Maximising Economic Recovery from the UKCS, are policies and practices sufficiently aligned ?

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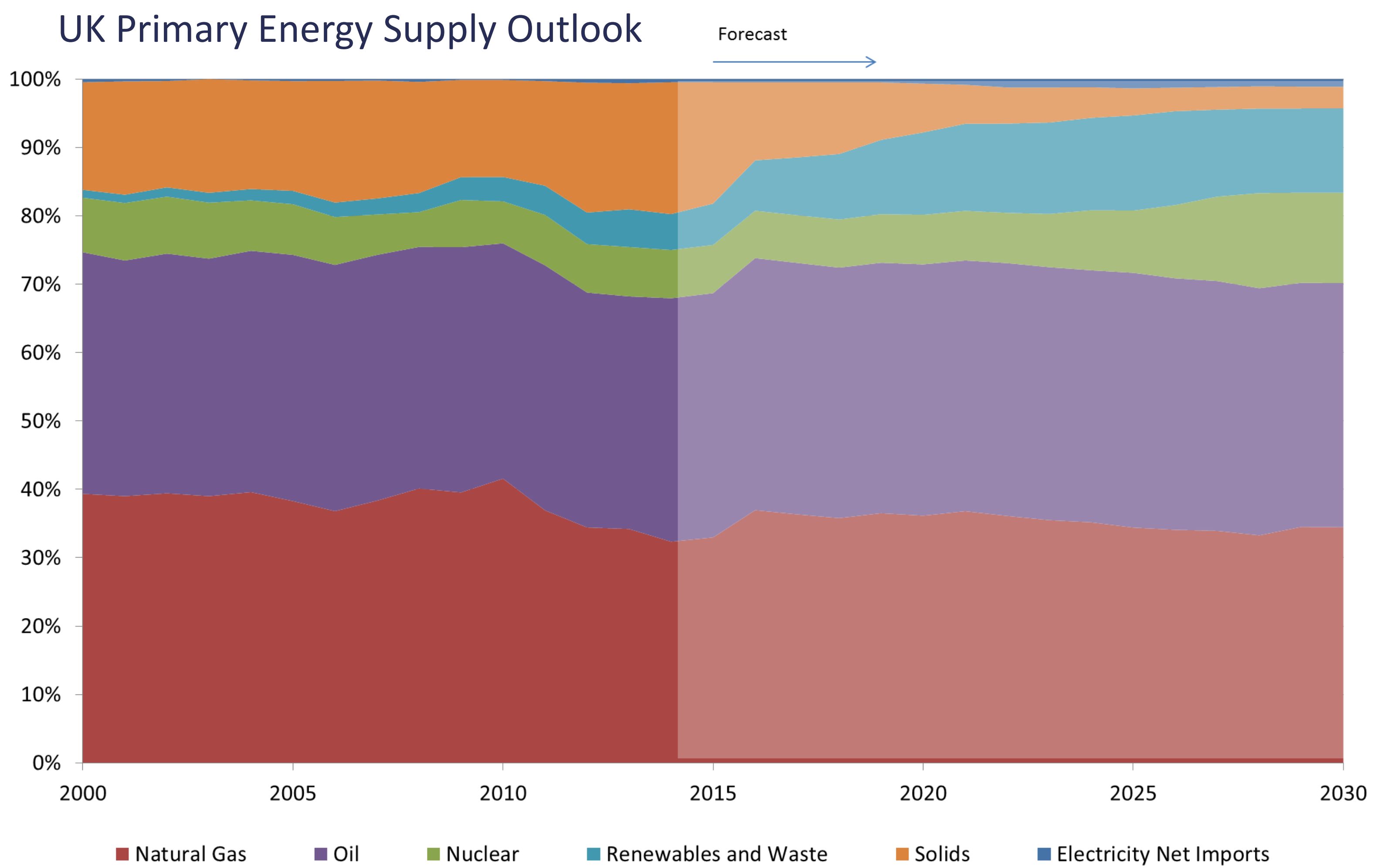
Maximising Economic Recovery from the UKCS, are policies and practices sufficiently aligned ?

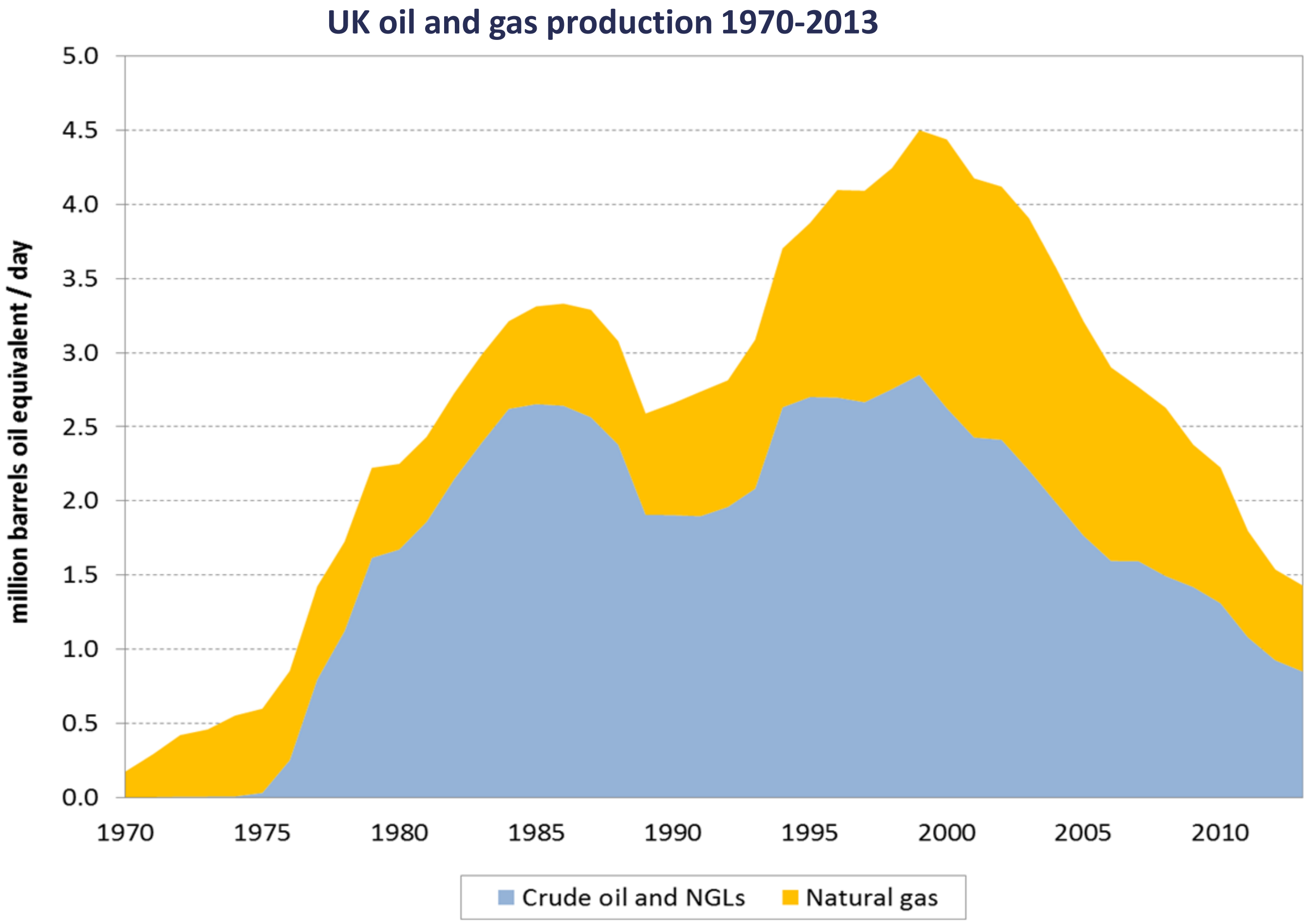
- Industry Overview
- Policy objectives
- Risk management
- Industry response

