

## THE WEEK IN ENERGY: BIG OIL GETTING BIGGER IN SHALE\*

In December 2009, ExxonMobil agreed a \$41bn deal to buy XTO Energy, one of the largest operators in the newfangled US shale gas business. The acquisition was the definitive proof that shale was something that the rest of the industry was going to have to take seriously. Rex Tillerson, then Exxon's chief executive, made it clear that the deal marked a shift of strategic direction. "This is not a near-term decision; this is about the next 10, 20, 30 years," he said on a conference call.

A decade later, Exxon has demonstrated the truth in that assertion, announcing plans for a dramatic increase in shale oil and gas production in the Permian Basin of Texas and New Mexico, where the group still operates under the XTO Energy name. The plan was discussed in detail at Exxon's investor day in New York on Wednesday, but was announced the day before, just as Chevron was holding its presentation for analysts and setting out a similar strategy for rapid growth in the Permian.

The two companies' plans are part of a clear shift in the US shale industry, as the large international oil groups move to play a more significant role. The innovations in hydraulic fracturing and horizontal drilling that made the shale revolution possible, first in gas and then in oil, were made by small and mid-sized exploration and production companies, and those companies dominated the early stages of the industry's growth. Today, though, it is the largest oil groups that are planning to make the running in shale and other "unconventional" resources.

BP is also planning growth in the Permian after its \$10.5bn deal to buy BHP's shale business. Royal Dutch Shell has stressed the importance of unconventional resources in its portfolio and has been rumoured to have been looking for an acquisition in US shale. Stories last year suggested Shell had been in talks about a possible deal for privately held exploration and production company Endeavor Energy.

If the major oil companies do succeed with their plans for growth in the Permian, that "spells trouble" for Opec, warned David Sheppard in the Financial Times. It also looks like bad news for hopes that oil companies would start to curb their output to align with the goals of the Paris climate agreement.

That is not what Exxon and Chevron are planning for, however. They both showed projections suggesting annual growth in volumes of about 3-4 per cent out to the mid-2020s, driven by their expansion in the Permian. Between them, that would mean adding a combined 1.5m barrels equivalent a day or more over the next five or six years. Even before the latest announcements, Wood Mackenzie was forecasting that the seven largest international oil groups were on course to produce 3m boe/d more in 2023 than it had expected a year ago. Now their growth looks likely to be even stronger.