

PILOT Economic Advisory Group
Meeting held at 10.30 am on 14 March 2003 at Amerada Hess, London

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

1. Introduction

Norman Selley welcomed members to Amerada Hess.

2. DTI Exploration Survey

PB presented the results of the DTI's survey of exploration intentions [*EAG/15/03 refers*].

The number of historical wells drilled was shown with and without sidetracks. The proportion of sidetracks has risen over time. Future intentions were shown only without sidetracks. In monetary terms wells account for 60%-70% of exploration expenditures, while seismic now accounts for 6%, but the efficiency of seismic spend was thought to have risen. Total exploration spend is expected to remain around £400 million in 2003, the figure for 2002 being in the region £350 million-£400 million.

PB noted that exploration activity in the UK seemed to be low, but recent queries from Norway suggested they were experiencing a similar decline. However, no sharp decline in exploration drilling and success rates was shown in their recent statistics, so he thought there must be a sharp fall in size of discovery.

3. UKOOA-DTI Exploration Activity Survey

NE reported on some preliminary results of the activity and yet-to-find survey conducted during the 4th qtr 2002 [EAG/16/03 refers]. To aid interpretation, the 37 participants were categorized by size into 8 large, 12 medium and 17 small companies which together represented nearly half of the 79 UKCS licence holders. Most of the non-respondents were small companies.

Among other topics, the survey sought to identify significant factors restricting exploration activity. The most significant of these were ranked overall as follows, with rankings shown also for each category:

	Issue	Small	Medium	Large
1	global competition for funds	1	1	2
2	high cost of exploration	3	2	9
3	lack of confidence in the fiscal regime	2	6	6
4	size of prospects	8	4	3
5	high cost of development and operation	5	10	5
6	materiality	14	3	1
7	exploration risk too high	7	5	4
8	restricted access to attractive opportunities	4	7	13

The results were still being analysed and it was hoped they would be discussed by the project steering group and then distributed before the next EAG meeting in June.

4. Energy White Paper

AE reviewed some key points from the recently published Energy White Paper, which dealt largely with nuclear and renewables. Oil and Gas, however, are very important to the economy in the medium term and the paper acknowledges the importance of maximizing indigenous reserves and the prospect of moving to import dependency in the next few years. Therefore there is a need to link energy and foreign policy since future production may come from countries regarded as less stable than the UK.

There was some discussion about UK oil and gas supply and demand projections. DTI expect the UK to move to a net import position for gas by around 2006, and for oil by around 2010.. [EAG/17/03 refers]

ME referred to the UK Energy Sector Indicators 2003 paper (URN 03/193) published alongside the White Paper. He invited members to feed back their ideas about which indicators are most useful. He also noted the recent publication of the second report of the Joint (DTI–Ofgem) energy security of supply working group (JESS) (URN 03/331). Both publications can be downloaded from the DTI website or are available free in hardcopy format from DTI Publications Unit (<http://www.dti.gov.uk/publications/> or call 020 7215 6024 10am-4pm, Mon-Fri).

5. Prospects for Activity Levels

AK presented excerpts from a paper he was writing which includes several scenarios of future activity under different oil and gas price assumptions; it also estimates the effect of lower tariffs should PRT be removed from new third party business. The paper used the UKOOA-DTI field database with additional technical reserves and different exploration activity levels.

There was some discussion on a number of assumptions:

- It was felt that the range of scenarios was appropriate and that in the current environment the high and middle case exploration assumptions were optimistic.
- The P/I economic cut-off criterion is not widely used by operators when I is defined as net investment. Textbooks and governments use the net basis, however.
- The main development costs for technical reserves were set at \$1/boe higher than the mean for recently developed, probable and possible fields and \$2/boe higher if these are west of Shetland.

Except in the most optimistic case, the 2010 PILOT vision is not achieved.

6. UKOOA 2002 Economic Report

NE reviewed UKOOA's latest Economic Report which had been launched on 6 March. He distributed hard copies to those present; it was also available on the UKOOA website.

7. UK Norway

RH briefly updated the group on the status the UK Norway Co-operation work group. EAG had been asked to provide an assessment on delivery of the "prize". He proposed that, as before, a small subgroup comprising himself, PG and ME would take this forward.

8. AOB

RH noted that he had been asked to present at the PILOT Dinner on 18 March an assessment on the achievability of the PILOT production targets for 2005 and 2010. He showed the slides he proposed to show (which he had subsequently circulated to members). [EAG/19/03 refers]

NE said he would arrange to post past EAG papers of a non-confidential nature on the PILOT website. ME noted that the contact details also need to be updated.

Date of Next Meeting : 9th June 2003. Location tbc.