Oil and gas will continue to provide 70 percent of UK's energy, How much will come from the UKCS?

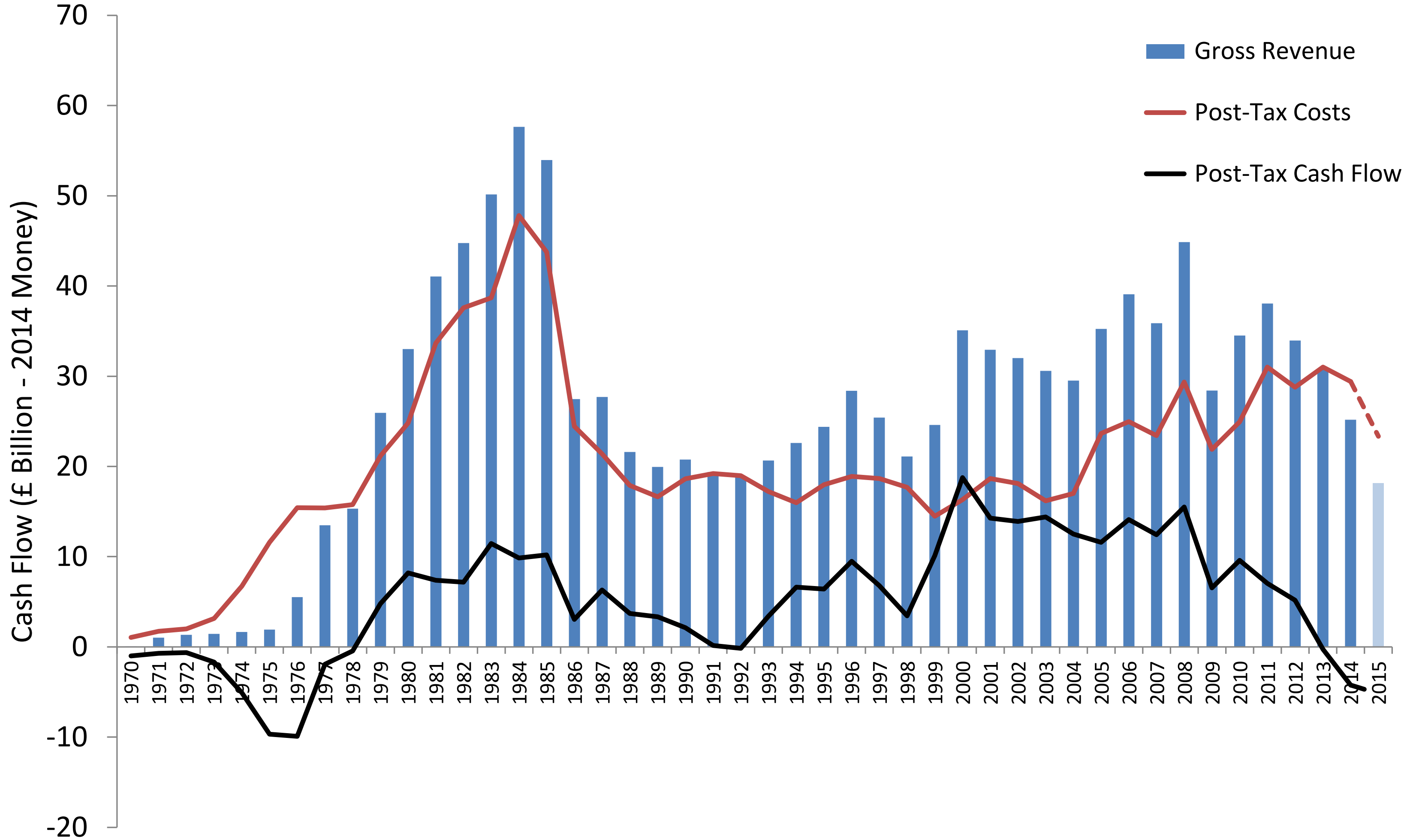


Source: DECC

UKCS at 50 year – produced 43 billion boe, up to 22 billion boe still to come

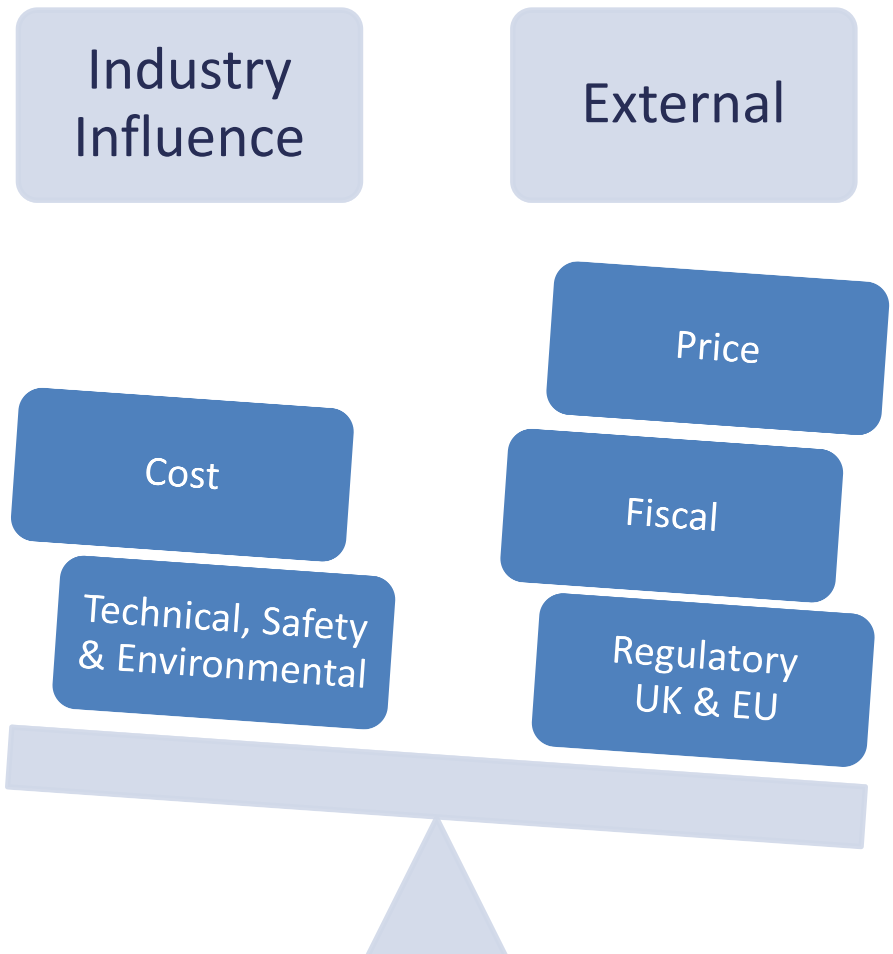


