Bloomberg New Energy Finance - in conversation with Brian Gilvary

Brian Gilvary

Chief financial officer

10 April 2018

In conversation with Bloomberg LP managing editor, Tina Davis at the Bloomberg New Energy Finance event in New York, BP chief financial officer, Brian Gilvary spoke about turning the company from recovery to growth, and the steps needed to advance the energy transition.

Edited transcript:

On coming out of a turbulent eight years which saw the Deepwater Horizon accident followed by the oil price fall, Gilvary said:

First of all, we had to find a way to deal with our financial liabilities, which are now about $67 billion. To put that in perspective, that's about the size of UPS or FedEx — or ConocoPhillips, if you think about the energy sector. So, that liability was quite a significant challenge for us, but we dealt with that.

We sold off $75 billion of assets. The first $20 billion was really about financial liquidity — being able to manage the balance sheet. The next tranche was deeply about strategy and what company did we want going forward. We then set on a trajectory over the next four years, out to 2014, to rebuild the company over what was then called the '10-point plan', around 15 major projects in the Upstream.

We delivered those in 2014 and that strengthened our balance sheet through to the end of that year, which then allowed us to deal with the oil price correction.

I think because of what we've done over the period 2010 to 2014 — making the company safer and more reliable — we found ourselves in a much stronger position and we were a little bit more bearish than most coming into 2015. We could see what was happening with OPEC. We could see the over-supply in oil and, therefore, we knew that things were going to be difficult for 2015 and 2016 and the whole 'lower for longer'.

By the end of Q3 last year, we were able to get everything back into balance and so, now, our capex and our dividend are covered by the operating cash flow and our break-even price is back to $50 a barrel, which is a good place to be. And, it will drop down to $35 a barrel over the next three or four years, as we grow.

On what capital discipline looks like with oil at $60 a barrel, Gilvary said:

We've laid out capital discipline and disciplined growth over the next five years — last year was the first year of that. We've said $15 to $17 billion of capital; $15 billion is not a floor, so, if the oil price drops below $50, down to $45, we can go lower on capital, but we won't go above $17 billion. That, I think, is a really important message for our shareholders, that we will maintain capital discipline through this next phase of growth. I think that people expect that as the oil price gets higher; we'll start chasing that higher oil price and chasing those revenues. That's not what we've laid out.

We delivered seven major projects last year; there are six more to come this year. We can continue to grow the company with the financial frame set to $15 to $17 billion of capital and we won't be looking to spend more than that.

On where BP sees oil demand in the future, Gilvary said:

Through BP's Energy Outlook 2018 edition, we've looked at a whole variety of scenarios around what the future of oil looks like, what the future of natural gas looks like, and how they are playing into the energy transition.

I think there are a lot of people who think it's a race to renewables. Actually, it's a race to reduce emissions. The next phase of the energy transition over the next 10-20 years will lead to the most diverse fuel mix we have ever seen.

When I first joined the industry 32 years ago, people talked about peak oil supply. Now the talk is about peak oil demand. In our latest calculations that may be somewhere around 2035-2040. But, we don't think of it as a peak, we think of it as a plateau. We've run various scenarios, one of which was pretty extreme, which basically assumes a ban on all internal combustion engines between now and 2040 in terms of new sales. Even under that scenario, we can see oil demand plateauing at about 100 million barrels a day, which is where it is today. So, in most scenarios, we see oil playing a really important part in the future mix and, therefore, we'll continue to pursue oil projects. But, we'll want to do that in a way that makes sure that we start to reduce emissions in our own business. So, taking responsibility for our activities and reducing CO_2 emissions in those is a primacy for us going forward.

On how BP sees the role of gas, Gilvary said:

As we think about the energy transition, natural gas is one of the most important energy sources as we look at reducing emissions globally. The United States has proven that in the past 20 years, now that their CO_2 emissions are back to 1990 levels off the back of moving towards low-cost shale gas, which has come on prolifically over the past five to six years and has made a huge difference. We think gas will be the fastest growing hydrocarbon, with a lot of that growth coming out of the US. We see LNG as being an important part of the mix. We see LNG supplies doubling over the next 20 years, which will be a huge opportunity.

On BP’s vision for renewables, Gilvary said:

Renewables will be, we believe, the fastest-growing source of energy over the next 20-30 years; with something like 7% growth annually. Today, renewables make up about 4% of the energy mix. We could see that grow to 14% of the energy mix. So, we see them as being incredibly important.

We think solar now is a viable business going forward. We've invested in Lightsource BP, where we now own 43% of that business, which will be developing solar globally and we’ll look to try to integrate it with our existing business models. The way we’re now thinking, renewables will be anchored in the two Upstream and Downstream divisions, but there will be various vectors that will grow off that. Today, we invest, through our ventures arm, anywhere from $200 to $500 million a year in the renewables space, but also technologies that will enable some of these renewable energies to start to interact with more traditional sources. So, we can see the next 10-20 years being a pretty exciting phase.

On the trajectory of emissions, Gilvary said:

We’ve laid out a framework and we’ll be talking some more about this next week. We’re looking to reduce operational emissions in our existing businesses and we’ll be setting some targets out to 2025.

And we've reduced our operational emissions a lot through our portfolio over the past three or four years, as a result of portfolio transactions. We’ll look at a framework that sees us improving products that to customers to lower their emissions, and then we’ll look at some of the low-carbon opportunities.

Today, we’re investing in about 40 separate companies that will be exploring various technology opportunities with 200 partners that we think may be able to play into that space.