# Cross currents: Big oil and the energy transition

By Henry Edwardes-Evans, James Burgess and Emma Slawinski

Well before the oil price rout caused by the coronavirus pandemic, commentators and shareholders were calling on Big Oil to make step-out energy transition acquisitions.

Now, with economies in lockdown and corporates fighting to survive, the oil sector's incremental move into new energy looks over-cautious. As the value of their fossil fuel assets tumbles, the coronavirus lays bare these companies' exposure to a world of massively smaller oil and gas demand, offering a glimpse of the EV revolution to come.

And environmental groups are keeping the pressure on oil companies during the crisis even as they cut capital spending, arguing that once economic activity picks up again, new investment should be channeled into stable renewable energy jobs.

In the last three years, global oil and gas companies have branched out into new sectors, ramping up investments in the power sector, low-carbon technologies and mobility, as they respond to intensifying climate campaigning that has also spurred activism among their traditional investors.

The new strategies on display raise questions about how far – and how fast – the giants of fossil fuel production are willing to go in their pursuit of decarbonization.

The start of 2020 saw France's Total fly out of the energy transition blocks, winning Europe's largest EV charge point contract in the Netherlands, partnering Groupe PSA in a pilot EV battery facility and taking a 2 GW Spanish solar position.

Others are adding to incremental gains in renewables. Lightsource BP, which is 43% owned by BP, has just closed financing on a 250 MW Spanish solar portfolio while late last year Shell bought out floating wind pioneer EOLFI.

Now BP's aspirations, although thin on detail, have upped the ante with new CEO Bernard Looney in February committing the company to net-zero carbon emissions by 2050, implying a fundamental shift over the coming decades to renewables and carbon abatement. Shell followed suit in April, also announcing a target of net-zero emissions by 2050, along with greater cuts to the carbon footprint of its products compared with previous announced goals.

While the coronavirus pandemic presents a grave risk to near-term electricity demand, electricity price and on-time project deployment, the fundamentals remain in place for renewables to dominate energy capital disbursement once the crisis eases.

Speaking to investors March 19, Enel CEO Francesco Starace said Europe's Green New Deal was "an ideal vehicle" for kick-starting economies stalled by the virus. In the meantime the company noted Chinese equipment supply delays of just 40-45 days, pushing deployment of 200 MW back from December 2020 to January 2021. Meanwhile, in a week almost devoid of positive newsflow mid-March, it was Total making headlines with two new energy plays in onshore and floating wind.

## Distinct strategies

While sentiment among the oil majors is definitely changing, investments remain modest compared to the size of their overall capex. The International Energy Agency says investment to date by oil and gas companies outside their core business areas is less than 1% of total capital spend. "A much more significant change in overall capital allocation would be required to accelerate energy transitions," it said in January.

> "We are likely to see more divergence across companies in their approaches and in the speed of the transition"
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> **Bassam Fattouh, Oxford Institute for Energy Studies**

In the same month Shell CEO Ben van Beurden said he "regretted" missing out on purchasing Dutch sustainable energy utility Eneco last year, outbid by a consortium of Japan's Mitsubishi Corp and Japanese utility Chubu Electric Power Co in a Eur4.1 billion ($4.5 billion) deal.

Van Beurden said that to succeed in the competition the oil major would have "busted" its "new energies" budget, illustrating how competitive the market is for transition plays – and how cautious Big Oil remains when presented with a relatively modest step-out opportunity.

S&P Global Platts' Power Plays Database, which tracks eight international oil and gas companies' approaches to the energy transition, reveals several distinct strategies (see infographic, pages 26-27). Broadly speaking, the six Europe-based majors surveyed have launched more enthusiastically into both renewables and the utilities space than the two US-headquartered companies.

Total and BP are clear leaders in terms of installed renewable generation capacity with 3 GW and 2 GW respectively. Repsol, with around 700 MW currently installed, has over 1 GW already in development across wind and solar, and a target of 7.5 GW of "low-carbon" generation capacity by 2025 – this includes existing CCGT and co-generation capacity, but new additions will be renewable, Repsol said.

Norwegian state-owned Equinor wants to have 12-16 GW of renewables installed by 2035, and can lay claim to being a sector leader in floating offshore wind, as well as carbon capture and storage technology.

The US majors ExxonMobil and Chevron have taken an approach that is more closely aligned with their traditional business models, focusing on improved efficiency, increased biofuels production and CCUS (carbon capture, utilization and storage). Venture capital initiatives and R&D investments are also a big theme.

Chevron has a small renewables portfolio of around 65 MW. This is geared towards serving its core oil and gas producing operations rather than constituting a separate business, CEO Mike Wirth said at Chevron's analyst day in early March.

Chevron has invested $1 billion in CCS projects in Australia and Canada, and in 2018 launched a $100 million Future Energy Fund, to invest in "breakthrough technology." The venture capital fund has targeted EV charging, battery technology and direct $CO_2$ capture from the air.