Negative post-tax cash flow (-£4.2 billion) in 2014, the first since 1977, is unsustainable

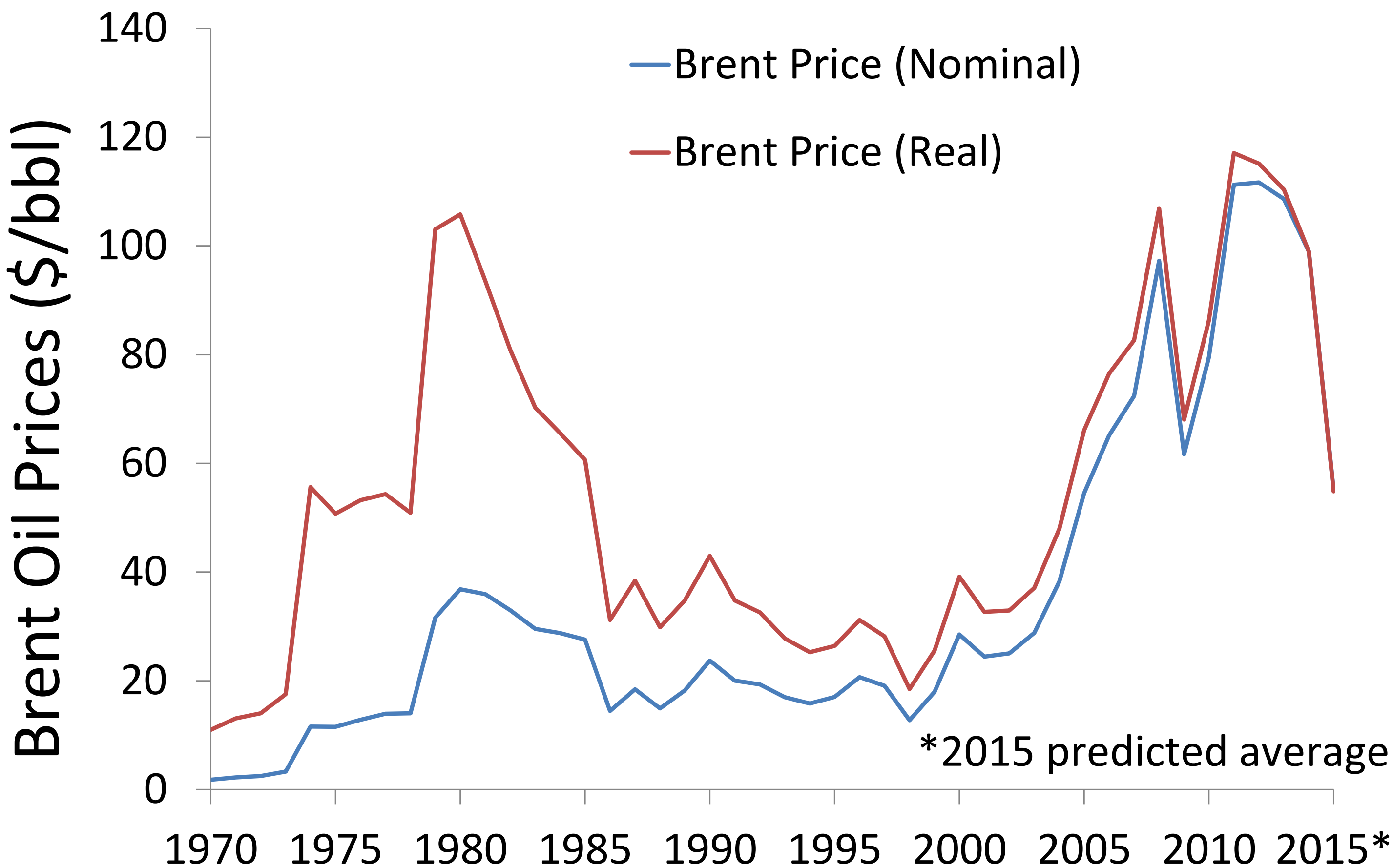


Source: DECC, Oil & Gas UK

Industry has limited control over key risks which will shape the future of the UKCS

