



PILOT MEETING – CHURCH HOUSE, LONDON 13TH NOVEMBER 2012

NOTE OF MEETING

- Attendees are listed at Annex 1

ACTIONS AGREED

- Infrastructure group to have a detailed report of findings and recommendations prepared in time for next PILOT meeting . (*action Jonathan Roger*)
- Access to capital group to carry out more work around the feasibility of creating a “special purpose vehicle” which would bring several small operators together into a joint venture. (*action Steve Jenkins*)
- In relation to Improved recovery / EOR - DECC to consider how the Stewardship process could be used more effectively to drive this work forward and in particular foster better collaboration between companies. (*action Simon Toole*)
- Technology group to prepare a draft outline of what a UKCS technology strategy may look like by the next PILOT meeting. (*action Paul Warwick*)
- Workforce Resource group to develop a comprehensive assessment of measures required together with an outline of resources and funding which would be required to address industries skills challenge. (*action Gordon Ballard*)
- Exploration group to develop a report outlining key challenges together with a number of recommendations for next PILOT. (*action Malcolm Webb and Simon Toole*)

Item 1 ; Chairman's opening remarks

Ed Davey opened the meeting , welcomed everyone and indicated he was extremely pleased to be chairing his first PILOT meeting. He acknowledged the importance of the Oil and Gas sector to the UK economy in terms of revenue to the exchequer and also in terms of security of energy supply. He also touched on decarbonisation policies but assured everyone that hydrocarbon would be needed for the foreseeable future. He then invited Scottish Energy Minister Fergus Ewing to add some opening remarks.

Fergus commented that politics should be left outside the door and it was important everyone was pulling in one direction to maximise value from the North Sea. He suggested there should be a joint Scottish and UK Government campaign to promote the industry and there was also a common goal to increase international business from the sector and also to work together on CCS and on that issue they had just published a new study on the economic impacts of CO2 Enhanced Oil Recovery.

Item 2 ; Infrastructure

Workgroup leader Jonathan Roger reported that a detailed infrastructure access study had now been carried out and that critical hubs had been identified. They were now starting to look at a different ownership models and while they had developed some high level findings a more detailed report would be ready for the next meeting. Perhaps the most notable initial statistic was there could be as much as £85 billion of reserves currently stranded by infrastructure constraints. Also by 2025 around half of all current infrastructure could be decommissioned and if this were to happen it could substantially impact on future exploration and the overall recovery from the basin.

Three key initial achievements included; a) having the Infrastructure Code of Practise rewritten and this was currently into a training and engagement phase, b) developing and introducing infrastructure stewardship, and c) developing and introducing a performance feedback system. In addition they will be recommending the establishment of a Southern North Sea task force to drive these measures and this could then be a test bed for some of the more transformational measures which they are still working on.

Touching on the possible transformational measures, a number were listed as follows .

- Aggregating developments
- A new model of independent infrastructure owners
- Developing a better understanding of the pros and cons of using FPSO`s

- Developing new cost share models for production hubs
- Examining possible fiscal stimulus to get the last and more costly barrels out.

Jonathan told PILOT all this would not be easy to implement and would require a high level of collaboration from industry and strong leadership from DECC. Malcolm Webb added that industry were prepared to add more resource to move this work forward by DECC would also need to allocate more resource if collectively we were to realise this £85 billion prize.

Item 3 ; Access to Capital

Workgroup leader Steve Jenkins started by informing the group about the Investors forum which was held in London on 25th October and which has been jointly chaired by John Hayes and himself. There had been a good turn out from both industry and the financial community with presentations from RBS, Valiant, Centrica and Treasury. One of the strong themes to emerge was that banks are not interested in single well projects and they were encouraging small players to group a number of prospects together under a joint venture arrangement which would be viewed more attractively by the financial community. It was also accepted that banks are wary of lending to strangers which places some of the new players at a disadvantage.

As an output from the seminar Steve was already speaking with a number of small companies with the view to setting up a special purpose vehicle to bring a portfolio of single well projects together under a joint venture arrangement. He accepted this would be challenging and may need some help from DECC to facilitate such an arrangement.

Item 4; Improved Recovery /EOR

This item started with an update from Glen Cayley whose group were focusing on the mechanical side of improving recovery. He indicated most of this work was proven technology and should be driven by industry only needing some encouragement from DECC. Currently we are leaving more than half the hydrocarbons behind and potentially there was more of a prize here than with exploration. Most reservoirs had been subjected to simple water flood but we now needed to understand what the technical limits are to achieving higher recovery rates. In the most simplistic terms drilling more wells would give better recovery but need to get the costs of this operation down. One way could be to develop better industry collaboration which would introduce economies of scale for commodities and could perhaps facilitate commercial and debottlenecking issues.

