



Blogger Conference Call with Robert Ryan, VP of Global Exploration, Chevron

Posted by [David Murphy](#) on May 30, 2009 - 10:28am

Topic: [Geology/Exploration](#)

Tags: [american petroleum institute](#), [chevron](#), [development](#), [east coast](#), [exploration](#), [gulf of mexico](#), [off-shore](#), [original](#), [production](#), [robert ryan](#) [[list all tags](#)]

This post is a summary of a conference call for bloggers hosted by the American Petroleum Institute (API) on Friday, May 15th, 2009, from 12 to 1 pm. The conference call was set up as a Q & A session where questions from numerous bloggers were fielded by Robert Ryan, the Vice President of Global Exploration at Chevron. Other participants that fielded some questions were Justin Higgs, News Media Advisor (Chevron), Mark Kibbe, Federal Relations Director (API), and John Felmy, Chief Economist (API). The following is an abridged version of the transcript, focusing on some of the more interesting questions and answers. A complete transcript of the conference call and recording of the call can be found [here](#).



Bloggers who participated in the conference call are as follows: Alan Stewart Carl, [Donklephant](#); Bob McCarty, [Bob McCarty Writes](#); Brian Westenhaus, [New Energy and Fuel](#); Bruce McQuain, [The QandO Blog](#); Buster Cagney, [The Oil Drum](#); Chris Nelder, [GetReallist](#); David Murphy, [The Oil Drum](#); Devil's Advocate, [Right Wing News](#); Geoff Styles, [Energy Outlook](#); Jim Hoft, [Gateway Pundit](#); Joy McCann, [Little Miss Attila](#); Krystle, [Bearing Drift and Crystal Clear Conservative](#); Tony Eriksen, [The Oil Drum](#); Tim Hurst, [Green Options](#); Stephen Rhodes, [The Republican Temple](#)

I have organized this summary by subject matter, which included the issues of: peak oil, oil prices, exploration costs, new leases for off-shore exploration, climate change policy, and Chevron's new(er) projects. The first section, however, begins with excerpts from Mr. Ryan's opening statements.

(note: all block quotes are responses from Mr. Ryan, unless otherwise noted)

We [Chevron] explore, we produce, we refine, we market. And that's kind of the basic picture. Some companies do all, some do just pieces of it. My piece of that value chain is way up front. And it's the exploration component. And it's probably one of the least understood pieces of that. The public doesn't usually see it; it's not the corner service station. They don't drive by a refinery; they don't see a field, necessarily, producing off in the distance...

When it comes to the exploration world, people focus on first discovery to first

production. And that's typically a lot of industry benchmarks, measures, the stock market looks at us and how quick we are, et cetera. But I go back way before that. And to give you an example in Tahiti, we first started looking at the Tahiti play and transit around 1994.

In '96, they had improved the concepts enough where we started to bid and we started to bid aggressively. And by 2002, had a discovery and of course, first production a week ago. So you might say my measure – my teammates' measures – it's not first discovery – or say discovery to first oil. It's first hunch to first oil. When is that geologic concept first being developed?

When I was first working in the Gulf of Mexico out of our New Orleans office, deep water was 600 feet. We now have – Chevron has a well we drilled a few years ago in just over 10,000 feet of water – unheard of. Early in my career, when we hit salt, we stopped drilling; we were done. That's all Mother Nature provided in the sense of rocks to look for. Now, we drill through 10- to 15,000 feet of salt just to get to the prospect, which is an example, for instance, at Tahiti.

So things have changed fundamentally. Does it make a difference? You bet it does.

PEAK OIL

The Devil's Advocate: "I was wondering if you could comment or respond to any of the people that claim that we are eventually going to reach peak oil."

Well, sometimes I view that as an academic exercise, it's difficult to get your arms around it, and let me give you an example. Years ago I did a Google search in the Gulf of Mexico, and you type in Dead Sea and you type in Gulf of Mexico and you'd find all kinds of stories about the Gulf of Mexico had reached its peak and it's over. And, lo and behold, we got new geologic concepts; we've got the capability to drill deeper, we've got 3-D seismic, we've got the ability to look below salt, et cetera, et cetera, et cetera.

