The Rise of New Bodacious Independents

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Lovie has held various leadership roles in industry organizations, including SPE as a Facilities Group Chair, DeepStar as a Contributors' Co-Chair, and the Rice Global Engineering and Construction Forum as Industry Co-Chair. He maintains registration as a professional engineer and naval architect in Texas, Newfoundland, and the European Union. He earned a BSc degree in civil engineering from the University of Glasgow and an MS degree in applied mechanics from the University of Virginia where he was a Fulbright Scholar. He holds several patents and is the author of numerous published papers.

As almost everyone knows, there has been a dramatic consolidation in the oil industry over the past 2 decades. However, many may not realize the extensive impact this shift has had on independent producers and how these companies have reinvented themselves in the face of change. Of 36 publicly traded independent producers in 1997, only 12 remained in 2007. **Fig. 1** charts the growth of the remaining independents, mostly by acquisition, measured in enterprise value. A few have emerged as so-called "super independents," such as Anadarko and Devon, followed by Apache, Chesapeake, and XTO. To put these companies into perspective, Anadarko and Devon have grown individually to become the same size ChevronTexaco was 5 years ago and more than three times the size of Unocal when ChevronTexaco bought it 3 years ago. The chart also illustrates how the corporate landscape has changed since 1997. A decade ago, Unocal was the largest US-based independent. Today, Unocal and many other familiar names are gone.

Some of these surviving independents have achieved stature on an international scale. If you were to combine Anadarko and Devon, you would create a company larger than the national oil companies of Spain (Repsol) or of Norway (StatoilHydro). The growth of these super independents is also evident in the size and complexity of the field developments they are willing to tackle. Consider the Chuck prospect in the U.S. Gulf of Mexico (GOM), a USD 100 million wildcat being drilled in 6,500 ft of water. Devon is operator of Chuck, with a 40% interest. The company and its partners, ExxonMobil, ConocoPhillips, and Maersk, are drilling through a substantial salt canopy, targeting a Lower Tertiary reservoir more than 33,000 ft deep, and the Chuck exploratory well is expected to reach total depth this quarter.

The GOM's deep water is a frontier even for the super majors. Yet Devon runs second behind only Chevron in acreage within the trend. Despite the technological challenges that stretch the industry to the brink of its capability, Devon has flourished in the deepwater environment. So far, the company has been involved with seven wildcat wells in the Lower Tertiary. Four have been discoveries, two were unsuccessful, and completion of the Chuck well is expected later this year. Looking ahead, Devon has 18 additional Lower Tertiary prospects waiting to be explored.

In July 2007, the enormous Independence Hub began producing natural gas from 10 separate deepwater fields in the eastern GOM. The hub's designers stretched the limits of conventional construction to build a platform capable of producing 1 Bcf/D of natural gas. The Independence Hub is more than a technological feat. As its name implies, the hub represents a new day, a new stature, and a new role for the nation's independent energy producers. It represents the collaboration of Anadarko, Hydro, Devon, and Dominion. The companies combined innovation and cooperation to achieve an objective they could not have accomplished individually.

These super independents do not seem to be carried away with their size. In this new era, the companies recognize that they are at the same table with the majors. The risks are the same and so are the stakes. They have responded to the hazards that come with multibillion-dollar field-development projects with sophisticated project-management processes and capital disci-

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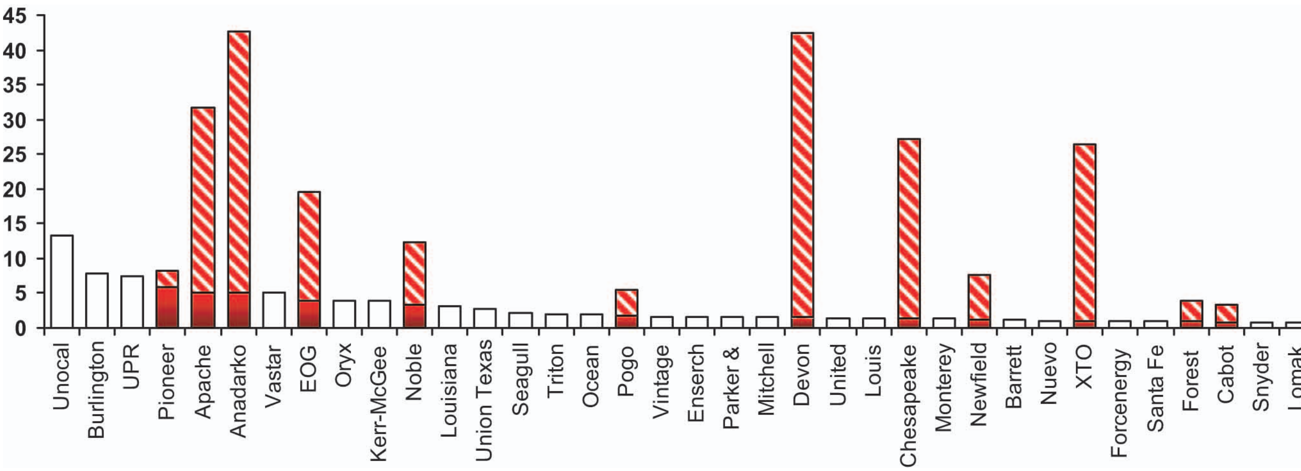

Fig. 1—US Independents, 1997 and 2007, by enterprise value in USD billions. Shaded portion is growth by acquisition. Empty outlines are companies no longer in existence.

pline. Like the majors, they work to minimize the risk of overruns, and they manage the delays and complications that are often created by tight supply chains, escalating costs, and unproven technologies.

Through the last decade, these super independents have risen into a new leadership role within the industry. As their enterprise values have grown, their purchasing power and influence within the industry have grown along with their demand for comprehensive worldwide oilfield services. Service companies from Europe are discovering the need to build relationships with a whole new set of customers. The US oil companies the Europeans knew from the North Sea a decade ago represent only a fraction of the prospective US customer base today.

It used to be that the world had majors, the Seven Sisters, and independents. In recent years, other labels have surfaced such as super majors, independent refiners, independent E&P companies, and integrated oil companies, all with their own defining characteristics. Perhaps it is time for a new genre in our industry, known as the "new bodacious independents." It is a label that may do the best job of describing what Anadarko and Devon have become, and what Apache, Chesapeake, and XTO are becoming. They are independents with remarkable agility and an adventurous drive to tackle the industry's most extreme technical challenges. They stand shoulder to shoulder with super majors in some of the world's most complicated technical environments, such as the GOM's deep water and Canada's oil sands.

Our industry's competitive landscape has changed. Today's independents have redefined themselves across North America and around the world through their technological achievements. They make up the backbone of the U.S.-based industry, accounting for most of the nation's oil and natural gas production. They represent a new breed of independent, a product of the industry's great consolidation. **JPT**

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