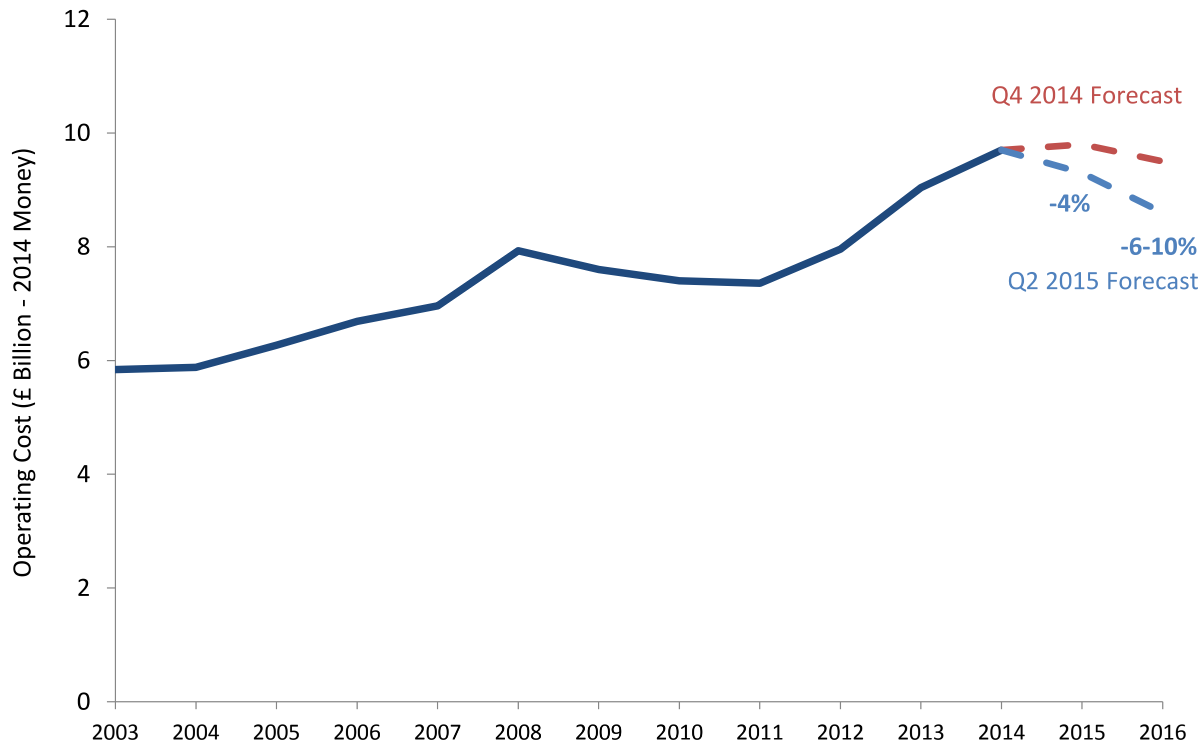


Oil price has more than halved over last twelve months after three years of high and stable prices



Source: Argus Media, BP

Operating costs have routinely grown by 10 per cent per year over the first half of this decade

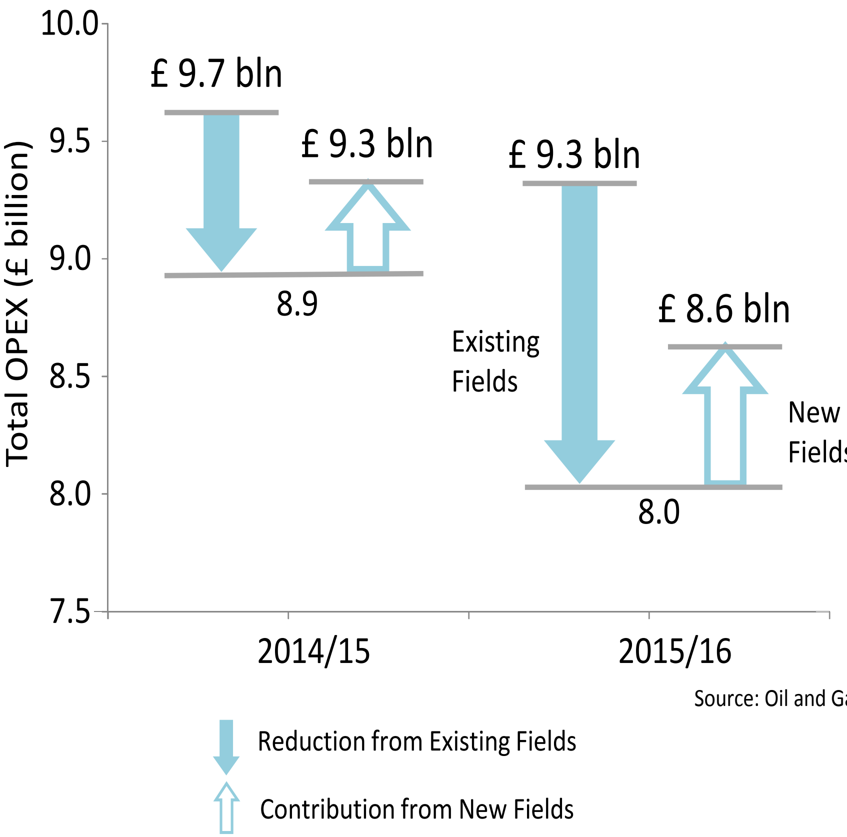


Source: Oil & Gas UK

Oil & Gas UK

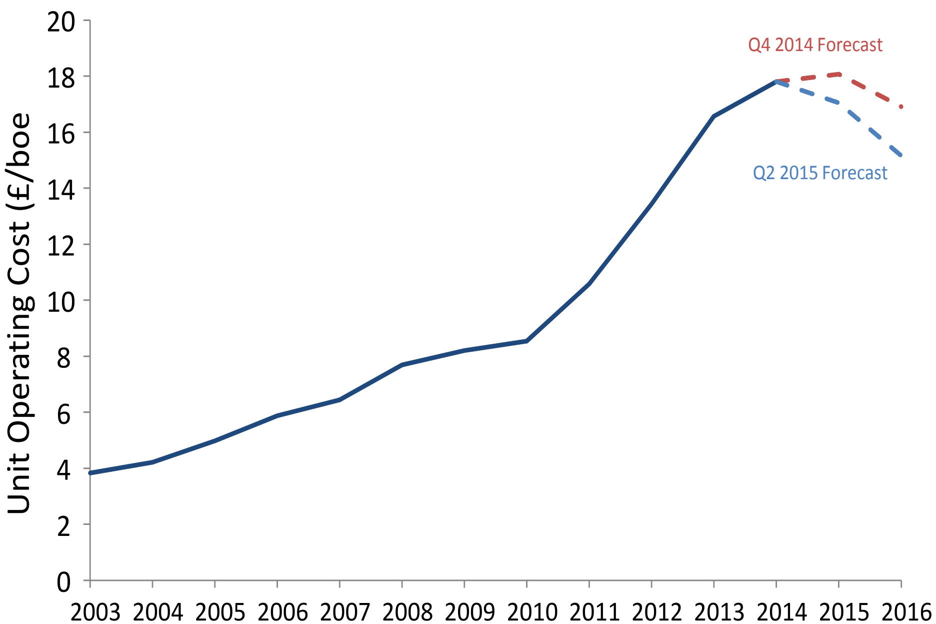
Cost and efficiency improvements should bring average UOC down to £15/boe average by 2016