And the point is we've got plays there that we never dreamed of, for instance, the Wilcox – which, by the way, Chevron's one of the top leaseholders there in that play. No one would have ever dreamed of an oil province like that in that water depth in the Gulf of Mexico. If you can apply some of that same thinking to some of the other hydrocarbon basins around the world – what have we not found yet? Where does it end?

To quote my colleague Paul Siegle we might start talking about peak oil when we've addressed peak technology or peak geologic concepts. It is a non-renewable resource? You bet. Is there a peak one day? You bet. But, at the moment, things just keep moving forward, and I don't think we've tested everything we know.

Emailed question: "despite technological improvements, global oil discoveries have been declining. What do you make of that?"

Yeah, that's a fair statement. I looked at – I plotted the discoveries for about the past decade from Wood Mackenzie, just to give you my source. And we looked at it, and you could – if your eyeball just went across the bar graph, you could see, well, the number of discoveries was – (audio break) – the size of discoveries – the number of discoveries greater than 500 million barrels, if I recall – I don't have the chart in front of me – was dipping. You could say, well, is that a trend, that the big ones are getting fewer, or not? And yes, I mean, you do see that trend.

Now, in the case of Chevron, to just get kind of on a micro scale, we've averaged an add of over a billion (barrels) a year since we put in a new exploration strategy back in 2002 with the Chevron and Texaco merger. That's more than we expected to find. It's now over eight-and-a-half billion. We continue to have a very strong queue of exploration opportunities for what we called impact wells – we define that as greater than 100 million barrels, the prospect size. We continue to have a strong queue. Every time we think it's going to dip and say okay, the queue is running out, we're running fewer impact wells, impact prospects, it seems to continue to hold up.

And so that's just a small, micro view in the sense of Chevron, we're just one piece of this giant puzzle. I can't speak for my colleagues but, you know, so far, so good. But I'd be naïve to not say that, over time, yes, I mean, things would probably get smaller. And you could look at different data sets and say some of them are getting smaller.

OIL PRICES

Mr. Nelder: "Given the incredibly high expense of doing these deep-water projects, I wonder what Chevron's current target is for the price of oil for the next five years or so in making it's business decisions to proceed."

Well, I wouldn't be able to share with you what our forecast of oil and gas prices would be, but I can tell you that we look at a myriad of price ranges and we also test all of our projects at a low end as well as a high end to look at their economic viability.

From an exploration sense, certainly I'd be naïve to say price isn't important. So that's kind of the wrong way to say it. But our piece is so long term that we try to just make sure that the projects are viable from both a technical and risk point of view as well as an economic test.

And we keep moving forward. For instance, when we bid on the Tahiti play in general in 1996 who would have ever dreamed of the prices we've seen on and off just even in the past year. So any assumptions we made on price would have been incorrect. But the project was viable at the price we tested it at then and we were willing to take that risk to drill the first well.

Emailed question: "the Chevron share price tracked crude oil prices pretty closely from 2002 through January of 2007. As the oil prices moved above the \$100 per barrel range, Chevron's share price stalled. Other major oil companies saw a similar situation. Do you think that the market was saying that Chevron would either be nationalized or suffer major windfall taxes if oil prices rallied above \$100 a barrel on a sustained basis?"

Answered by Mr. Felmy: Remember, these companies are not just upstream producers. They also have refining operations. And for a substantial component of last year, when you saw these ramped-up prices of crude, refined products did not follow. And so that is – any kind of analyst will look at the combination of the operations in assessing what’s going on. So it’s probably more likely, just fundamentals.

EXPLORATION COSTS

Mr. Murphy: “I was wondering if you could give me a sense of how the expenditures in the exploration and development and production have changed through the lifespan of these projects in the last 30 years. For instance, has the amount of expenditures for exploration increased while production has remained relatively flat, or whatever the case may be?”

Yeah, we definitely – of course costs have gone up. And some of that is a fundamental of just cost increases as the economy heated up over the past few years. But on the other side of the coin, you look at it if we were drilling in the wells in the past in 100, 200, 300 feet of water, now we are drilling in the six-, seven-, 8,000 feet of water. You, of course, you can understand just fundamentally it’s going to be more costly because of the capabilities of the rig, et cetera.

