softened rig market," Managing Editor Bruce Beaubouef wrote.

"Although leading-edge day rates are averaging $230,000, the overall average for rigs in the Gulf of Mexico is still $470,000 – a legacy of contracts signed during the days of $100 per barrel," Beaubouef stated quoting a study by Wood Mackenzie. "While smaller players have taken advantage of the softer rig market, bigger players have been left behind. This $240,000 gap between the leading-edge and average contracted rates will be the key driver for contract cancellations or renegotiations in 2017."

The report stated lower rig rates will help bring well costs down along with improved efficiency and project design. The story cited Shell's Vito project that has been redesigned with a smaller facility and lower well count, which has helped bring the breakeven down for $60s per barrel to the low $40s per barrel.

"For this year at least, independents are expected to focus their limited budgets on development activities, resulting in fewer wildcat wells," the story stated.

The decline in activity creates problems for service and supply companies who are feeling the squeeze on price and even having enough work for employees. Only eight deepwater projects went online in the Gulf in 2016.

The article noted that the depressed market condition leaves little hope for a quick turnaround in 2017.

However, there is some optimism.

"Despite the persistent market gloom, analysts are forecasting continued growth in the deepwater Gulf through 2020. The region currently supplies 15 percent of daily U.S. oil production, more than the Eagle Ford (in South Texas) or Bakken (in North Dakota), and is expected to remain just as relevant by 2020," the article stated.

OILMAN COLUMN

Winter is Coming

By Josh Robbins

I have no idea whether or not Games of Thrones has this title copyrighted. But, for the oil and gas world, there is no sweeter statement. The general consensus is that this winter will be, by far, the coldest we've had for a while. Our inventory is lower than it should be, and that will play a crucial role in the value of an MCF in the winter months. With that being said, you can't give away a deal primarily made up of gas assets.

The major reason has nothing to do with winter, with gas volatility or with location. It has to do with current midstream contracts. Unless you (as an operator) have a significant amount of gas going through pipe, you have absolutely no leverage against the fee structure that midstream currently has in place. That fee structure eats the vast majority of available profits, and is causing a number of wells to be shut in entirely. Shut in wells don't sell, because shut in well economics start in the red.

Savvy operators (usually ones with enough leverage with midstream companies through total production) are picking these gas properties up for next to (and sometimes less than) nothing. When gas jumps in price this winter, these gas wells will be well out of the red. So, thank goodness you can give away a gas deal right now, because buyers can have their pick of targeted wells.

Josh Robbins

These wells (at least for the most part) hold more acreage, hold deeper rights and are less money to operate than their oil counterparts. These are all very good boxes to check in 2017. And the best part is these deals are everywhere. They are easily negotiated and quick closes.

When you sit down with your team, remove the word "non-core" from the discussion. Everything is core if it's in the black in 2017. Your team knows the area that is your company's bread and butter. We (Beachwood) work with operators to identify their "targeted acquisition plan," finding the geographic area that best suits their current acquisition needs. Within this area, you can find immediate acreage and production that is available today.

We can literally add more dollars to the bottom line with one phone call. It's just knowing where to look. Find your target area, know your focus, and add more money to your company!

Happy Hunting and Enjoy this Winter!