Energy Intelligence

Energy Intelligence Premium Weekly

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Strategy: Energy Security Needs Buoy Exploration

Energy security concerns are loosening purse strings and quieting calls to halt new exploration, our analysis shows. Steady discoveries this year reinforce the merits, while high oil and gas prices remove pressures to limit budgets.

- **Energy security fears have strengthened the case for exploration.** Exploration criteria remain highly selective, but appetite is strengthening within these parameters as producers brace for major disruptions to Russian flows amid preexisting underinvestment concerns. Companies continue to seek out lower-carbon resources with breakevens around or below $40 Brent, with gas increasingly preferred given Europe's supply crisis and gas' presumed "safer" demand trajectory in the transition. Short development cycles guide priorities in both established and frontier basins, as producers hunt for resources amenable to phased, modular greenfield developments or brownfield additions to backfill infrastructure. Host governments have been slow to advance new resource access opportunities despite this more supportive backdrop, but strong interest in available rounds and direct negotiations — primarily in Latin America — underpins our expectations for exploration spending to start rising again next year.

- **First-half discoveries already exceeded last year's results.** High-impact exploration is picking up and has delivered 51 discoveries so far this year, versus 48 in 2021, our Exploration Activity Monitor shows. Guyana/Suriname (10 discoveries YTD) and Norway (13) top the list, alongside gas-weighted discoveries in Egypt (5). Standout discoveries include Baja (APA's first on Suriname Block 53), Venus and Graff (Total and Shell's respective major strikes off Namibia) and HDLE-1 (onshore Algeria find by Eni/Sonatrach) "Advantaged" Brazil (Petrobras, Exxon, Equinor, Petronas, Total) and US Gulf of Mexico (Shell, Oxy, Hess, Chevron, Talos) will see activity pick up through year-end. Successes off Eastern Canada (Equinor, Exxon, QatarEnergy) could cement the region's leap from challenged province to the advantaged shortlist.

- **Producers are increasingly comfortable with selective frontier exploration.** Although companies like Shell and BP plan to more heavily restrict future frontier exploration, we see growing industry comfort with selective frontier campaigns as producers shift to development concepts offering faster delivery. Here, we see Exxon's development of Stabroek (4 ½ years from discovery to first oil, accelerated multiple FPSOs) resetting expectations. Modular LNG — floating and onshore — is changing thinking on gas. Discussions around Shell and Total's Namibia finds already include accelerated development. Pending potential play-opening wells on our radar include Eni's Dan Tranh (oil) and Repsol's Rencong (gas) off Indonesia, and Shell and Galp's Jaca (oil) well off Sao Tome. Harbour recently announced encouraging results from its play-opening Timpan gas well off Indonesia.

- **Gas will increasingly dominate campaigns.** Europe's gas crisis is further motivating explorers – particularly Western integrateds and regional independents — to target gas, with transition strategies also underpinning the shift. Eni is leading the charge with gas discoveries in Egypt, Cote d'Ivoire, the UAE, Algeria and Cyprus, and results to come in Indonesia, Morocco and Mozambique. East Med resources continue to accumulate — Energean (Israel) and Total (Lebanon) are ones to watch — although border disputes complicate development. Equinor, Aker BP and Var Energi continue adding resources on the Norwegian Continental Shelf. Shell's high-impact Pensacola well could deliver crucial UK North Sea volumes. Associated gas is also considered a win in places like Algeria, the UAE, Angola and the Gulf of Guinea, where existing infrastructure allows for quick monetization.

- **Reinvigorated exploration should continue through mid-decade.** We see exploration benefiting as overall upstream capex rises from $435 billion this year to a peak near $510 billion mid-decade. Capital discipline and energy transition pressures will keep exploration capex well off its 2014 high, and spending will likely decline after 2025-26 as peak demand pressures turn attention toward existing resource development. But we note a decisive shift in tone in recent months — including among more transition-minded European majors — around resource additions, and expect additional incremental exploration capex over the next 3-4 years. Energy security concerns have muted earlier calls to completely halt exploration, giving companies breathing room within restricted budgets. We expect big IOCs to continue dominating exploration activity and future license rounds, but will watch for incremental exploration from smaller independents to signal a more robust recovery. Our *Resource Access Monitor* shows still-limited license rounds into next year, but the usual suspects of Norway, Australia, Suriname, Guyana, Brazil and US Gulf of Mexico should attract high interest

Energy Intelligence REPORTS

Exploration Activity Monitor, Q3'22
High-impact drilling is on the rise, with the number of discoveries in the first half of 2022 outpacing all of 2021... ***click for full report***

Resource Access Monitor, Q3'22
Host governments have yet to seize upon higher oil prices and energy security concerns to advance a new wave of resource access opportunities... ***click for full report***

Europe's Dash for Quick Gas, Oil in Africa
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The European majors have made another large natural gas discovery offshore Cyprus, where development of significant finds is complicated by overlapping claims to offshore acreage... ***click for full report***

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Energy Intelligence EXPERTS

Neill Tannock
Research Analyst
+44 (0)20 7518 2238
ntannock@energyintel.com

Monica Enfield
Managing Director, Research & Advisory
+1 202 421 4674
menfield@energyintel.com

Noah Brenner
Executive Editor, Operations
+1 713 234 1483
nbrenner@energyintel.com

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Upcoming Drilling to Watch

Target	Country	Operator	Date
Jaca-1	Sao Tome & Principe	Shell	Spud Apr.'22
Dan Tranh-1X	Indonesia	Eni	Spud Aug.'22
Rencong	Indonesia	Repsol	Spud Aug.'22
Bay du Nord Campaign	Canada	Equinor	2022
Awari	Suriname	TotalEnergies	2022

Source: Energy Intelligence Exploration Activity Monitor

Energy Intelligence Premium CONTACTS

Sales:
Geoff Wright
Global Head of Sales & Marketing
+1 646 616 0836
gwright@energyintel.com

Content:
Casey Merriman
Editor, EI Premium
+1 832 687 8770
cmerriman@energyintel.com