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PROCESSES FOR MANAGING EXPLORATION RISK AND REWARD – SOME INSIGHTS

Hamish Wilson and Ian Norbury

There are three factors key to successful exploration:

1. strategy - development and implementation;
2. robust portfolio, aligned to the strategy; and underpinning these,
3. effective management/decision support processes.

Strategic approaches vary across the industry and the evidence from the study of performance and strategy, both in Northwest Europe and worldwide, draw a clear link between the strategies adopted by individual companies and their upstream performance. Strategy influences the shape of the portfolio, the risk/uncertainty profile and the balance of investment focus in Frontier, Emerging or Mature basins. This also shapes the relative emphasis on gas versus oil.

Northwest Europe basins are now relatively mature for exploration. Although production continues to increase, proved reserves and investment levels declined markedly in 1999 and 2000 – despite a significant rise in oil prices. The major operators, BP, Shell and TFE for example, have started to rationalise in the area because of reduced materiality. They are now focussed on extracting the maximum return for investments already made and divesting of non-core assets. The opportunities brought about by these changes, given the favourable fiscal regimes and large estimated volumes of undiscovered oil and gas, albeit in generally smaller discoveries, are attractive to smaller independents and new entrants. The opportunities have been seized by an increasing number of smaller and leaner operators. These include Talisman and Kerr McGee, who have been very successful in the region in the last 5 to 6 years, as well as former utility companies such as Ruhrgas and Gaz de France.

Over the last 5 to 10 years exploration in the Norwegian Sea has resulted in the discovery of more and larger finds than elsewhere in the region. Most companies are maintaining a presence along the Atlantic Margin, but competition is more intense for acreage in Norway than elsewhere.

Competition for international exploration and production opportunities has intensified. Many companies, small and large, have undergone mergers and

consolidations to strengthen balance sheets, increase scale and reduce overhead costs to achieve a more competitive basis from which to improve upstream returns and diversify portfolios and risks. The impact of these trends on Northwest Europe is assessed in this paper.

Data from the work conducted by Paras Consulting, with a number of major and independent oil companies, both in North West Europe and worldwide, are used here to illustrate differing strategic approaches, portfolio shapes and decision processes and the impact of these on exploration performance in terms of finding costs, production replacement rates and other metrics.