Trevor Garlick then presented on EOR, describing it as finding ways to unstick oil from rocks. If techniques could be perfected there was a potential to get recovery

rates up from 40 to 60 %. Good progress had already been achieved and they had developed a screening tool to identify the best prospects in the basin- they now had 10 companies working together on this challenge and were examining ways to optimise traditional water flooding, the added benefits of low salinity water, the use of Polymers and the potential from CO₂. He suggested there was a role for DECC to challenge operators to work their reservoirs harder via the stewardship process and to encourage better collaboration within industry.

There then followed some discussion and there was general agreement that the next steps of progress will be challenging and will require considerable facilitation – many of the technologies will be expensive and will not always be economic but the overall prize is enormous so imperative that the momentum is not lost.

Item 5 ; Technology

Workgroup leader Paul Warwick reported that he had been involved in a number of conversations where it was clear there was a disconnect between operators and innovators. Historically the basin was dominated by the major oil companies who developed their own technology but as we move to a more diverse range of operating companies dominated by smaller players who will not have the same access to developing technology it will become more important to have an overarching strategy for the basin.

At a recent technology demand event 18 operators were surveyed and came up with a list of topics. Further analysis will be carried out to determine the need for a strategy and what it may look like and will be reported at the next meeting.

Item 6 ; Workforce Resources

Gordon Ballard reported that there had been an industry skills summit which had highlighted that the main pinch point was a lack of mid career experienced personnel. One way forward would be to form a partnership with the Ministry of Defence and to develop short conversion courses for people leaving the forces. They were also looking to increase the number of modern apprentice places within industry and develop “Gateway” into the industry . This work would all require resourcing and work was ongoing on that front.

Item 7 ; Exploration

Simon Toole informed PILOT that as an industry we were not drilling enough successful exploration wells to keep the production hopper full. The 27th Licensing round had however been very successful and now nearly all of the prospective areas

of the UKCS were licensed which meant there were Geologists looking at all possible hydrocarbon traps. There subgroups have been set up and between them they will be looking at ;

- Possible rig share models which should drive costs of individual wells down
- Examining the licensing regime to ensure it best serves the maturity of the basin
- Examine potential new “play” areas
- Examine ways to de-risk the application of new technology.

Item 8 ; Summing up

In summing up the meeting John Hayes stressed Government were committed to supporting Oil and Gas – it remained the largest industrial sector supporting over 450,000 jobs and contributing significantly to the economic prosperity of the nation. He highlighted there was clearly a need for better collaboration. He confirmed Government would do their bit to move issues forward but clearly it was important industry stepped up and played their part too. There was a common goal to maximise production from the basin which would generate economic value to all stakeholders.

The next meeting will be held in London April/ May 2013.

The meeting was then closed.

List of Attendees

Annex 1

Chaired by Edward Davey, Secretary of State and John Hayes, Minister of State for Energy & Climate Change

Malcolm Webb	- Oil & Gas UK
Gordon Ballard	- Schlumberger
Trevor Garlick	- BP
Robin Davies	- Subsea 7
Glen Cayley	- Shell
Jonathan Roger	- Centrica
Sir Ian Wood	- John Wood Group
Steve Jenkins	- Cairn Energy
Paul Warwick	- Talisman
Fergus Ewing	- Scottish Government Minister for Energy, Enterprise & Tourism
David Mundell	- Scotland Office Minister
Stephen Speed	- Head of Energy and Development Unit – DECC
Simon Toole	- Director, Licensing, Exploration & Development – EDU –DECC
Bill Cattanach	- Head of PILOT Secretariat/PILOT Secretary – DECC
Hugh Hedges	- Head of North Sea Policy Team – HMRC LBS Oil & Gas
Rachel Joseph	- Environment & Transportation Tax Team – HM Treasury
Grahame Smith	- STUC

Apologies

Jim House	- Apache
John Pearson	- Amec
Dennis Clark	- OGN Group
James Edens	- CNR International
Ayman Asfari	- Petrofac Services
Michael Moore	- Secretary of State for Scotland – Scotland Office
Wendy Kennedy	- Head of Offshore Environment & Decommissioning - DECC