Within the past, say, eight years that I’ve been involved with Chevron’s exploration from a senior leadership role, both in my international position prior to this one and the global one, we’ve gone from about a billion dollars a year to approximately 2 billion (dollars) a year. So you could say we doubled it.

Now, did we double the number of wells, exploratory wells, we drilled in that? No. The good news is a lot of that funding increase was due to appraisal wells. We have had a lot of success, the success in wildcats, triggers, appraisal well -- appraisal wells typically don’t add new resources but what they are doing is reducing the uncertainty with the discoveries. But that comes out of an exploration budget. And it’s good news.

Pre-development costs, where you start to get your ideas and concepts around what the field could be, that’s in an exploration budget. So with our success, those went up. So you might say a good piece of that increase is due to success. Another piece of that increase was of course due to costs going up for both wells and both seismic.

Our exploration budget this year in ’09 is about flat with ’08. And we’ve been hovering at say, just under 2 billion (dollars) for a couple of years now.

NEW LEASES FOR OFF SHORE DRILLING (i.e. East GOM and East Coast USA)

A good portion of the conversation was on the topic of new leases for offshore drilling and Mr. Ryan had some very insightful points on the subject. Here are some excerpts.

Will there be exploration allowed in the east Gulf of Mexico, the East Coast of the U.S.

and the West Coast? That's difficult to predict. But it would have potential, just like these other unexplored areas would.

And you've probably all about the MMS Outer Continental Shelf assessments of the potential there. Right now, those are just numbers done by studies with very old data. And until we get a better sense with more modern seismic we'll never know, and in fact, until one day we ever put a well there, we'll never know.

Mr Westenhaus: "There's a lot of Gulf of Mexico besides just the western shore of the Gulf that's explored now. I'm curious as to how much more the major independent oil companies are going to get access to. Things are changing in Mexico so I'm curious as to what your feel is as what might become an opportunity there."

Well, I'd hate to speculate on the plans of the Mexican government and Mexican people. As you know, there's no access to that for international companies as we speak. Do geologic trends stop at international boundaries? No, they don't. And so when you look down at some of our discoveries and prospects down in the southernmost Gulf of Mexico – southern meaning closest to the U.S.-Mexican border – some of those trends do continue across. It's a setting that, as you can imagine, it takes a significant technical capability to be able to drill in those water depths. And you might say that drilling is the easy part. If you make a discovery, you then have the challenge of developing it. And that's a huge challenge, as evidenced by just you seeing our projects now: Tahiti and Blind Faith and others while the water gets even deeper as you head there.

Ms. McCann: "Just wondering what would be required to get modern, state-of- the-art seismics for some of the areas, particularly off of the U.S. coast? What would it take? And some of these other more promising arenas around the world, what would it take to do that?"

Well, we shoot seismic, of course, all over the world every day. And we don't do it ourselves; we hire seismic vendors, different companies that actually do the work. But we typically would design the survey if it was one shot for us and work with that vendor to get it done.

If you were to go onto the East Coast, you'd have to get a permit to get this done, and the seismic companies would pursue that. And of course, the struggle would be, if you never had any chance at all of exploring, why would they go shoot it, and why would we buy it, or why would we work with them to acquire it?

Follow-up by Ms. McCann: "Does this imply a level of catch-22? I mean, if you can't really get terrifically accurate surveys of what's out there, then how do you convince people that it's worth consenting to have this done?"

You're right, it is sort of a catch-22 because people can – they see the big numbers, but you remember, those are big numbers from basically old data sets.

So I think a phased approach, where the country would really get to understand its resource base – and that’s what this all boils down to, you know, if you make the claim that it’s better for the economy, which I believe it is, and the experts, I believe, agree. If you believe it’s better for national security, then we should have a better handle on our resources. It’s an inventory; it’s no different than going back to understanding the inventory in a warehouse, and what you have, and what’s back there supporting your business.

