XTRA ENERGY

Xodus' insights on energy, industry, and innovation

If the energy industry were granted just one wish for 2025, it's likely that many would choose certainty. It's definitely my major ask for the year

Look Ahead / January 2025

XODUS

WHAT TO LOOK OUT FOR ON THE ENERGY HORIZON IN 2025

Leaving aside the sheer number of elections across the world in 2024, last year was one of real flux for those of us working in energy.

Fiscal interference, supply chain crunches and geopolitical shifts, to name just a few of the challenges, all played their part in creating an unsettled atmosphere in which to do business.

But there is cause for optimism and I am hopeful for 2025. In the months ahead Westminster plans to consult on the future of oil and gas licensing, the fiscal framework for the sector and its industrial growth strategy, as well as continuing to advance initiatives aimed at developing low carbon solutions. As such I am optimistic that Auction Round 7 of the Contracts for Difference (CfD) scheme will give the offshore wind sector a much-needed shot in the arm, bolstered by the industrial strategy and growth-driving sector plans, both of which are expected this spring.

Of course, we will still have to contend with uncertainty arising from elections in 2025, most notably in Australia. The Australian energy landscape is being repositioned, and the results of the election will shape this further.

Looking at the transition more broadly, we are on course to hit a major milestone this year. Investments in renewables are outpacing that in fossil fuels to such an extent that the former is expected to become the leading power source in 2025. Combined with 2024 marking the peak of global energy-related CO_2 emissions, this clearly demonstrates that the energy transition is no longer an objective, but something that is well underway.

Although we are making strides, accelerating progress is vital in 2025 and continuing right through the rest of the decade and beyond. As Rystad notes in its Global Energy Scenarios 2024 report, with solar energy, batteries, and electric vehicles continuing to grow, we will eventually transition from peak expansion to a steady, sustainable pace. At that point, our focus will shift toward sustaining progress and advancing a cleaner, more resilient energy future. This is the vision we must collectively strive for this year, and with the right combination of technology, policy, and dedication, we believe it is well within reach.

The energy industry will have a lot on its plate in 2025, in this edition of XTRA Energy we touch on a couple of themes for 2025. Mergers and acquisitions will invariably be a key feature this year as companies adjust their profiles in response to various pressures. In the Middle East, which is quickly establishing itself as the industry's catalyst for change, digitalisation and operations support will be vital. Offshore wind globally is at an exciting inflection point, but the future of the Scotwind projects is particularly interesting right now. And after a tough 2024, the hydrogen sector needs to ensure it moves forward with purpose and progress in 2025

GLOBAL ENERGY M&A AS COMPANIES NAVIGATE MARKET CYCLES AND POLICY SHIFTS

Six months after the UK election, we now have clarity from the Labour government on the fiscal policy within the UK North Sea for oil and gas producers. Whilst the outcome was not what the industry wanted, it now provides a level of certainty that companies can now decide to stick or twist.

We've seen announced exits from the likes of Apache, and divestments from IOCs to smaller independents such as Prax and Viaro. For those who want to stick, we're going to see a continued consolidation of existing oil and gas producers, focusing on maximising tax efficiencies in the current environment and synergies in portfolios. The announcement from Equinor and Shell to combine their UK assets and expertise is the standout example so far. The partners stated that, "the new company will be more agile, focused, cost-competitive and strategically well positioned to maximise the value of its combined portfolios on the UK Continental Shelf".

It is now a buyer's market, as we are effectively at the bottom of the cycle, and we expect more M&A to occur through 2025. It will be a time for companies to consolidate positions, acquire producing hydrocarbon assets and enable acceleration of tax losses. This has been communicated publicly by several UK independents in the last couple of weeks. Serica Energy's chief executive said the company aims to buy up aging UK assets as "the fiscal regime in the North Sea can't really get any worse than it is right now." Others with stated intent to grow in the UK include, EnQuest, Capricorn, Prax and Viaro.

One key challenge facing the operators remains the regulatory uncertainty in approval of development projects, providing limited organic growth potential for companies to arrest existing decline. Following the court ruling on the Rosebank and Jackdaw fields, we expect development projects will be further challenged, given the uncertainty in regulatory approval of greenfield projects. This is counter to the Norwegian approach in the North Sea where there is continued support for oil and gas greenfield projects, with a recent award of 53 exploration licences in the basin.

