

Exploring New Zealand - an Independent's Perspective

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Abstract

Swift Energy Company is quite typical of American independents. Founded in 1979, the company has focused its activities largely onshore in the United States utilising a strategy consisting of an aggressive drilling program directed at the development of core areas coupled with targeted exploration in known geological basins. Swift's utilisation of advanced technologies has enabled it to grow dramatically; achieving a 40% compounded rate of growth in reserves over the last five years.

Several years ago, Swift made a conscious decision to add an international component to its long term strategy. This is a decision that we have seen several United States independents make and a trend that we would expect to see continue. Independents have grown substantially, weathered through the tough times, become highly skilled through the utilisation of advanced technologies and have developed a high degree of financial sophistication. They are agile, quick and tend to be focused niche players in a way that allows them to be very competitive in their areas of operation. They have come to realise that they can be competitive in the international arena as well.

New Zealand offers up many of the things that any independent might find attractive. Aside from the delightful people and spectacular geography, the country offers first and foremost a known hydrocarbon-producing basin with ready availability of geological and geophysical data along with an existing infrastructure and market. With excellent opportunities for sand development and hydrocarbon sourcing many exploratory targets, both structural and stratigraphic, remain. Additionally, New Zealand has a government that wants you here and provides terms that are favorable for the nature of high-risk exploration. This factor combined with predictable regulation, reasonable tax rates and a well-defined legal system make New Zealand attractive to Swift as well as other independents.

Introduction

Good morning ladies and gentlemen. I appreciate the opportunity to talk with you today and share the perspective of an United States independent on exploring in New Zealand.

I am, in fact, wearing three hats today while speaking to you and I would like to talk a little bit about each one. First, as an officer of Swift Energy Company, I want to tell you a bit about our company, who we are, what we've done and discuss our strategy both in the United States and internationally. Secondly, as chairman of the International Committee for the Independent Petroleum Association of America (IPAA), I want to talk a bit about America's Oil and Gas Producers and their increasing role around the world. Then while wearing the third and most important hat, that of a New Zealand explorer, I want to address some of the reasons that we are here and let you know why we're excited about the opportunities that we see on our permit areas in the Taranaki Basin.

Swift Energy - Who Are We?

Some of you may know who we are, but for the benefit of everyone, let me give you first a quick overview of our company. Swift Energy Company was founded in 1979 by Earl Swift and has developed an enviable record of growth over the last 19 years. The company is primarily a United States onshore natural gas producer with 87% of its current reserve base being natural gas. We are focused on exploration and development in our core areas, which are primarily in Texas, Louisiana and the Rocky Mountains.

Over the last 10 years, the company has been able to achieve a 40% average compounded rate of growth in its reserve base. Our annual replacement of production has been 550% over that last five years. Our reserve base consists of quality, long-lived, proven reserves with a reserve to production ratio of about 15. Our reserve base is 60% developed leaving a significant amount of proven but undeveloped reserves which, along with a substantial inventory of undeveloped acreage, position the company to continue to maintain this track record of growth.

The company's strategy consists of aggressive, but low-risk, drilling programs in its core development areas along with focused exploration in known geological basins. Exploitation of advanced technologies has been a key component of our strategy. Additionally, although our budget is largely focused on the drill bit, we also recognise that selective acquisitions of proved oil and gas properties could be an important element of continued growth, so we continue to look for opportunities in this area. Additionally, in recent years we have added exposure to international opportunities as a component to long term strategy. This is why we are here.

Internationally, our exploration strategy focuses on assets with significant reserve potential located in known producing basins with familiar geologic systems. We look for reasonable development timetables and acceptable contract terms. We want to retain a significant working interest and operate the project but bring in a partner to reduce financial risk.

Utilisation of advanced technologies has been a fundamental component of our success. Principal advanced technologies focused on by Swift include substantial in-house seismic experience utilising 2D, 2D swaths and 3D analysis where appropriate; tight-sands technology including innovative fracturing methods, coiled tubing technology and slim hole drilling techniques; and lastly horizontal drilling technology with single and dual laterals running up to 2,133.6 m in length. Our expertise in each of these areas will be important to our success here in New Zealand.

Independents - Going Global

Well, enough about us, but I hope the overview of our company helps put some perspective on my comments. Now let me turn to America's Oil and Gas Producers and their increasing role around the world.

Today, there are many success stories of independents expanding operations around the globe, but it hasn't always been that way. In fact, until the past few years few independents put much thought into pursuing opportunities outside North America. Today, we're seeing just the opposite. Independents are aggressively expanding overseas and stepping up their spending abroad.

Why are independents "going global"? There are several reasons. Although there are still many attractive projects in the United States, domestic opportunities for growth are declining. United States producing basins are more mature, the prospect sizes are smaller, costs are increasing and there is intense competition. Acquisitions from larger companies, the deep water Gulf of Mexico and enhanced technology still provide opportunity for growth in the United States, but today's independent has started to look elsewhere.

