

PILOT Economic Advisory Group
Meeting held at 10.30 a.m. on 30 August 2002 at Amerada Hess, London

Present:		Apologies:	
Professor Alex Kemp	University of Aberdeen	Steve Surrall	BG
Norman Selley	Amerada Hess	Scott Urban	BP
Raymond Hall (Chair)	BP	Geoff Dart	DTI
Norman Smith	Consultant	Kazi Hussain	DTI
Philip Beckett	DTI	David Morrison	Wood Mackenzie
Mike Earp	DTI		
Ann Eggington	DTI		
Wendy Man	DTI		
Simon Toole	DTI		
Roger Jelfs	ExxonMobil		
Edward Zamboni	Inland Revenue		
Peter Grieve	Shell		
Barry Anderson	TotalFinaElf		
Rhodri Thomas	Wood Mackenzie		
Nigel Essex	UKOOA		

Introduction

Norman Selley welcomed members to Amerada Hess In the absence of Geoff Dart and Scott Urban, EAG co-chairmen, who were unable to attend, RH took the Chair.

ACTION

1 UKCS Exploration Inactivity *[EAG/1/02]*

ME presented a paper on the low level of E&A activity on the UKCS, asking the question why only 3 exploration wells had been drilled so far this year. DTI statistics for the UK were compared with a consultant's data for other regions of the world and showed activity in the UK declining more rapidly than some other regions. With the exception of 2001, when Buzzard was found, discoveries had been on a downward trend for most of the nineties, while a comparison with. Finding costs were high by global standards, discovery sizes small and success rates not good in recent years, (although 2002 had already produced three discoveries). Other factors possibly having a bearing include merger activity, manpower reductions, reassessment of global priorities.

It was suggested that it was several years since the industry had reviewed the yet-to-find potential of the UKCS and that a reassessment would be useful both for industry and government in shaping future policy. The study should preferably provide a profile of prospect sizes and if possible, other factors that might influence their potential commerciality. It was agreed to recommend establishing a work group comprising industry and government representatives, including explorers, and if possible someone who could provide continuity from the previous study. UKOOA Exploration Committee would be informed.

N Smith suggested that a worldwide perspective on exploration would be useful and he would seek statistics on drilling costs and activity

ME, RH,
ST, NE

NS

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2 UK Gas Production, Imports and Networks [EAG/2/02]

AK presented his subject paper which indicated that the UK would move from being a net exporter of gas to a net importer, possibly as soon as 2004. He noted that UK gas production was currently well diversified which enhanced security of supply. Nonetheless there were indirect sources of risk, including associated liquids pipelines and the NTS system which, if not fully effective, could reduce gas flow potential. It was noted that OFGEM and Transco disagreed on the determination of system capacity, and OFGEM's theoretical method did not recognise limitations caused by system pressure differentials.

AK predicted that gas imports will increase and the UK was fortunate in being well positioned to buy gas from many countries who had ample and accessible reserves.

AK noted that with strong UKCS gas production, particularly from the Southern North Sea, the UK had not required much storage capacity. However, the picture was changing, and the UK's storage capacity in relation to consumption was well below that of Europe's.

3 UK/Norway Cooperation Group [EAG/3/02]

RH and PG presented the proposed report to Pilot of the subject group. The focus of the group had been value creation, looking at development and infrastructure opportunities within a 60 km corridor each side of the median line. Among the 14 recommendations of the group, RH drew attention to R6, to assess the impact of the UK fiscal regime on the competitiveness of infrastructure systems in promoting optimal hydrocarbon resource development. It was noted that this was likely to lead to fiscal representations to the Treasury before the next budget. Ann Eggington noted that this was a report to Government and not of Government. DTI /Revneue would consider how to take the request on fiscal forward.

RH, EZ

4 Industry Activity Survey

NE noted that responses were due back to Prof Kemp, the DTI and UKOOA by 30 August, but that some companies had requested an extension to the deadline of up to three weeks, due to the need to re-evaluate work programmes in light of recent fiscal changes and continuing uncertainty over the abolition of Royalty.

NE

5 PACEC Confidence Survey [EAG/4/02]

NE presented the results of a survey of suppliers and contractors for the UKCS. Responses were received from some 220 companies providing a range of products and services to the UKCS. The sample showed a modest increase in employment had occurred over the three months following the 17 April Budget. The most worrying statistic was the significant number of companies in the drilling sector reporting a reduction in the length of their contracts. Drilling tends to a lead indicator for the supply industry, as well as for exploration and development activity.

The survey is planned to be repeated three more times at quarterly intervals

in 2002/3 to gauge trends in future activity.

6 Replacement Brown Book [EAG/5/02]

ME drew attention to the index of charts and information that was previously published in the DTI Brown Book and which are now accessible on the DTI's web site. It was noted that while the list was incomplete, relative to the last publication, it would be helpful and should itself be made available on the DTI's website in some form. There was strong support for re-instating the Brown Book which had been an excellent source of key industry data since 1973, and was used very frequently by many in the oil and gas industry.

7 AOB: None

Date of Next meeting 10.30 am on 11 November 2002. Location to be confirmed.