Energy Intelligence

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Strategy: Exploration Survives Transition Pressures

Exploration has survived oil price, pandemic and transition pressures, but scaled-back activity has closely focused on prospects offering low-cost, low-carbon barrels. More flexibility could come from higher prices, supply stresses and investor support, but still within tight limits, our analysis shows.

- **Appetite for speculative exploration has survived.** Majors and independents are still finding a role for carefully curated exploration — including select frontier opportunities — under new low-cost, low-carbon strategies. Covid-19 budget cuts saw IOC exploration agendas and departments slashed in 2020, while energy transition pressures raised questions about their future. But many top global IOCs are still hunting for new resources even under ambitious energy transition plans — and for some, with more appetite for speculative drilling than expected, our conversations indicate. Exxon Mobil retains a frontier opportunities business unit, carefully considering risk and reward; Shell has a long list of wildcatting plans this year from Colombia to Sao Tome. TotalEnergies, Eni, Equinor and Galp all feature on our list of planned wildcats this year, which includes Brazil, Suriname, South Africa, Angola and Malaysia, among others. Independents, hit hard by Covid-19 and prior price crashes, are regrouping, with players like Murphy and Hess inching back into exploration (US Gulf, Mexico and Brazil) alongside development work.

- **High-profile successes offer portfolio uplift.** Exploration offers companies the chance to lock in future "advantaged" barrels — low-cost, low-emission and relatively short-cycle. Using these to replace legacy assets can help improve portfolios' cost profiles and carbon footprints, with deepwater considered the lower end of the carbon curve, and also provide cash to pay shareholders and fund energy transition spending. Exxon's Guyana successes and recent finds off Namibia (Shell's Graff-1 and Total's Venus) underscore the upside. Total recently said frontier opportunities like Namibia need not be considered ultra-long cycle or high cost, but with a quick turnaround can drive medium-term value. Companies also see a closing window to capitalize on acreage claimed in prior bid rounds before long-term oil demand declines. More recently, higher prices have helped unlock approvals for long-stalled offshore projects in the Gulf of Mexico (Shenandoah, Leon-Castile), Canada (West White Rose), Brazil (Atlanta) and the North Sea (Jackdaw).

- **Known basins with existing infrastructure also compete.** While frontier targets have clawed back onto the agenda, exploration is still afoot in already prolific basins, which tend to be shorter-cycle given existing infrastructure. Examples include Shell in the US Gulf of Mexico, chasing targets from new Miocene fairways to the challenging Paleogene, and Exxon in Guyana, where it plans to keep drilling 10 exploration wells per year. New horizons in eastern Canada are also in majors' plans (Equinor, Exxon, BP). NOCs are also active, with Brazil's Petrobras, Norway's Equinor and Malaysia's Petronas stepping up domestic exploration. Regional independents are making their mark in the North Sea, Brazil and elsewhere, targeting fields now less attractive to larger players.

- **Offshore gas opportunities are looking brighter.** Offshore gas prospects — especially in deepwater — are no longer viewed as non-starters with poor price realizations and high development costs. Interest has lifted as floating LNG technologies matured, global gas prices rocketed and investors have pushed a larger role for gas in the energy transition. Shell told us recently it was "molecule agnostic" in its exploration approach. Europe's push to wean itself off Russian gas has boosted prospects in the East Mediterranean after successes including Leviathan and Zohr. Exxon and QatarEnergy are weighing appraisal data for the estimated 5 Tcf-8 Tcf Glaucus well there, while Total and Eni recently kicked off drilling to appraise their Calypso discovery. Shell, Occidental and Petrobras are all planning wells off Colombia, known for gas-prone prospectivity in ultra-deep waters.

- **Supply security concerns could spur more flexibility.** Broadly, we expect the Ukraine crisis to create more flexibility for selective upstream spending given energy security concerns, new LNG import demand and trade flow reconfiguration — which should trickle down to exploration budgets. After brutal years of downsizing and consolidation, offshore drillers are already seeing higher utilization, with dayrates recently cracking the $400,000 mark. For clues on the scale of revival, we will be closely watching (1) upstream budgets, (2) progress of exploration plans under regulators, and (3) government activity on new bid rounds. Headwinds include energy transition pressures, with uncertainty persisting over future leasing in the US and licensing bans elsewhere.

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