Many new opportunities have begun to open up internationally. Both with the fall of communism and the realisation by many countries that state-owned monopolies aren't competitive, many new areas are now open to foreign players. Many large basins have not been fully exploited. Producing fields need to be optimised. Areas are available with modest exploration risk as well as higher risk/higher potential exploration. There are still many major unexplored frontier areas. For any of the large United States independents as well as many smaller ones, it is not simply a matter of whether they go international but rather when and how.

Additionally, we've seen several governments outside the United States who have been seeking out United States independents to come and invest in their countries. Independents are building solid, long-term working relationships with these countries.

Why do these countries want independents? For the same reason that independents have been successful in America - they are niche players, technologically advanced, focused, efficient and quick, and have become experts at accessing the capital markets. According to many analysts and others within industry circles, independents are fast becoming near-equals of the majors.

One other exciting thing I might point out to you all while talking about independents is the success of the North American Prospect Expo. This is an event that began back in 1993 and is co-hosted by IPAA and has become the singular event of the year where everyone involved in exploration and development in North America shows up to buy, sell or trade deals. In January 1999, the event is expanding to include international opportunities and we expect about 10,000 participants to be in attendance looking for exploration opportunities. I would encourage all of you to attend. You will be truly amazed.

Exploring New Zealand

Now, we've talked a little bit about Swift and United States independents, but what do we see in New Zealand that brings us here. Does New Zealand offer the kinds of things that might attract other independents?

To be sure, New Zealand offers many things that are attractive. To begin with, the country is certainly a wonderful place to visit with delightful people and spectacular geography. So much so, that my wife and I spent our honeymoon here. Terry Swift and his wife had, in fact, visited here some 10 years ago. I have always been fond of any place where I could speak the language, eat the food and drink the water. I wish I could tell you these were the real reasons we're here. Obviously not.

If we go back to Swift's international exploration strategy, we'll see that the real reason is that New Zealand offers the right set of components that fit that strategy. Many other independents have similar strategies such that New Zealand will also provide a place of interest for them as well.

Our exploration strategy focuses on assets with significant reserve potential that are located in known producing basins with familiar geologic systems. We look for reasonable development timetables and places with acceptable contract terms. Additionally, we want to retain a significant working interest and operate, but we generally want to bring in a partner to reduce financial risk and thereby allow us to spread our money over a greater number of projects.

One of the first things we noticed was that the government of New Zealand wanted us here. We found this true not just in their words but in their behavior. That's not necessarily true everywhere. They recognise the value of a revitalised exploration and development effort within the country both as an economic driver for the economy as well as ensuring a stable, long-term supply of product. Not only was it obvious from the attitude of the ministry officials that they wanted us here, but more importantly, they had created contract terms that were attractive. Contract terms that seemed realistic in terms of a work program, recognised the high-risk nature of exploration and structured so we could both make money.

Secondly, we became infatuated with the Taranaki Basin once we began looking it over. Clearly this qualified as a known hydrocarbon-producing basin with good geologic systems and there was ready availability of geological and geophysical data with which to work with. These things helped us focus on the permit areas where we operate today. In particular, the available geologic and seismic data as well as many well logs and production histories allowed us to target particular areas within our permits areas.

This early work we did in analysing existing information didn't tell us everything but it did allow us to direct some additional seismic work on two particular prospects. From all of this data, we have currently developed two prospects that we hope to drill and are pursuing still others. The first one that we hope to drill later this year is our Rimu Prospect which is a conventional structural play defined by seismic with four-way closure. We estimate potential reserves of approximately 1 Tcfe. The second one is our Tawa Prospect which is a stratigraphic play and we hope to drill it next year.

The other important things that we found in New Zealand were an existing infrastructure and market. These things help bring about reasonable development timetables that are critical for independents such as Swift. Additionally, predictable regulation, reasonable tax rates and a well-defined legal system make New Zealand an attractive place for us to do business in. The one disadvantage that I might sight is the fact that it is an island and is located a long way from anything else. Of course, this is one of the things that make it such an attractive place to live.

Conclusion

In conclusion, I would like to say that all of us at Swift are pleased to be exploring in New Zealand. Our company has been blessed in having success in building reserves and we hope that New Zealand will play an important role in our future success. America's Oil and Gas Producers are increasingly going global and will make for good partners in many international exploration ventures. We're delighted to be involved in a country that truly wants us here, is blessed with a wonderful natural resource base, developed reasonable contract terms and has predictable regulation, reasonable tax rates and a well-defined legal system.

Thank you all for listening. We're glad to be a part of the exploration activity in this wonderful country.

Author

Bruce Vincent is Senior Vice President-Funds Management of Swift Energy Company and has held prior management level positions in the oil and gas industry for over 25 years. He serves as Chairman of the International Committee and member of the Board of Governors of the Independent Petroleum Association of America. He holds a BA in Business Administration from Duke University and a MBA in Finance from the University of Houston.