Globally, oil and gas remains a capitally constrained market where companies with strong balance sheets and capital can find plenty of development projects opportunities to invest in. There continues to be a dash for gas which is still seen as a transition fuel, particularly for oil reliant NOCs where diversification of their portfolio into gas and LNG projects represents a key focus of activity. For offshore wind, the UK is likely to see a flurry of M&A activity as projects secure key milestones such as consent or CfD awards. There has been a retreat in the market by IOCs who are pulling back from investments in renewables and are likely to farm-down their stakes to reduce capital exposure.

We are likely to see investors from the Middle East and Asia continue to buy up stakes in UK offshore wind projects, benefitting from a lower cost of capital and driven by mandates by their governments to increase their renewables footprint over the next 12 months ■

NAVIGATING THE ENERGY FUTURE IN THE MIDDLE EAST

While sustainability, digitalisation, and emissions tracking are cornerstones of the conversation worldwide, the way they are interpreted and applied varies significantly. In the Middle East, the NOCs approach these concepts with a distinct pragmatism. 'Sustainability' serves a dual purpose – it is not solely about reducing emissions for the sake of the planet but is intricately linked to optimising production and maximising economic returns.

It is particularly striking to note the pockets of excellence within the Middle East that often go unrecognised. Some projects, such as CCS pilot initiatives proving the technology's potential, don't grab headlines amidst multi-billion-dollar developments. The sheer scale of activity in the region means that smaller, but no less groundbreaking projects can be overlooked, but these initiatives underscore a willingness to integrate sustainable practices within larger frameworks.

If the Middle East can successfully harness the power of renewable technologies under development on its soil – alongside the expansion of its gas production – it will undoubtedly act as a catalyst for global transformation.

We aren't talking about incremental changes, rather the prospect of revolutionising the global energy system and driving down emissions, such is the scale of drive and finance in the region. The ripple effects of such advancements will extend far beyond regional borders, setting new benchmarks for innovation, sustainability, and operational excellence worldwide ■

A CRUNCH YEAR FOR OFFSHORE WIND IN THE UK

While the past 24 months have underscored the challenges posed to the UK's offshore wind sector by high inflation, elevated interest rates, and supply chain disruptions, the industry has now reached a point where decisive action is critical – in 2025 we need to see just that.

Policy clarity and support mechanisms, such as AR7 of the upcoming CfDs round, will be instrumental in turning ambition into progress. By the end of the year, I am hopeful that the industry will have greater visibility and stability in CfD volumes, budgets, and timelines, providing the certainty investors need to make long-term commitments. Developers are calling for consistency, sensible grid scheduling and adherence to timelines, as delays significantly impact project economics.

Lessons learned since the start of the decade, when everybody wanted a piece of the offshore wind pie, have prompted companies across the energy spectrum to refine their strategies. Oil and gas players, utilities, and developers alike are recalibrating their approaches to balance short-term returns with long-term renewable commitments, and I would expect the recent M&A trend to continue this year.

With aligned policies, timely regulatory approvals, and an industry-wide focus on execution, 2025 can be the year that UK's offshore wind sector builds on its strong foundations and charts a positive course to the end of the decade ■

REVITALISING THE GLOBAL HYDROGEN ECONOMY IN 2025

A tough 2024 for hydrogen doesn't negate the fact the sector will be a cornerstone of the energy transition, offering a means for decarbonising hard-to-abate industries, balancing renewable energy systems, and trimming fossil fuel reliance. But building a hydrogen economy will require more than just government subsidies – it demands robust carbon policies that create meaningful incentives for change.

A 'carrot and stick' strategy – offering incentives for clean hydrogen while increasing the costs of fossil fuel reliance – is key to fostering a sustainable industry. As we look to 2025, fostering domestic supply chains, integrating robust carbon pricing, and enhancing financial incentives will be critical to scaling hydrogen adoption. Regional collaboration will also be essential in overcoming barriers and maintaining competitiveness in the global hydrogen market.

Many countries still have weak carbon policies that affect only a limited number of emitters, providing little domestic motivation for transition. But this is changing. The road ahead, in 2025 and beyond, will require a balanced approach. Government investments to reduce hydrogen production costs must be paired with measures that account for the environmental externalities of fossil fuels through carbon pricing and stricter regulations ■

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