

**Economic Advisory Group Meeting
at
Marriott Hotel, Dyce Aberdeen
at 10.30 am on Thursday 8th September 2005**

Present:			
Ray Hall (Chair)	BP	Alan Carter	HMRC
Norman Selley	Amerada Hess	Nicholas Briggs	Perenco
Prof Alex Kemp	University of Aberdeen	Calum McGregor	Talisman
Simon Taylor	ConocoPhillips	Kevin Malone	Chevron
Rhodri Thomas	Wood Mackenzie		
Dennis Clarke	SLP Engineering	Roger Burrows	PetroCanada
Simon Toole	DTI	Ian Smith	Shell
Gary Paver	Halliburton	Xavier Ecomard	Total
Oliver Wells	ExxonMobil	Mike Tholen	UKOOA

Ray Hall welcomed members to the Marriot Hotel and took the chair.

Item		ACTION
1	UKCS activity levels	
	<p>Prof Kemp presented to the meeting his recent study into activity levels in the UKCS. The study is based on the 2004 UKOOA activity survey, which identifies known projects, supplemented with Prof Kemp's further analysis on the additional potential from exploration, development of technical discoveries and further brown field potential.</p> <p>The study demonstrated that it is just possible for the PILOT production target for 2010 to be achieved though this depends on a strong effort across the full spectrum of investment opportunities.</p> <p>There was some discussion on the apparent insensitivity of production and investment to higher prices. This in large part reflects the nature of the activity survey whereby operators only submit data on projects that are being worked and by definition have reasonable commercial potential. Data is rarely submitted on uneconomic projects. It is hoped that the 2005 survey may flush out more projects that have become economic with current high prices.</p> <p>There was also discussion on whether the contributions from</p>	

	<p>future incremental projects could be remodelled to make the outcomes more price sensitive. In particular at higher prices more projects should be forthcoming as capex /bbl hurdles are raised.</p> <p>It was agreed that Prof Kemp, Mike Tholen and Mike Earp should discuss this further. (see post meeting notes prepared by Prof Kemp in attachment 1)</p> <p>An action was placed on the EAG / Mike Tholen to prepare an ILT presentation for late October provides more context around basin activity projections highlighting these uncertainties and limitations in the data set. Recommendations for refining future modelling scenarios will be developed. Also an explanation for the dip in basin expenditure pre 2010 was requested.</p>	ST/ME/MT
2	2005 Exploration activity	
	<p>Rhodri Thomas presented a recent Wood Mac study on drilling activity in the first half of 2005. Highlights included the strong participation from independents in UKCS drilling activity, the focus on drilling within 25km of infrastructure and the concentration of activity in mature areas such as Central North sea and Southern basin. The discovered volume so far in 2005 appears disappointing at 20 million boe though information remains tight on most wells.</p>	
3	Exploration review	
	<p>Ray Hall presented a comparison of results from the 2000-04 exploration activity (based on Wood Mackenzie data) with predictions made in 1999 at the time the Industry task force was created. Significant modelling analysis was carried out in 1999 to create expected production outcomes based on 25 wells or 50 exploration wells p.a. Results demonstrate that for the period 2000-04 the UK well pathway is very close to 25 exploration wells p.a. over the 5 year period. However average discovered volumes/well comfortably exceeds expectations, also the realised production so far and prognosis to 2010 is close to the outcome for the 50 well scenario despite activity being half this level. It is also clear that Industry is more successful than predicted in bringing new discoveries to production, particularly for small accumulations in the Southern gas basin. It was suggested that when the data for the 2005 activity survey is available the analysis should be reviewed again using operator data.</p>	

	A review of the Wood Mackenzie benchmarking study also confirms that UKCS drilling activity continues to hold up very well compared to competitor basins with the well count exceeding what might be expected based on prospectivity and chances of finding commercial volumes.	
4	UKCS Gas Supply update	
	Mike Tholen presented a series of slides showing recent analysis from Transco on the current supply/demand balance. Indications are that supply availability in the forthcoming winter is very tight, although the position is complex.	
5	Industry Activity survey	
	Mike Tholen reminded the meeting that the 2005 activity survey has been sent to Operators for compilation. Request is identical to previous years with data to be returned by end October. UKOOA hope to be able to publish the results in early January 2006.	
6	Exploration request from PILOT/ILT	
	Ray Hall reminded the meeting that there is an outstanding request from ILT (Stephen Giles) to investigate further the recent exploration performance in the UKCS. Mike Tholen agreed to take this forward and contact Stephen Giles. Post meeting note, UKOOA have arranged to meet with Stephen Giles and DTI in late September.	ME/MT
7	AOB	
	None	
8	Date of Next Meeting	
	Friday 2 nd December in London . Details to be confirmed	

Attachment 1: Post meeting notes from Prof Kemp on Activity study

Comments to discussion on UKCS activity levels agenda item.

1. There is indeed much short-term insensitivity in production and investment in relation to price variations because this period is dominated by sanctioned, probable, and possible fields, plus current incremental projects provided by operators which largely are viable at \$20. In our modelling we did bring forward in time some fields in the technical reserves category and some further incremental projects, but we did not do this in an aggressive manner. It would certainly be quite possible to accelerate the development of some more. But these likely developments will be quite small in size and in related capex. It is noteworthy that the bank of probable and possible fields totals 60 compared to 83 the previous year. This largely explains the fall in devex. Note also the small number of discoveries in recent years which contributes to this outcome.
2. The idea of explicitly modelling market cost inflation at high oil prices is accepted. This could make a worthwhile difference to the capex figures over the next 3 years or so. I have been given estimates indicating that for a typical field devex cost inflation could be around 10% for 2004-2005, and 19%-20% for 2005-2006. It will be important, however, to distinguish clearly between changes in capex due to volume and those due to price changes when interpreting the results.
3. It is certainly possible to remodel future incremental projects such that their economics is more price sensitive. In the recent study it was broadly assumed that future ones would follow the pattern of existing ones which meant that the majority were viable at \$20.
4. The study does, however, incorporate a considerable _long-term_ production and investment price sensitivity. For example, in 2015 total production is 2.23 mmboe/d at \$20, 18 pence and 2.95 mmboe/d at \$40, 36 pence.
5. One point which I mentioned at the meeting deserves more consideration. At the \$40 price we had for a number of years 30 and sometimes even 32 new fields per year coming on stream, and at the \$30 pence 25-27 per year. They are, of course, small, but the question of the capability/capacity of the industry to execute all this is worthy of further consideration. (Note that in our modelling incremental projects are in addition to these new fields).