

**Economic Advisory Group Meeting
at
DTI, 1 Victoria Street London SW1
at 10.30 am on Friday 10 June 2005**

Present:			
Ray Hall (Chair)	BP	Alan Carter	HMRC
Norman Selley	Amerada Hess	James Medway	HMRC
Fernando Esteve	BG Group	Jo Wakeman	HMT
Simon Taylor	ConocoPhillips	Simon Gell	Nippon Oil
Mike Earp	DTI	Nigel Essex	OGIA
Peter Haile	DTI	Roger Burrows	PetroCanada
Simon Toole	DTI	Jeroen van Dillewijn	Shell
Steve Nicholson	Halliburton	Xavier Ecomard	Total
Ruth Bulteel	HMRC	Mike Tholen	UKOOA

Mike Earp welcomed members to DTI's offices. Ray Hall took the Chair.

Item		ACTION
1	PILOT Exploration Study (EAG/11/05, EAG/12/05)	
	<p>As a preamble, Simon Toole explained that following on from the last EAG meeting at which the role of the EAG had been discussed, the ILT had agreed that the EAG should continue to serve two functions:</p> <ul style="list-style-type: none"> • It is the body to whom the ILT/PILOT address economic related questions; • The EAG should bring issues to the attention of the ILT/PILOT which it thought fit to do. <p>The ILT had asked the EAG to report back on the following exploration issues:</p> <ul style="list-style-type: none"> • Reconciliation of reserves/ resources as represented by the Unified Reserves Model and activity levels • Blockers and enablers to activity <p>Stephen Giles and Simon Toole had been named Champions for the project. They had been invited to report to PILOT in the autumn.</p> <p>Mike Earp reviewed the proposed process for the review, incorporating a 'sense check' on recent work and suggested further analysis.</p> <p>ME pointed out that most studies led to similar projections of production from yet-to-find resources i.e. around 5 billion boe,</p>	

	<p>subject to economic conditions. Recent experience indicates it could take 5 or 6 years drilling at 25 wells per year to discover 1 billion boe. If exceptional discoveries such as Buzzard are excluded the current rate of drilling suggests that 5 billion boe would not be achievable within the life of existing infrastructure.</p> <p>Peter Haile said that future studies should respect the range of estimates that exist. Forecasting ultimate reserves was by no means an exact science and while a central estimate might be convenient it should be seen in context of the range of possible outcomes.</p> <p>There was discussion about the need for a multi-skilled workgroup which should include explorationists as well as EAG representatives. UKOOA's Exploration MRT will be invited to provide input. The suppliers' perspective should also be considered especially since there appears to be a shortage of suitable rigs. ME was detailed to pursue the matter with Stephen Giles , OGIA's representative on PILOT.</p>	ST/ME/MT
2	Stewardship Process	
	<p>In the absence of Simon Toole, the Chairman referred to previous reviews on the Stewardship Process and postponed further discussion on the topic.</p>	
3	Decommissioning Process (EAG/13/05)	
	<p>Mike Tholen explained that work on the decommissioning process was progressing within the industry on several fronts including:</p> <ul style="list-style-type: none"> • A strategic plan for decommissioning to be reported in 2Q05; • A standard Decommissioning Sales Agreement (DSA) to be completed by 3Q05; • A review of the form of securities available by Q305. • The work would also address the impact of joint and several liability and whether change was now appropriate. <p>During discussion the Chairman said it was important to manage expectations on what was achievable, and asked if there were any instances in which decommissioning had prevented an asset sale. A case was cited where decommissioning liabilities were an impediment to asset trading, however, asset sales in 2004 had been higher than in 2003. (Post meeting note: traded volumes rose from 600 million boe in 2003 to 1400 million boe in 2004.)</p>	MT

4	UKCS Gas Supply (EAG/14/05)	
	Mike Tholen presented a series of slides showing recent and projected gas supplies and prices. Indications are that supply availability in the forthcoming winter is very tight, although the position is complex.	
5	Industry Activity /DTI Statistics (EAG/15/05)	
	<p>Mike Earp reviewed the processes and sites which DTI used to gather and present industry statistics. It was generally agreed there was a need for the processes to be more co-ordinated, particularly with respect to production and sales.</p> <p>It was suggested that decommissioning costs, which are currently shown as capital expenditures, should be shown separately</p>	ME
6	Reconciling Production Reporting Conversion Factors (EAG/16/05)	
	Mike Earp presented a number of slides which showed a sample of the complex array of conversion factors used by the industry. For example gas may be converted to oil equivalent using factors from 5.2 to 6 MCF/BOE. UKOOA has traditionally used a standard 5.8 MCF/BOE. As the quality of UKCS gas changes the conversion factor should be monitored and changed where appropriate.	ME/MT
7	AOB	
	None	
8	Date of Next Meeting	
	Thursday 8 September in Aberdeen. Details to be confirmed	

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