The UK Continental Shelf in 2007
and
The Future of UK Gas:
a ‘Phase Diagram’

Ofgem’s Winter 2007- 8 Consultation Seminar
Birmingham, 27th June 2007

David Odling, Oil & Gas UK

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(i) the UKCS in 2007

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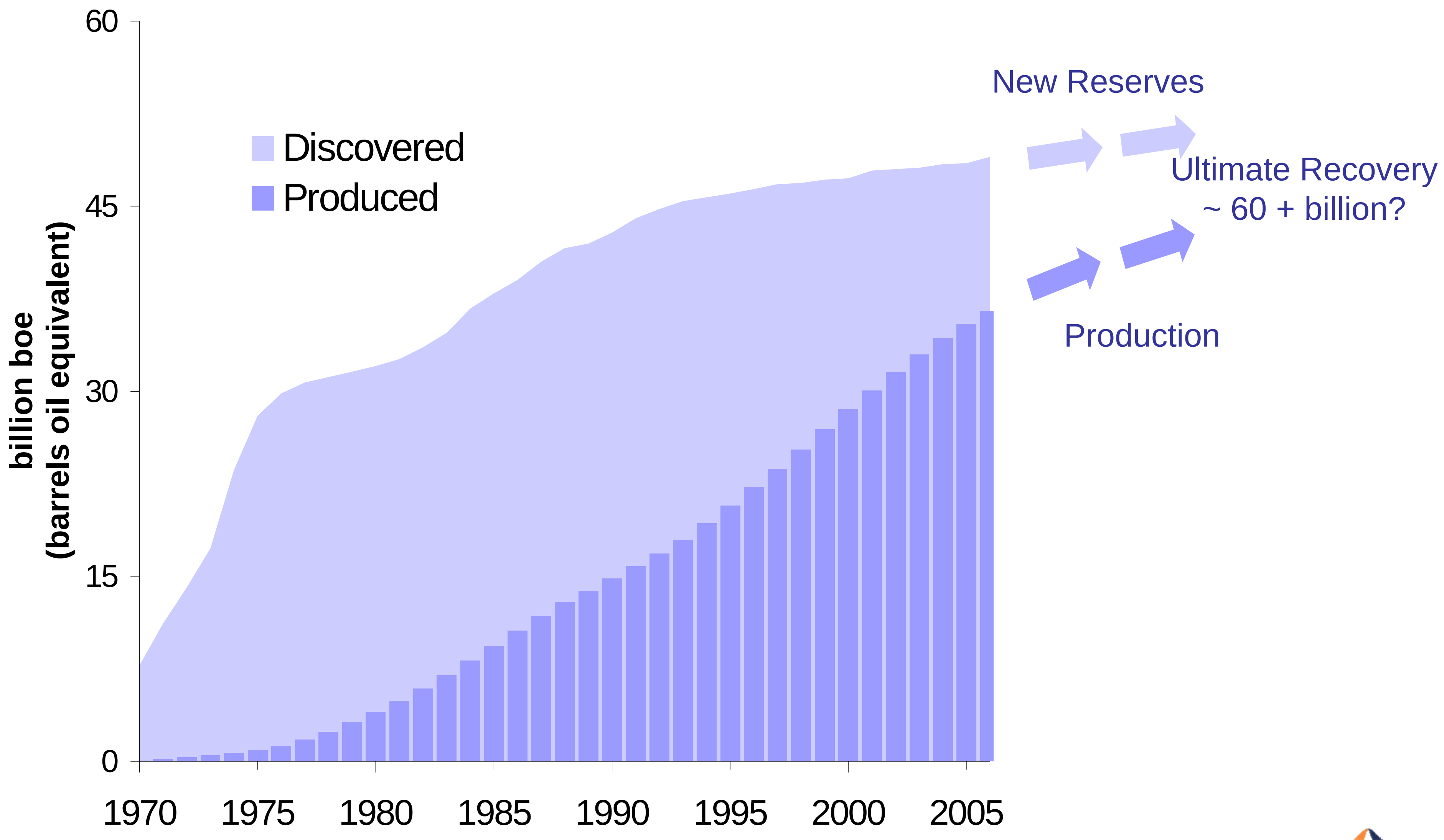
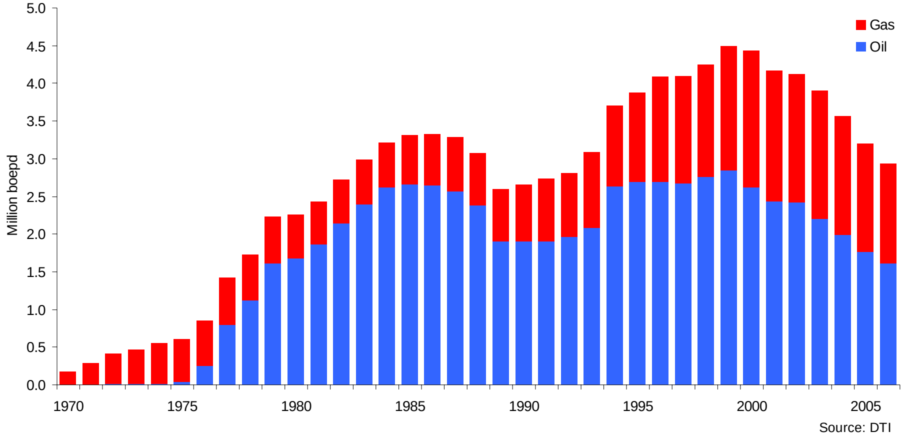
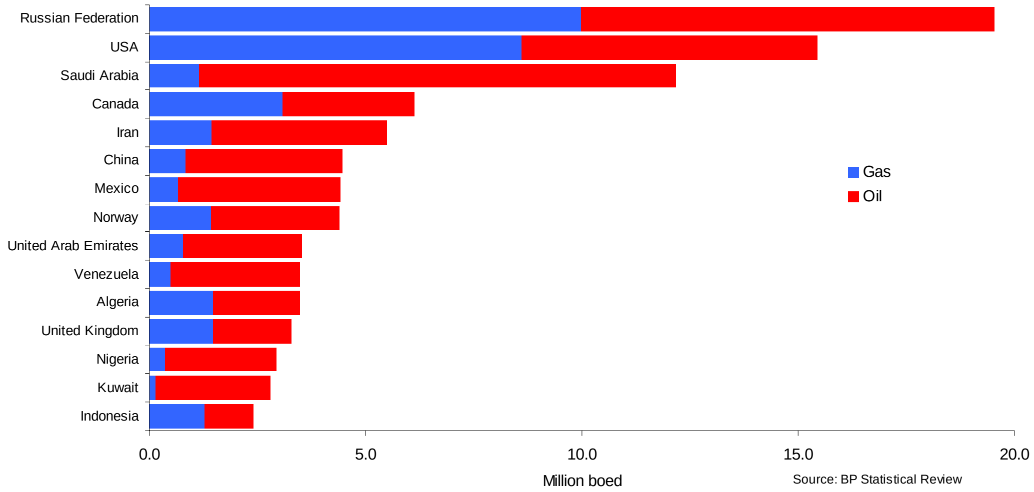
UK has been producing oil and gas for more than 30 years



