

EAG/30/03

PILOT Economic Advisory Group

**Meeting held at 10.30 am on 21st November 2003
at Amerada Hess, 33 Grosvenor Place, London**

Present		Apologies	
Professor Alex Kemp	University of Aberdeen	David Morrison	Wood Mackenzie
Norman Selley	Amerada Hess	Sam Beckett	HM Treasury
Raymond Hall (Chair)	BP	Jamie Hamilton	BG Group
Philip Beckett	DTI	Iain Todd	DTI
Mike Earp	DTI	Ann Eggington	DTI
Ben Willacy	DTI	Peter Haile	DTI
Roger Jelfs	ExxonMobil	Simon Toole	DTI
Steve Nicholson	Halliburton	Tony Wood	Royal Bank of Scotland
Martin Johnson	HM Treasury		
John Evans	Inland Revenue		
Mary Sullivan	Inland Revenue		
Edward Zamboni	Inland Revenue		
Roger Burrows	PetroCanada		
Mark Reeves	Shell		
Neville Howlett	Total		
Nigel Essex	UKOOA		
Mike Madden	UKOOA		
Mike Tholen	UKOOA		
Rhodri Thomas	Wood Mackenzie		

Introduction

Norman Selley welcomed members to Amerada Hess. Ray Hall welcomed new members and guests including Mike Tholen (UKOOA) and Ben Willacy (DTI), and Mike Madden in attendance.

1. Industry Activity Survey 2003

RH reported that data for this year's field activity survey had been received from almost all of the UKCS operators and that, in a small number of cases where field data was known to be missing, last year's estimates had been used. The same methodology as last year had been used to aggregate the field data into sanctioned, incremental, probable and possible fields/projects, with slippages of 0 to 4 years applied, depending on the operator-assigned probability of the commercial development proceeding.

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RH presented a number of slides which described the methodology and summarized the aggregate projections for oil and gas production, development, operating and abandonment costs. *[EAG/31/03 attached]* The survey excludes exploration costs, and development of technical discoveries and yet-to-find reserves. Among the high level observations he noted that, compared with 2002:

- the number of sanctioned projects had increased to 270 (2002: 260); proposed incremental projects had reduced to 135 (144); probable fields had reduced to 43 (51) but possible fields had increased to 40 (33).
- Projected slipped production indicates a decline through 2010 of 74 million boe, but an increase through 2020 of 100 million boe. Total projected production is 1 billion boe lower than the year 2000 survey projection.
- The adverse trend of lower production at higher cost, seen in the last two years' surveys, is continuing.
- In 2005 production is now projected to be 3.6 million boepd, under-running the PILOT aspiration of 4 million boepd; in 2010 projected production is 2.4 million boepd versus the vision of 3 million boepd.
- Capital expenditures are £10 billion higher than the year 2000 survey projections, and the three-year rolling expenditure now exceeds PILOT's £3 billion per year aspiration through 2006.
- Operating costs continue at over £4 billion per year through 2005, with the proportion of costs attributable to tariffs running at about 20%.
- Cumulative abandonment costs through 2034 have increased by £0.6 billion to £9.5 billion.

It was agreed that a small group from UKOOA and DTI would analyse the data further to agree key messages from the survey ahead of the PILOT meeting on 3 December. **(ACTION: RH)**

2. Investment in Mature Fields

AK reviewed some recent work on investment in mature fields, including graphs illustrating the impact of tax on six scenarios for incremental investments of different sizes and types. A more extensive paper is being prepared. The information may be relevant and helpful in preparation for the proposed Brownfields studies by the industry and government Think Tank. Clarification was sought on some of the results and an amended presentation is attached *[EAG/32/03]*.

(ACTION: AK)

3. Security of Gas Supplies

Michael Tholen presented UKOOA's recently published paper on security of gas supplies. [Give weblink?] He noted that the UKCS industry works on the supply side and does not influence demand other than through the market. The impact of regulation was a significant factor adversely affecting the commercial environment for operators. The paper used gas production projections based on last year's field

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activity survey but the main results and conclusions would not be affected significantly by the results of the latest survey. *[EAG/33/03 attached]*.

Mike Earp presented some charts from the DTI/Ofgem Joint Energy Security of Supply Working Group (JESS) third report – November 2003. [<http://www.dti.gov.uk/energy/jess/jessreport3.pdf>] The Group assesses available data relevant to security of gas and electricity supply over the long term, identifies gaps in that data and develops appropriate indicators. It was noted that, with respect to gas, significant additional investment will be required to develop and enhance import connections, LNG terminals, gas storage and swing capacity in the short to medium term in order to satisfy demand in the face of declining UKCS gas production. *[EAG/34/03 attached]*.

4. Collection of Quarterly Investment Data

Philip Beckett drew to members' attention the DTI's triennial review of its quarterly inquiry into oil & gas (PQ1100. [which had been announced in Energy Trends ([at www.dti.gov.uk/energy/consultations/qfipq1100.pdf](http://www.dti.gov.uk/energy/consultations/qfipq1100.pdf).)] He explained the purposes of such reviews, and presented a possible replacement annual survey, designed to decrease the burden on DTI and industry. Of particular interest was the perceived need for the data and whether an annual survey would be adequate. The meeting felt that aggregated data was useful on a quarterly basis and asked that this might be collected in a simple report, leaving the detailed survey to be conducted annually. NE agreed to circulate details of the proposed change to UKOOA member companies to gauge their reaction. Members were invited to provide further comments to PB on the proposed changes. *[EAG/35/03, EAG/36/03 and EAG/37/03 attached]*. **ACTION: PB/ NE/All**

5. EU Emissions Trading

RH provided an overview of the EU emissions trading system and identified business issues that are likely to arise from it. Companies must now incorporate climate change into day-to-day commercial decisions and begin assessing what innovative steps they can take to reduce emissions. It is important therefore that business managers understand the likely impact of these decisions and do not leave it entirely to environment managers to address. *[EAG/38/03 attached]*. **ACTION: All**

6. Any Other Business

Employment Survey: NE noted that he had spoken to Professor Hervey Gibson about conducting an update of the estimated number of jobs supported by the UKCS oil and gas industry. The problems with data at the Office of National Statistics which had prevented previous work proceeding had now been resolved. **ACTION: NE**

Date of Next Meeting: 22 March 2004, Location tbc.