Drivers for Creating Value from Deepwater Exploration

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ABSTRACT

Returns from conventional exploration climbed above 10% in 2017 and 2018, reaching their highest level in well over a decade. The recovery in fortunes of conventional exploration has been driven by bold, not timid, exploration. Around half the volumes discovered since the downturn are in deepwater and ultra-deepwater. The biggest and best discoveries have been made in new plays and basins, not in infrastructure-led, incremental exploration. Returns are, perhaps counter-intuitively, higher in frontier plays than in mature plays. The scale of discoveries and prevalent fiscal terms both play a role. What was missing previously was a viable route to commercialization.

High-impact, deepwater exploration looks different now than it did in the boom years when dozens of companies operated wells across a multitude of countries. It is now concentrated in fewer companies, with majors leading the way, and in fewer countries. Competition for high-quality reservoirs led to some heated bidding rounds, particularly in the Americas. Upcoming licensing rounds are increasing in number off the back of renewed fortunes.

Creating value in exploration is inextricably linked to deepwater development. Development approaches have gone through significant structural changes. Examples include simpler facilities, standardization and phased solutions. These should keep costs in check, while cyclical cost inflation looms on the horizon as the number of projects receiving FID increases, and the demand for rigs and equipment rises on the back of exploration success.

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