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Mr Geoff Mulgan
Performance and Innovation Unit
4th Floor
Admiralty Arch
The Mall
London SW1A 2WH

Dear Mr Mulgan,

UK Energy Review

Enterprise Oil (EO) is the largest UK independent Exploration and Production Company. EO, unlike many of the majors, has the core of its business in the UKCS and produced 165,000boepd from the North Sea in 2000 and has been involved in 46 exploration and appraisal wells in the last 5 years. EO currently invests heavily in the UKCS spending circa £500MM over the last 3 years with recent examples of the company's commitment to the UK being illustrated by the acquisition of Petrobras UK and the proposed development of the Clair field.

EO supports this review of UK Energy Policy and is pleased to make a contribution.

Summary

Although mature, the North Sea is probably only in middle age. Estimates predict only half of reserves have been produced to date which implies the North Sea is a key element in ensuring security of energy supply to the UK in the future. It is also clear that much of this reserve is likely to be gas rather than oil, which will be beneficial in meeting environmental objectives. With this in mind, it is vital that UK government policies are directed to encourage activity and the full exploitation of the North Sea's resources. It should therefore:

- Refrain from excessive regulation, though acting where necessary to promote fair competition.
- Recognise, using international comparisons, that it is the smaller companies rather than the 'Super-Majors' that will most likely have the key role to play as the North Sea matures.
- Ensure fallow acreage is aggressively re-cycled so the "right licences are in the right hands".
- Strengthen the current North Sea Code of Offshore Infrastructure Practice to ensure smaller discoveries near infrastructure are developed.
- Ensure fiscal stability is maintained and fiscal policy is not merely reactive to the cyclical nature of oil prices.
- Ensure consistency between any environmental legislation and Energy Policy.

Introduction

The Pill scoping note for the Review identifies three strands of work: the potential for increased conflict between energy requirements with environmental objectives; issues regarding the security and diversity of energy supplies; and the reconciliation of environmental, social policy and industrial competitiveness policy goals. Our comments mainly concern the supply issues, in particular the policy environment necessary to maximise economic production in the UK itself. This is the area where the activities of companies like Enterprise Oil can have the biggest impact on the extent of any UK energy supply concerns. We also comment on European aspects of the regulatory and competitive position and, lastly, make some comment on meeting environmental objectives.

As noted in the response from UKOOA, oil and gas are likely to remain the most important fuels for the UK over the next 20-30 years. Remaining, recoverable reserves of oil and gas from the UK Continental Shelf (UKCS) are estimated at between 28 and 36 billion barrels of oil equivalent (boe), more than has been produced to date. There are at present some 120 probable and possible new fields that could proceed to development within the next five years. In 2000, UK oil and gas production was equivalent to 72% of total UK energy demand with this figure falling slowly even with the introduction of alternative energy sources over the next few decades.

Increased use of natural gas, mainly from the North Sea, has, more than anything else, enabled the UK to achieve big improvements in its environmental performance and put the country well on its way to meeting its Kyoto commitments.

UK Supply

Continued emphasis should be given to collaborative efforts such as PILOT to enhance the future life and production potential of the UKCS. Enterprise Oil supports PILOT targets to maintain UKCS capital investment at over £3 billion per annum and production at 3mmboepd by 2010. Maximising indigenous production in this way should be the highest priority of policy initiatives concerned with the security and diversity of the UK's energy supplies. EO actively supports PILOT initiatives in areas such as LOGIC, BrownfieldsRecovery, Undeveloped Discoveries, Satellite Accelerator, LIFT, Stimulating Exploration Activity, and PPWG (Progressive Partnerships Work Group) through involvement of personnel and funding of studies and research projects.

Small companies are the key to unlocking exploration and small field potential

Currently, the rate of extraction exceeds reserve additions from extensions, discoveries and new developments. The key issue is to remove barriers to activity directed at maximising recovery of economic reserves.

The challenge for the industry is that the average size of new discoveries is falling, currently only 30 million boe and low by international standards; for these to remain attractive investment propositions requires an entrepreneurial business culture, innovative technical and commercial solutions, together with a stable fiscal regime.

Smaller players in the UKCS will become the driving force behind exploration as the 'SuperMajors' divert their attention to less mature basins overseas to maintain their reserves replacement and growth. Increased diversity in the number of players, similar to the US Gulf of Mexico shelf area, appears to be the key to maximising production from mature basins. Encouraging new entries, asset trades and fresh ideas on apparently mature areas should therefore be a key objective for the UK so to maximise the recovery and economic value of the North Sea.