Latest opex changes 2014 - 2016



Source: Oil and Gas UK

Impact on UOC 2014 - 2016

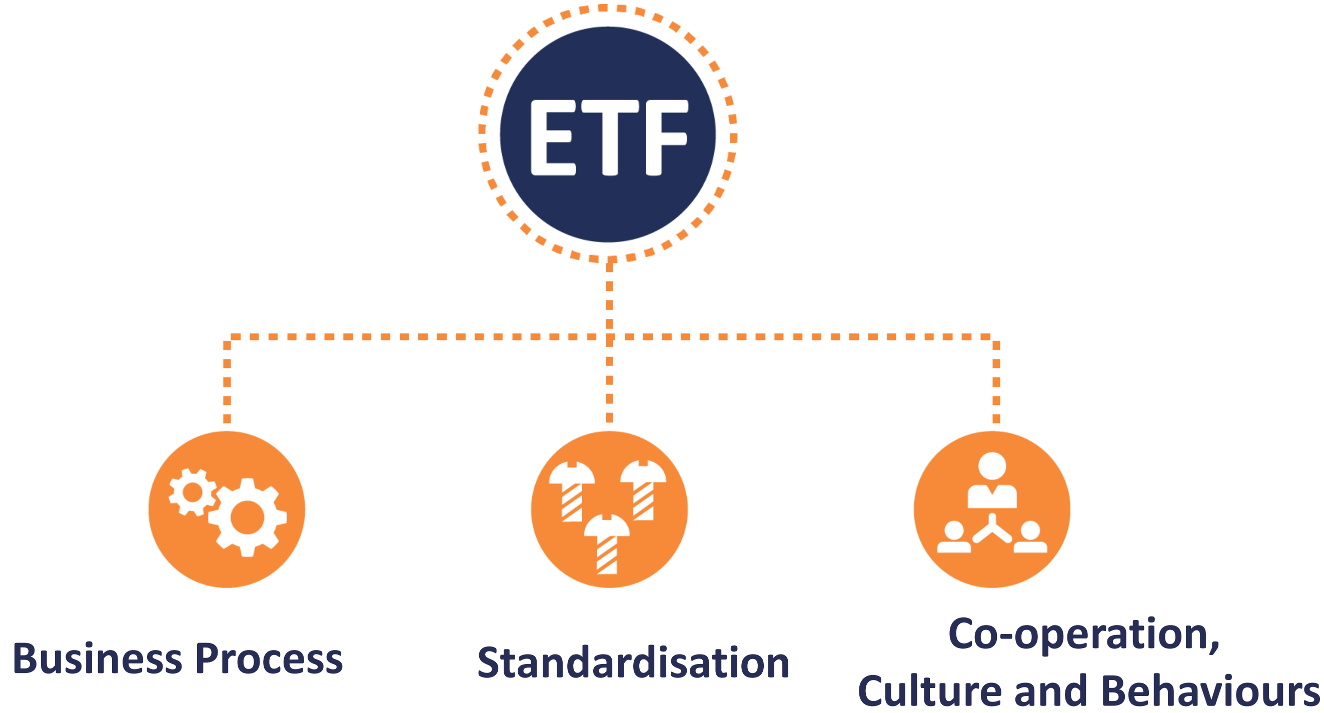


Source: Oil & Gas UK

Oil & Gas UK

Oil & Gas UK - Efficiency Task Force (ETF) will embed improvements across the industry

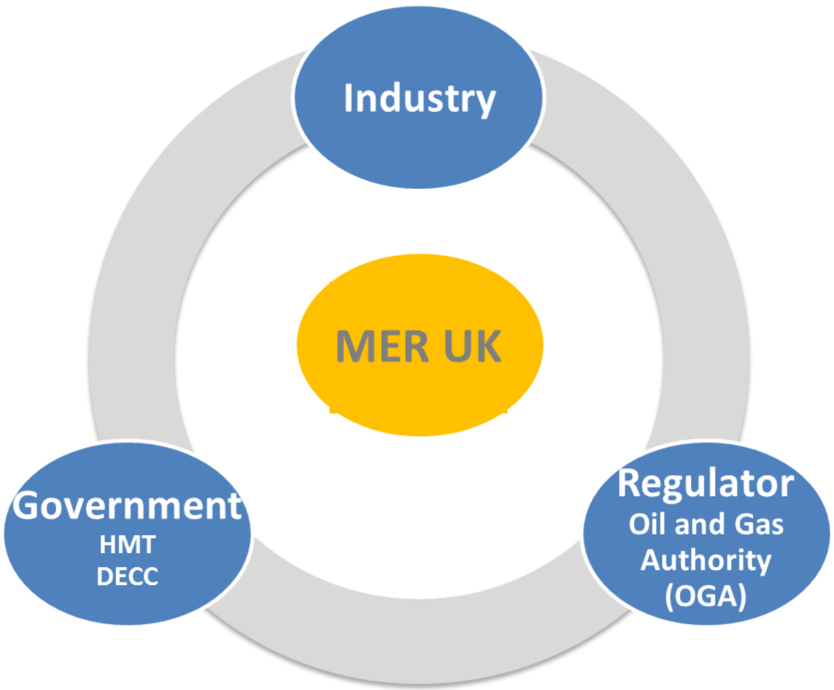
The ETF will drive pan-industry improvement to create a sustainable sector ...



