FOR BIG OIL, RESERVE SIZE MATTERS LESS THAN EVER *

A decade ago, the news that the world's top oil and gas companies had less than 12 years of production left in their reserves might have caused a panicked sell-off in their shares. But as consumers try to move away from fossil fuels to cleaner and cheaper energy sources, investors and executives say reserve size is no longer the gold standard for measuring the value and health of a company.

The cost of developing existing reserves and the amount of carbon those reserves produce has now become more important, they say. This is leading to a profound shift in company strategies. "The quality of reserves and the commercial viability of reserves has eclipsed the quantity of reserves by far in recent years," said Adi Karev, Global Leader for Oil and Gas at EY.

The largest publicly-traded oil companies — Exxon Mobil, Royal Dutch Shell, Chevron, ConocoPhillips, France's Total, BP, Equinor (formerly Statoil) and Italy's Eni — have adapted. They saved money by cutting jobs and increasing technology spending and now make more money with oil at $60 a barrel than they did at $100.

But they also cut spending on exploration for new resources and development of new fields. This led to a decline in reserves. An analysis by Reuters and Guinness Asset Management of the annual reports of those eight companies shows that the size of their oil and gas reserves, when added together, fell to 91 billion barrels in 2017. That was the lowest since the same amount in 2005.

"THE BEST BARRELS"

With electric vehicles on the ascent and a peak for fuel demand on the horizon, the focus on the reserves is shifting to the quality of the reserves rather than the quantity. Some companies are already changing strategies to adapt to the new focus.

Oil prices are not expected to rise sharply in the long-term and governments are seeking to reduce pollution and greenhouse gas emissions. This means firms are adjusting by setting ceilings for the cost of projects, often below $35 a barrel. Oil reached a $80 a barrel this month, the highest since late 2014.

Crude oil and natural gas have different grades and the cost of pumping them can vary hugely. Saudi Arabia's oil is easier and therefore cheaper to extract than Angola's complex deepwater wells. "We are now getting to the point that the focus on efficiencies and producing reserves at a low level is what investors expect," Karev said.

* "For Big Oil, Reserve Size Matters Less Than Ever", Reuters