

**PILOT Economic Advisory Group**  
**Meeting held at 10.30 a.m. on 22 March 2004 at Amerada Hess, London**

<b>Present:</b>		<b>Apologies:</b>	
Professor Alex Kemp	University of Aberdeen	Simon Toole	DTI
Norman Selley	Amerada Hess	Martin Johnson	HM Treasury
Raymond Hall (Chair)	BP	Roger Burrows	Petro-Canada
Philip Beckett	DTI	Tony Wood	Royal Bank of Scotland
Mike Earp	DTI	David Morrison	Wood Mackenzie
Ann Eggington	DTI		
Peter Haile	DTI		
Ben Willacy	DTI		
Oliver Wells	ExxonMobil		
Steve Nicholson	Halliburton		
John Evans	Inland Revenue		
Mary Sullivan	Inland Revenue		
Edward Zamboni	Inland Revenue		
Norman Smith	Consultant		
Ian Hill	Office for National Statistics (ONS)		
Jeroen van Dillewijn	Shell		
Xavier Ecomard	Total		
Neville Howlett	Total		
David Odling	UKOOA		
Mike Tholen	UKOOA		
Nigel Essex	WHAM		

**Introduction**

Norman Selley welcomed members to Amerada Hess. Ray Hall took the Chair. Those present were invited to provide their current email addresses, which were subsequently distributed.

**ACTION****NE****1 Activity projections for the UKCS [EAG/40/04 refers].**

Prof Alex Kemp reviewed his recent reassessment of prospects for activity levels in the UKCS. At \$20/bbl and with a 10% hurdle rate production is projected to just achieve the PILOT vision of 3 million boe/d in 2010 if exploration assumptions are met. These include a linear decline from 25 wells in 2003 to 15 in 2020 and to 10 in 2028 and a 25% success rate. The development assumption of 20 new fields/year, many of which are small, is consistent with what has been achieved in recent years.

The basis for the projections was discussed. It was noted the study assumed a 10% hurdle rate - this rate reflected the historic rate of return achieved by the industry. Actual investment criteria by some of the industry were typically set higher in the first place to achieve this rate of return, reflecting their cost of capital - thus the study may over-estimate the

opportunities available. In this case, it was suggested, the study would indicate less optimistic results .

AK also projected cumulative production of 22 billion boe during the period 2004–2030, which appears to be consistent with but just below UKOOA’s forecast (22.5–33.5 billion boe unrestricted by time).

AK noted that much depends not only on the above assumptions being met, but also a favourable economic climate, incremental investments in new and existing fields proceeding as projected and infrastructure remaining in service for new projects. In this regard, much depends on successful implementation of the range of initiatives currently under way including fallow acreage/discoveries and access to infrastructure. These and other potential initiatives being discussed by industry and government can facilitate the development of fields in the technical reserves category and future incremental projects.

AK pointed out that these projections would clearly suffer from a period of low prices, as development would slow and infrastructure would close.

**2 E&A Survey of Intentions [EAG/41/04 refers].**

Philip Beckett reported on the results of the recent Exploration & Appraisal well intentions survey conducted by the DTI. He noted that the current survey projected activity about 30% higher than last year’s survey, and higher than any survey since 1998 (except 2001). The total number of E&A wells in 2003 was 34. The projections for 2004/5/6 are: 39, 37 and 25 respectively. Expected expenditure rises to some £0.45 billion in 2004 and to £0.49 billion in 2006.

The DTI reported the data excluding side-tracks. UKOOA stated that metric of spuds plus side-tracks (as shown on the DTI website) was a more effective metric as this more appropriately represented activity levels.

**3 EU Emissions Trading Scheme [EAG/42/04 refers]. ACTION**

David Odling provided a status report on the scheme which commences on 1 January 2005. The National Allocation Plan was due to be submitted to the European Commission by end March and the Commission's response is due by 30 June 2004. Final allocations will be set by end of September. The costs of not surrendering CO<sub>2</sub> allowances will increase from 40 euros/tonne per year in Phase I to 100 euros/tonne in Phase II.

While companies may if certain conditions are fulfilled opt out of Phase I, Phase II is compulsory and commences immediately following the end of Phase I, on 1 January 2008. UKOOA and DTI are working on several offshore related EU ETS issues which have not yet been agreed, including a new entrants reserve, field closures, measuring and monitoring and other issues.

**All**

It was noted that different countries interpreted the requirements differently.

**4 Brown Fields/Incremental Barrels Process [EAG/43/04 refers].**

Mike Tholen reported on the process being set up by industry to stimulate brown field activity. There will be four work groups reporting to a steering group co-chaired by Dave Blackwood (BP) and Jim Campbell (DTI).

These would focus on:

1. Defining the prize and putting it into perspective
2. Exploring business/regulatory models and enhancing effectiveness of portfolio trading
3. Supply chain effectiveness and technology deployment
4. Identifying fiscal issues.

MT noted that most of the work groups were now fully manned. RH commented that this Brown Fields process was the industry's current priority. It would include issues relating to the life of infrastructure and decommissioning.

**5 Change in Collection of Financial Data [EAG/44/04 refers]. ACTION**

Philip Beckett noted that he had drawn attention to the triennial review of the Quarterly Inquiry into Oil and Natural Gas at the last EAG meeting and had passed on the group's recommendations to reduce the burden to industry and the DTI. DTI proposed to make annual field data suffice (eliminating the current quarterly field returns). The survey would be conducted by email, be simpler and would collect data from operators alone. PB introduced Ian Hill (ONS) who said for National Accounts purposes ONS would still need to obtain aggregate quarterly data which they proposed to do by extending their quarterly profits and capital expenditure surveys. DTI would run their new (annual) inquiry for the first two quarters of 2004 while ONS set up their surveys.

It was agreed that, where profits figures were concerned, the new ONS survey should go to all licensees, while capital expenditures would be best handled by each operator on behalf of co-venturers. Members were asked to discuss the proposals within their companies and to provide IH with any additional comments within 4 weeks (preferably sooner).

All

**6 Schedule of meetings in 2004**

RH distributed a provisional schedule of meetings in 2004, commencing at 10.30am on 14 June, 6 September, 22 November. RH invited comments prior to the next meeting.

All

**7 AOB: The Role and membership of the EAG**

RH invited a brief discussion on the future role and membership of the EAG. MT stated that he had raised the question on the role of the EAG given its obvious lack of representation on behalf of most in the industry. UKOOAs desire was that meetings should be effective to attract appropriate involvement.

It was noted that the EAG had originally been established by the Oil and Gas Industry Task Force to monitor and report on the targets set by its successor, PILOT. In addition, PILOT referred economic issues to the EAG from time to time, particularly with respect to activity levels, and it has provided a good forum to review current issues being addressed by both industry and government such as those discussed today, so that industry may be kept well informed. The papers are posted on the PILOT website for wider readership.

RH asked for further comments on the role and membership to be sent to him ahead of the upcoming PILOT meeting.

All

**Date of Next Meeting 10.30 am on 14 June 2004. Location to be confirmed.**