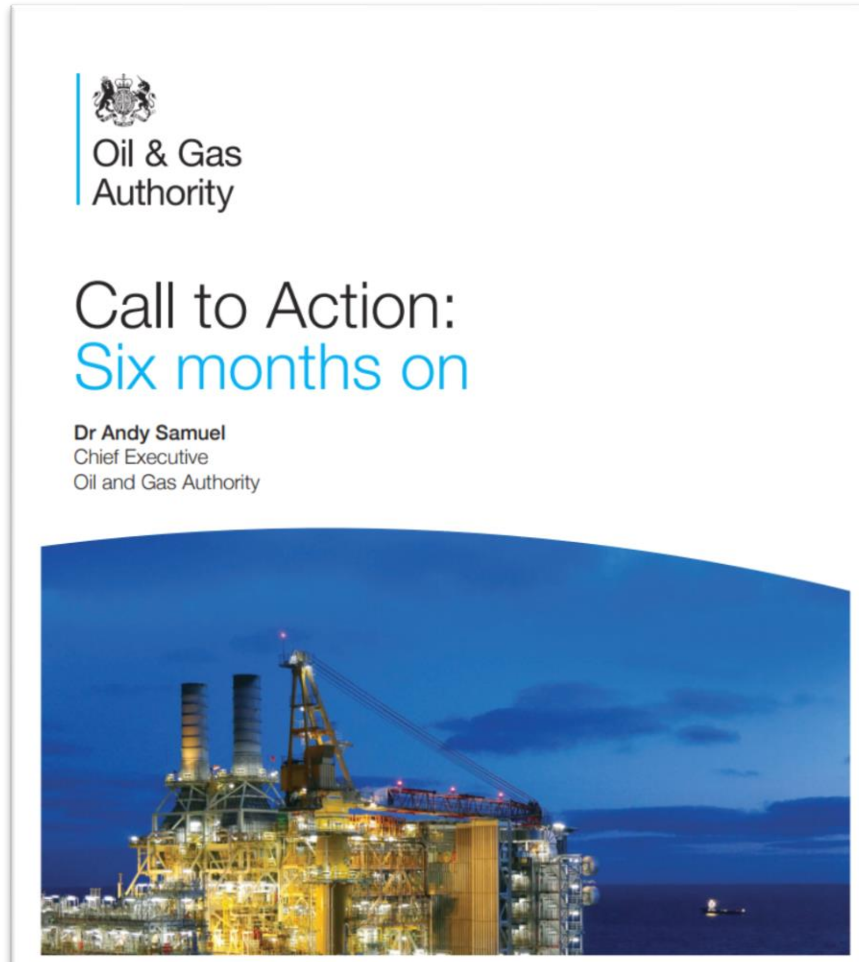
Energy policy objectives for the UKCS over the last 15 years ?

- Mixed signals
  - Taken for granted
  - Security of supply
  - Rent seeking
  - Value recognition
  - Value maximisation

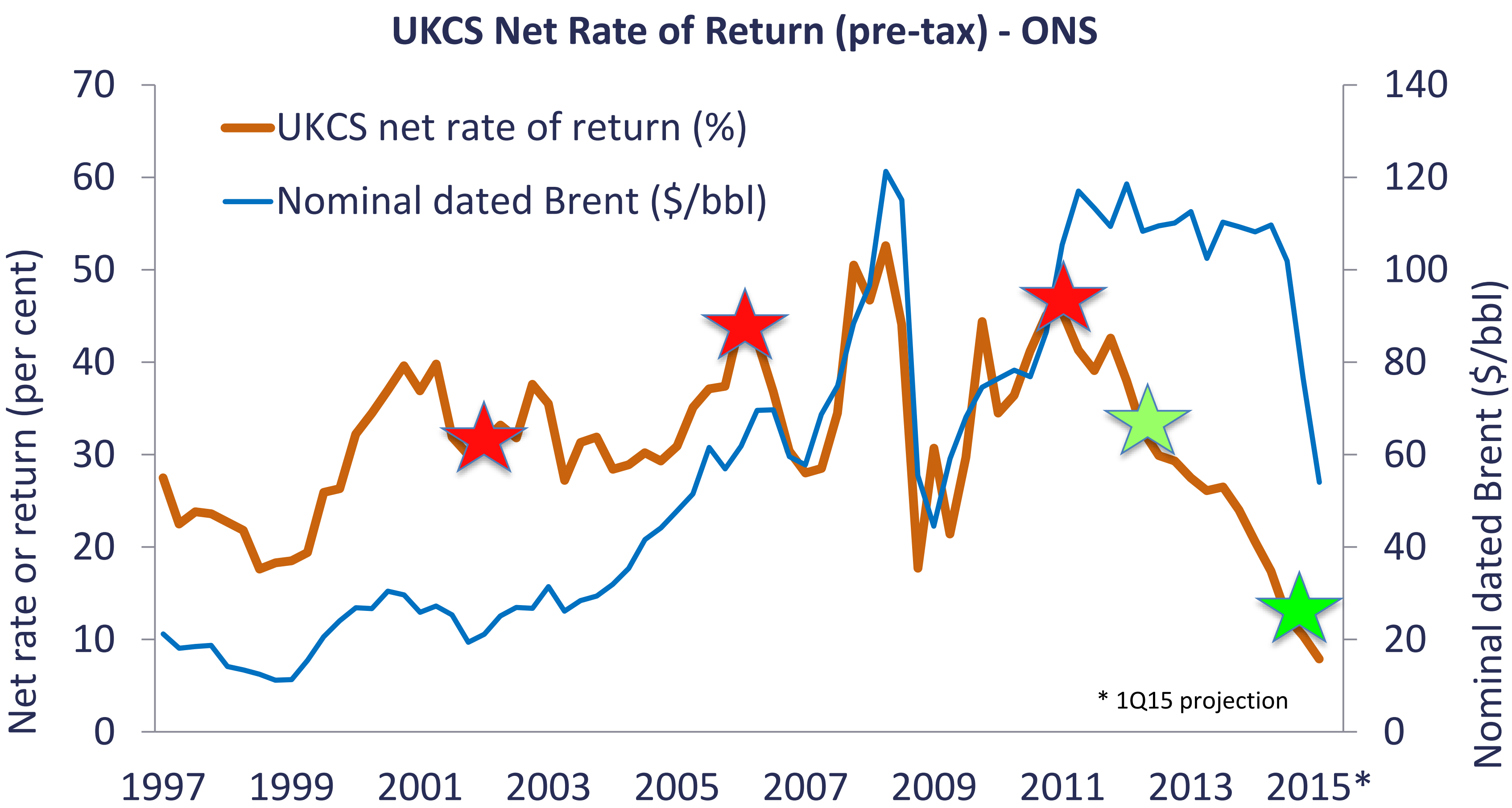
Regulatory reform – The Oil & Gas Authority is already making a positive impact



Tripartite approach to
Maximising Economic Recovery
from the UKCS

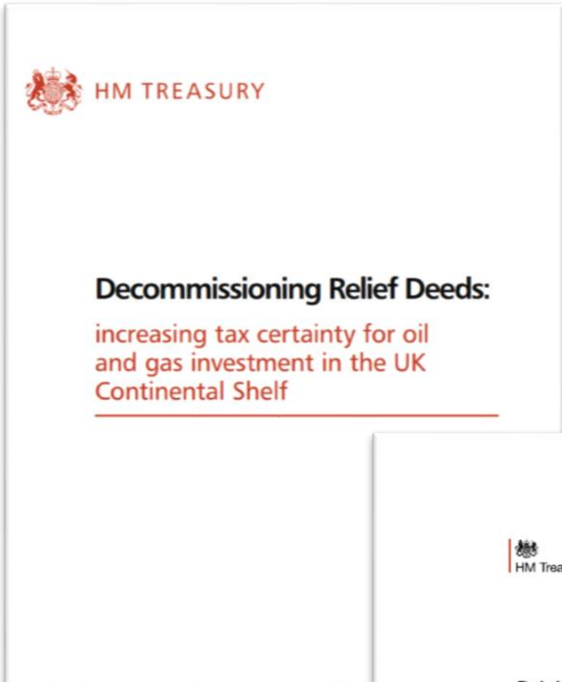


The UKCS has earned a reputation of fiscal risk



Source: ONS, Argus

Whilst there has been significant improvement over recent years, fiscal reform must continue


