

PILOT Economic Advisory Group
Meeting held at 10.30 am on 9th June 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	Norman Smith	Consultant
Philip Beckett	DTI	Barry Anderson	TotalFinaElf
Mike Earp	DTI	David Morrison	Wood Mackenzie
Hooma Raza	DTI		
Simon Toole	DTI		
Roger Jelfs	ExxonMobil	In attendance	
Steve Nicholson	Halliburton	Ian Lissiter	AUPEC
Martin Johnson	HM Treasury	Roger Murray	BP
John Evans	Inland Revenue		
Mary Sullivan	Inland Revenue		
Edward Zamboni	Inland Revenue		
Roger Burrows	Petro-Canada		
Peter Grieve	Shell		
Julia Bell	Total		
Jenny Costello	UKOOA		
Nigel Essex	UKOOA		
David Highton	Wood Mackenzie		

1. Introduction

Norman Selley welcomed members to Amerada Hess.

2. Brown Fields Benchmarking [EAG/22/03 refers]

Ian Lissiter presented the findings of the AUPEC study of Brown Fields which had been commissioned to address the PILOT 2010 vision. The model was built on data from 23 representative oil and gas fields, from large to small, and aimed to estimate the additional reserves achievable above those currently predicted. It was concluded that up to 2.3 billion BOE of additional potential is attributable to these 23 fields over and above the current option set held by operators. The study recognises that the risks are high and the returns are diminishing evidenced by declining target size. Other conclusions were that:

- The window of opportunity for exploiting remaining brown fields was short;
- Investment was needed to identify these opportunities;
- Innovation would be needed;
- The fiscal regime requires reform to remove disincentives

AK pointed out that if these conditions were met it would be possible also to increase the estimated reserves in the probable and possible fields.

3. Industry/DTI Exploration Survey [EAG/23/03 refers]

NE noted that preliminary results of the survey had been reviewed by the Group in March, and he was now able to present the final results, recognising that the yet-to-find information was subject to further update in light of new information.

It was noted that the industry estimates of yet-to-find prospects and gross recoverable volumes were substantially lower than DTI estimates. The main reason for this was thought to be that industry has technical risk hurdles that preclude inclusion of very high risk prospects. When this was taken into account the estimates were very much closer although the aggregate of DTI estimates remained higher than industry totals, particularly in the area to the West of Shetlands.

HM Treasury and DTI had initiated a consultation process to establish the barriers to exploration activity. This provided a way forward for further analysis and consideration of possible policy changes required to maximise the economic recovery from remaining exploration opportunities on the UKCS. The first meeting of the Steering Group was scheduled to be held on 13 June. *[Note: at the Steering Group meeting the EAG work group on yet-to-find reserves was asked to progress work and report back to the SG in September. Volunteers to help with this should contact Nigel Essex (UKOOA) or Mike Earp(DTI)]*

4. Value Creation

DH reviewed the results of a recent multi-client study undertaken by Wood Mackenzie which compared the value creation by 25 oil and gas companies over the period 1996–2002 (H1). The overall Rate of Return achieved by the group was 11% nominal. \$27 billion of value (NPV terms) had been created by the group whose exploration spend had been \$77 billion. Commercial reserves totalling 45 billion BOE had been discovered at a finding cost of \$1.20/BOE. A consistent methodology had been used throughout which included costs of appraisal drilling during the period although the benefits from discoveries made prior to 1996 were excluded. This had resulted in the UKCS appearing to perform poorly over the period relatively to other regions, only 2 of the 25 companies in the study had created value during the period. Also the April 2002 tax changes contribute to the poor performance of the UKCS, E & A costs are relieved at 30% whilst the income from the new developments are now taxed at 40%. E & A spend on the UKCS in the period 1996-2002(H1) was the second highest (to Gulf of Mexico) of any province evaluated. The comparative lack of drilling success was one the key drivers of the UK's poor performance.

5. PILOT Vision [EAG/24/03 refers]

ME briefly drew attention to the performance of the industry towards the original Oil and Gas Industry Task Force vision of 3 million BOE/D in 2010. While current projections for production in 2010 are slightly down on those of 2001, they are both well up on the original 1999 projection. However, near term production since 1999 has fallen short of expectations, much of this would appear to be due to project slippage. A more detailed review of the trends since 1999 will be undertaken following the completion of the 2003 activity survey.

6. UK/Norway Co-operation

RH drew attention to the subject report which contained 14 recommendations. He believed the first to have been implemented was the review of the UK fiscal regime for new tariff business. RH informed the meeting that a UK/Norway cooperation report update is planned for August 2003 and the EAG has been requested to provide input into this report. This will take the form of a brief summary of progress towards delivering the value creation prize of \$ 2 billion.

7 Industry Activity Survey

There was a brief discussion about the forthcoming field activity survey and it was agreed that a similar format would be used as last year. PB and NE would liaise over the draft letter and would discuss any minor changes with AK.

8 Any Other Business

NE suggested that EAG membership did not currently include a banker. The Royal Bank of Scotland had been actively involved in the industry for many years. It was agreed unanimously to invite Tony Wood, Business Economist, to join.

Date of Next Meeting: 12th September, 2003, Location tbc.