

PILOT Economic Advisory Group
Meeting held at 10.30 a.m. on 11 November 2002 at Amerada Hess, London

Present:		Apologies:	
Professor Alex Kemp	University of Aberdeen	Steve Surrall	BG
Norman Selley	Amerada Hess	Geoff Dart (Co-Sponsor)	DTI
Raymond Hall (Chair)	BP	Peter Grieve	Shell
Scott Urban (Co-Sponsor)	BP	Barry Anderson	TotalFinaElf
Norman Smith	Consultant	David Morrison	Wood Mackenzie
Philip Beckett	DTI		
Mike Earp	DTI		
Ann Eggington	DTI		
Wendy Man	DTI		
Hooma Raza	DTI		
Simon Toole	DTI		
Roger Jelfs	ExxonMobil		
David Rogers	HM Treasury		
Mary Sullivan	Inland Revenue		
Edward Zamboni	Inland Revenue		
Roger Burrows	Petro-Canada		
Mark Reeves	Shell		
Neville Howlett	TotalFinaElf		
Nigel Essex	UKOOA		

Introduction

Norman Selley welcomed members to Amerada Hess. RH took the Chair and introduced Scott Urban (BP) – Industry Co-Sponsor..

ACTION

1 ILT Meeting with Paymaster General

SU reported on the meeting of Industry Leadership Team representatives (Sir Ian Wood, Danny Carrigan, Tom Botts, Michel Contie, Beverley Mentzer and himself) with the Paymaster General on 6 November. The industry had requested that a regular dialogue with senior Treasury ministers be established at least biannually, in parallel with, but separate from PILOT. Subjects discussed included:

- UKCS Competitiveness
- Field development – activity survey results
- Royalty – the imperative for early abolition to encourage Brown Field development
- Fiscal stability – what does it mean to the Government?
- Infrastructure – its importance to Government revenues, security of supply and sustainability.

SU said the meeting had been useful and there had been a constructive discussion about infrastructure, which should be developed with industry work groups and Government officials. The next meeting is being scheduled during February and an offshore visit in May.

2 Industry Activity Survey

RH invited AK to comment on the process of data-gathering and analysis which was now well underway. AK said the returns had been quite comprehensive, and almost every operator had submitted data. In two or three cases he had resorted to last year's input, but in these cases he was confident that the old data would not affect the overall picture. He noted that Linda Stephen had worked with operators to clarify a number of points including :

- ❑ whether gas was being sold or reinjected
- ❑ which field was the host field where new fields were developed using existing infrastructure
- ❑ this year a number of probable and possible fields had been dropped from operators' portfolios because they were too speculative
- ❑ pipeline terminal costs were not always included.

Some of these points should be addressed more clearly in future survey requests.

NE/PB

RH then presented the results of the Survey. *[EAG09//02 refers]* The following points were noted or questioned:

- ❑ Gas production projections have dropped by 2.2 TCF by 2010. A detailed analysis of the make-up of this reduction was requested
- ❑ DTI data suggested gas production would be flatter than assumed in the UKOOA projections. DTI was asked to share their data with AK and UKOOA as a quid pro quo for the data which the industry provided to DTI.
- ❑ A histogram of probable and possible reserves was requested.
- ❑ Operability assumptions may be optimistic and could be an added downside in the current projections.
- ❑ Industry and Government needed to find ways to reduce industry costs in order to prolong fields' lives.

AK/RH

AK/RH

There followed a discussion about the release of the Survey results.

UKOOA had been working with DTI officials to develop a press statement which it was felt should be published on 12 November, ahead of the Share Fair presentation in Aberdeen on 13 November. UKOOA/DTI had an obligation under the PPWG Supply Chain Code of Practice to provide such data to the Supply Chain. Further comments were invited and the text was subsequently finalised. *[EAG/10/02 attached]*

NE

3 Decline Rate Analysis

AK presented a recent study of decline rates in UKCS fields. *[EAG/11/02 refers]* He pointed out that the older large fields in the UKCS tended to have slower declines and that the lives of these fields had been extending over time. Conversely, recent developments tend to be smaller and the experience both in the UKCS and the Gulf of Mexico is that these have faster decline rates. It was noted that phased developments tended to have different characteristics to normal developments. Also, some modern fields may be less well appraised than some older fields.

4 UK/Norway Cooperation Group

NH reported on the work of the UK Norway work group. *[EAG/12/02 refers]* More work was in hand to develop the case for a level playing field

for UK infrastructure and to compete with a possible new gas pipeline from Norway to the south of England. It was pointed out that such a new line would take an estimated 2 years longer to install than the extensions of existing UK lines to Norwegian infrastructure. The benefit of prolonging the lives of UK infrastructure, and reducing unit costs by importing Norwegian gas as increasing ullage became available, should be taken into account. The entry fees at UK terminals and Transco's onshore tariff would change, depending on which pipeline configuration was adopted. SU encouraged the work group to look at all aspects of the economics – from UK and Norwegian perspectives.

**UK Norway
Work
Group**

RH said UKOOA had written to John Evans (Inland Revenue) concerning the fiscal issues for UK infrastructure. Mary Sullivan said a reply was in hand and that the IR would be happy to discuss the evidence and related issues

MS

5 EAG Exploration Survey

NE reported that, following ME's paper to the EAG's September meeting, a work group of explorers and economists from UKOOA, DTI and NOF had constructed a questionnaire to ascertain the causes of exploration inactivity on the UKCS. With only 12 exploration wells expected to be drilled it was likely that 2003 would see the lowest exploration activity for some 35 years. The questionnaire, which also sought estimates of 'yet-to-find' hydrocarbon volumes, had been sent to all UKCS licencees on 5 November and responses were requested by 30 November. *[EAG/13/02 refers]* An interim report would be made available for the PILOT meeting on 10 December and a full report was planned to be made available to the EAG and others prior to PILOT'S meeting on 19 March 2003.

**NE
Exploration
Work
Group**

6 Schedule of meetings in 2003

RH distributed a provisional schedule of meetings in 2003, commencing at 10.30am on 14 March, 9 June, 12 September, 10 November. He invited comments prior to the next meeting.

All

7 AOB: None

**Date of
Next
meeting** 10.30 am on 14 March 2003; location to be confirmed.