HM TREASURY

Decommissioning Relief Deeds:

increasing tax certainty for oil and gas investment in the UK Continental Shelf


HM Treasury

Driving investment:

a plan to reform the oil and gas fiscal regime

December 2014

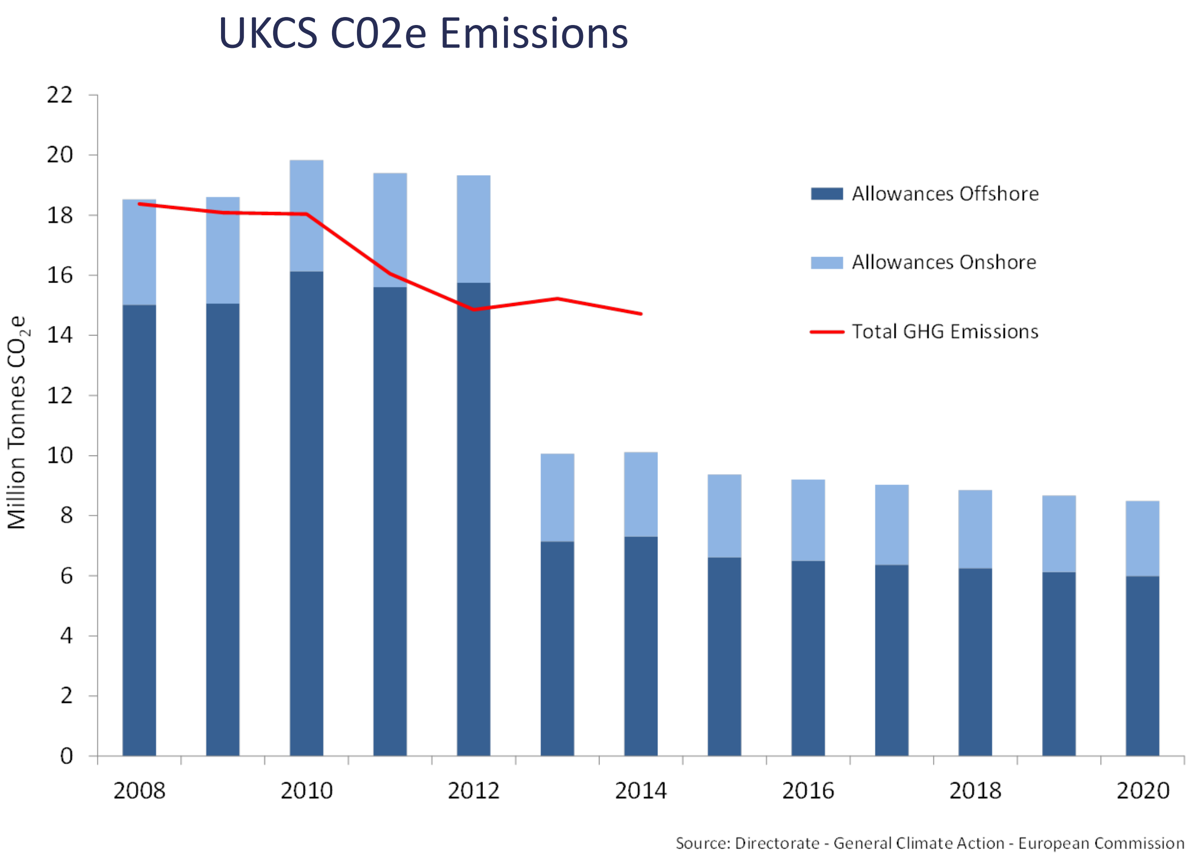
Fiscal policy principles:

- The overall tax burden will need to fall as the basin matures
- The wider economic benefits should be considered
- Global competitiveness to take account of both commodity prices and costs

European regulatory landscape is significant influence on UKCS

- Sustaining UKCS vital for European energy security
- Increasingly exposed to regulation that diverges from the traditional European legislative process
- Environmental considerations need to reflect context of international competition