Exploration Activity and Fallow Acreage

Enterprise Oil is a committed member of both the Stimulating Exploration Activity and Progressing Partnerships Work Groups set up under the auspices of PILOT and we very much support the Minister for Industry and Energy's recent statement that 'It is vital that the right licences are in the right hands.' EO will work through these groups to foster co-operative arrangements between existing licensees and new entrants who are willing to be active in working acreage.

In addition, EO fully supports the DTI in using its existing powers to require activity in appropriate circumstances and would also welcome new legislation in this area to stimulate the process of fallow acreage re-cycling.

Infrastructure Access

The PIIJ scoping note confirms that "Competitive markets will continue to be central to energy policy." In this respect, and coupled with the above initiative, we believe that the Government should act to strengthen the North Sea Code of Offshore Infrastructure Practice to provide tariff rates based on a reasonable rate of return on capital invested in transportation/processing facilities and speedier dispute resolution process.

The Industry should overcome the concerns of commercial confidentiality and be required to publish the key terms of access to existing infrastructure, including tariff rates. Access to existing infrastructure where capacity is available is key to active small field developments. Concentration of infrastructure ownership and control over access rights, in areas where competition with other export routes is naturally limited, should not, in principle, be a source of super-normal profits.

Gas Storage

Additionally, we support the UKOOA position that active consideration should be given to whether measures, such as the easing of planning procedures, can be taken to facilitate the provision of additional gas storage facilities in the UK. The UK has a relatively small amount of gas storage compared with most other EU countries and the development of more facilities could help improve market flexibility of response and temper price volatility, as the UK moves into a position of import dependence.

Gas Transportation

The recent auctions held by Transco in respect of entry capacity to the NTS have resulted in a significant over-recovery by Transco against permitted revenue. As argued by UKOOA, the effect of the current rules is to reduce producer confidence in offshore gas investment. It will be helpful for investment levels in the UKCS and UK supply if offshore investors have the ability to acquire NTS capacity on a longer-term basis, in order to reduce investment risk. The regulatory regime for gas transportation should provide timely and efficient signals for new investment in Transco's NTS. Regulation needs to work in the broad national interest, which includes UKCS producers having reasonable certainty about both the availability and price of transportation capacity.

Fiscal Policy

Independent studies have shown that the UKCS struggles to be competitive on a full cycle basis as a location for wildcat E&P investment due mainly to high costs and low field size. The ability of the industry to move capital investment around the world, and the prospectivity of areas such as the Gulf of Mexico, Angola and FSU, have highlighted the importance of sustaining UKCS competitiveness, in which fiscal take is a key factor. This balance needs to be maintained if the PILOT targets of production and investment are to be delivered.

EO does not believe that current high oil prices are sustainable in the long term, and fiscal policy should be based on through-cycle conditions, rather than being reactive to short term economic conditions. Any tax changes that are made should be designed to maintain the neutrality of taxation issues in investment decisions, such that tax should not be a barrier to encouraging additional investment to maximise recovery from mature fields.

We also believe Fiscal policy should not be used to distort the underlying economics of investment in oil and gas production compared with alternative sources of energy.

European Regulatory & Competition Issues

EO supports the development of open energy markets to deliver competitively priced energy. As the Government clearly recognises, there is some way to go to complete the European single market in energy and we support initiatives in that direction, aimed at preventing distortions to the markets caused by linkage to continental European markets.

We also support measures to develop a flexible gas pipeline network including links with the Norwegian sector, and the removal of barriers to gas import from Norway. Such links can both help promote secure and diverse supplies for the UK market and help underpin the economics of existing UKCS infrastructure, so maximising the prospects for recovering UK reserves. We also support EU initiatives to encourage greater competition in the selling of Norwegian gas, which encourage greater diversity of supply available to the UK at competitive prices.

Environmental Issues

During the past five years, the UK E&P industry has made a large commitment to improving the industry environmental performance. This has already achieved considerable success and has naturally incurred significant expense. The improvement in environmental performance has been achieved by reducing emissions to atmosphere, reducing discharges to sea and through better management of solid waste disposal. In addition, and especially relevant to the Energy Review, these environmental improvements have been achieved through the improved efficiency of energy usage. These commitments to further improvement continue, with the development of opportunities like Emissions Trading as a method of satisfying the European and UK obligations to Kyoto.

It is clear that such complex developments together with an ever-growing list of new environmental legislation must be properly co-ordinated with the Energy Review and any energy policy that may follow. Failure to ensure consistency between these two areas of Regulation (Environment and Energy) will inevitably result in unnecessary expense for the E&P industry.

Conclusion

In conclusion, Enterprise Oil is keen to support this Review, both through its active participation in UKOOA and directly, and continues to actively support Government / Industry initiatives such as PILOT which are consistent with the aims of the Review. We would be happy to expand on the above suggestions and comments if required.

Yours sincerely



**PH Jungels Chief
Executive**