This is the same thing; supporting your economy, supporting your national security, supporting jobs. Hey, let’s get an understanding of those numbers; let’s get an understanding of what the country’s resource base is. First step: Shoot the seismic, understand if the numbers are holding up. And then if they are move forward, and if they aren’t, we have an answer and we move on to the next thing.

Follow-up question by Mr. Styles: “I’ve heard people articulate the view that major oil companies would actually prefer to go into this totally blind and be able to capture the entire upside from resolving precisely those uncertainties, as opposed to having a national inventory done to actually assess what might be there so that by the time you bid, there’s a lot less uncertainty and presumably, the price is a lot higher. Could you comment on that?”

Well, yes, I think my words might have come across like I was looking for a national inventory, but when you think about it, it’s not. Back to the Gulf – seismic shot by – speculative seismic is shot by seismic companies all the time. And let’s go back 15 and 20 years ago, or even longer, when deep water was 1000 feet and things like that. Well, companies were shooting seismic in the deep water, then – 2-, 3-, 4000 feet. You might say they were taking an inventory. You might say they were going to understand what is there before we even want to bid.

Is that a national inventory? Well, you might say it is, because those are federal leases and the government does get the seismic. So in a sense, it is. But at the same time, it’s just a data set to allow companies to make good business decisions. And so maybe there are some companies that would just like to bid, you know, on a big swath of acreage without knowing anything about it, but prudent business decisions, we usually would prefer to know what we’re bidding on.

CLIMATE CHANGE POLICY

Mr. Hoft: “Congress next week is likely to vote on the cap-and-trade plan in the committee and Henry Waxman had announced that this week. I’m wondering if Chevron has any idea how this will affect their exploration or their industry as a whole?”

Answered by Mr. Kibbe: Primarily what is being looked at in the Waxman-Markey climate bill are provisions that primarily will affect the downstream, the refining sector of the industry.

The two main issues are, what they’re looking at, the allocations: basically the

allowances or permission to release greenhouse gases going forward and how those are allocated among industries. And our message has, again, just been, look, we're going to rely on all of these energy resources going into the future so let's treat everybody on an equitable basis.

Some of our concerns there is the Waxman-Markey bill starts with a 2005 baseline. And, as we look into the future, more and more of the fuel that refineries are going to have to use will come from heavier crudes, Canadian oil sands, for instance, and things along those lines, which will be more difficult to refine and could very well have a larger carbon content.

So if you're starting from the 2005 baseline and go down from there, it's going to be very difficult to satisfy energy needs with respect to transportation and still meet your carbon- reduction commitments.

CHEVRON'S NEW(ER) PROJECTS

Mr. Eriksen: "Could you please just give a bit of background of how the feed process in Jack and St. Malo was going and so if any more appraisal wells are going to be drilled on those structures?"

I mean, we're in that feed phase as we move it into the first quarter of '09. It's looking like it's something we could work to produce both fields or both discoveries together through one common facility.

We're excited about it. I mentioned the Wilcox earlier. If you don't mind, I'll just touch on that. I mean, it's a 300-mile-long play, plus. It's got, you know, you've seen ranges of, say, three- to 15 billion barrels of potential and, of course, when you see a wide range like that, that tells you that it's early in its exploratory phase as an industry, not just Chevron's.

So far the industry and Chevron have had good success rates. They are quite good success rates. The oil that's been – we found a good bit of oil so far and numerous discoveries both Chevron and our competitors. The key is, you know, getting that oil out of the ground. In fact, you may recall that press release we had a few years ago on the flow tech with Jack. That was very, very good news because, at those depths, with those reservoir conditions, to get that flow rate we did, I think some 6,000 barrels a day, we were quite excited about that.

Mr. McQuain: "Speaking of all those capital projects, how many does Chevron have ongoing right now, or under development right now around the world?"

Yeah, that's something, as a shareholder, I'm quite proud of, to tell you the truth. We've got forty, plus or minus, over a billion dollars our share. So that's quite a queue, and I guess what puts a smile on my face is the fact that those things come from – well, not all of them, of course, from recent exploration – but in general, where does a new field come from? It comes from exploration. So it's really nice to look at that list and check off how many have come from success that we've had in exploration in the past eight years,



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