ETS Directive and carbon leakage protection

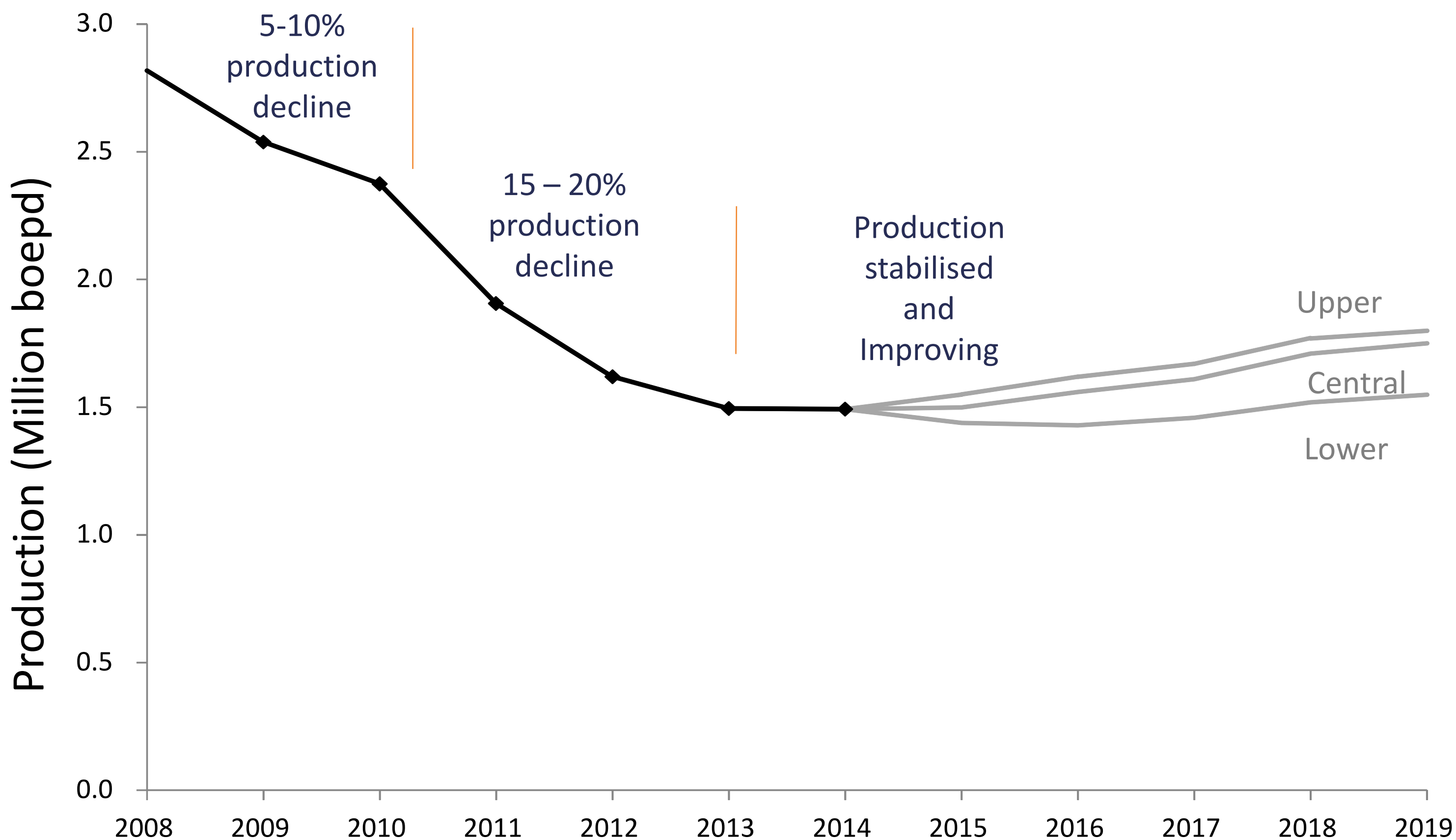


- ETS compliance is a significant and rising operating cost in Phase III and will increase further as Phase IV (2021-30) proceeds
- Rising cost of ETS may deter investment in new fields and in energy efficiency offshore

Internal energy market and EU Network Codes

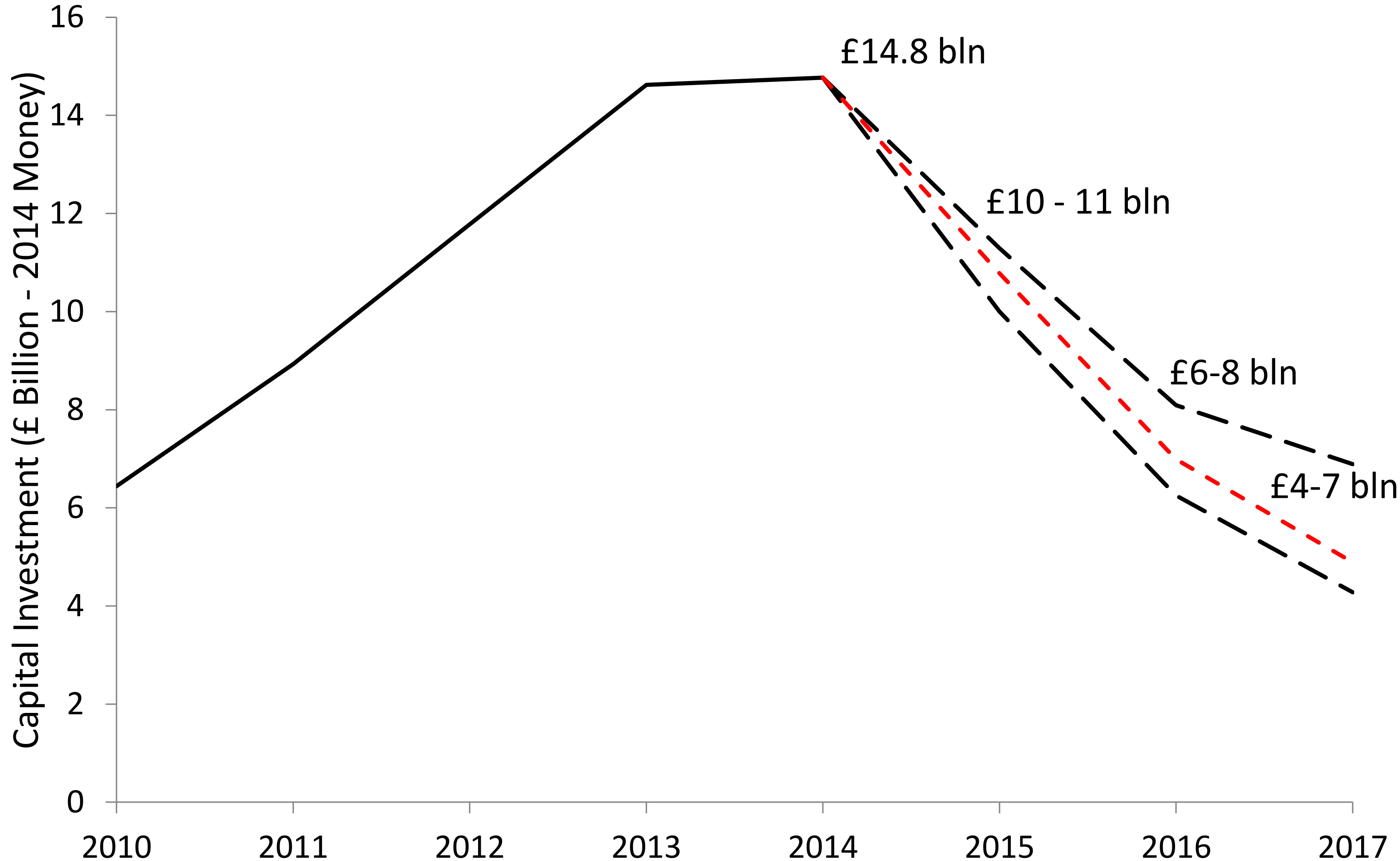
- Whilst scope of the Third Energy Package excluded the upstream industry EU Network Codes still had an impact on producers via downstream network access and costs
  - Examples in UK include Gas Day change and proposed gas quality standard
- Caution on EU-wide harmonisation "One size does not fit all Member States"
- Question providing additional powers for ACER at expense of national regulators

Production and production efficiency are improving as result of previous investment and close collaboration across industry



Source: Oil & Gas UK

Sustaining investment on the UKCS during the downturn will be crucial for the long term outlook



Source: Oil & Gas UK

Maximising recovery from the UKCS will continue to require a delicate regulatory approach

11.5 to 22 Billion boe

100,000s of

Jobs

Diverse Supply Chain

£16 bln of Exports