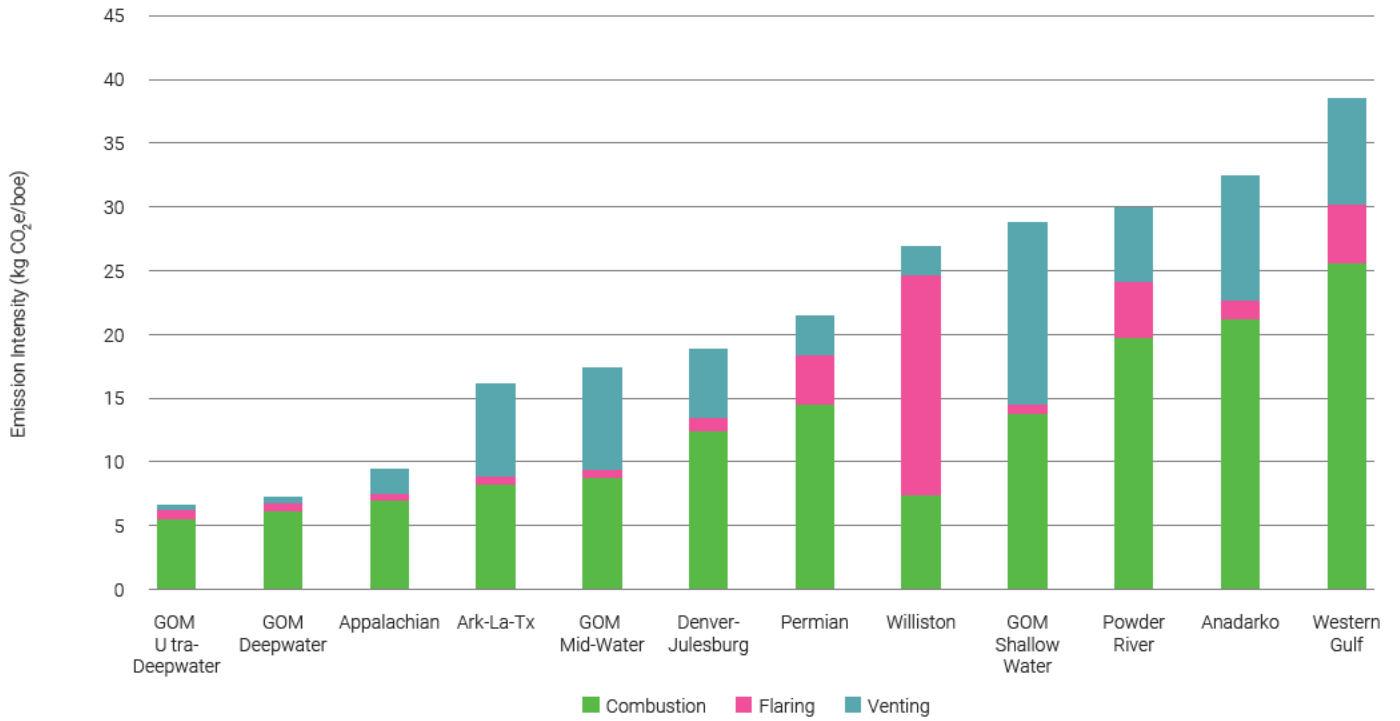
Source | Enverus Intelligence® Research

FIGURE 6 | Comparison of Performance on GOM Fields With Fractured and Non-Fractured Wells



Source | Enverus Intelligence® Research, BOEM

FIGURE 7 | 2022 GHG Intensity in the U.S. GOM vs. Onshore Basins



Note | Our analysis includes emissions from the onshore production, gathering and boosting, natural gas processing and offshore production sectors. We calculate intensities as emissions from all four sectors divided by production from just onshore and offshore production.
 Source | Enverus Intelligence® Research

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