UK oil and gas production and international comparison

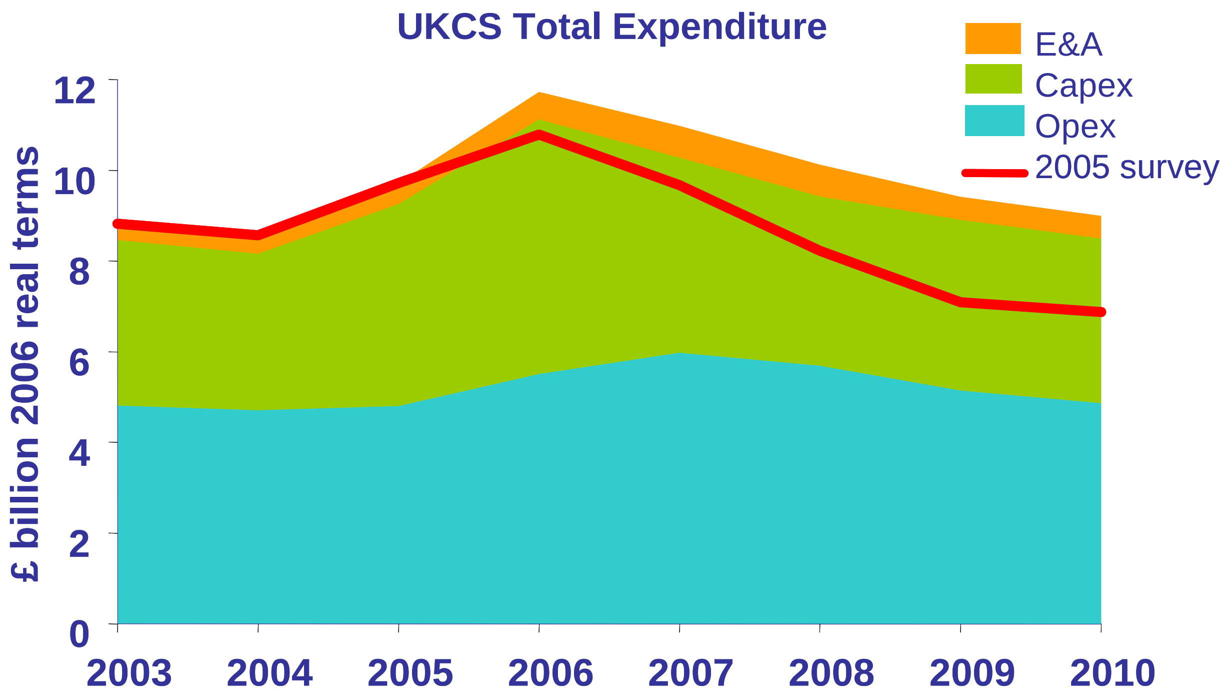


Annual oil and gas production in UK



In 2006, UK was 12th largest producer in the world

UKCS expenditure up £2 billion in 2006 v 2005



In 2006:

- Spent ~ £11.5 billion
- Capex & Opex ~ £5.5 bn each; Exploration & Appraisal ~ £0.6 bn

Outlook

- Expect to spend £40 billion 2007- 2010
- 25% up on previous year’s survey forecast

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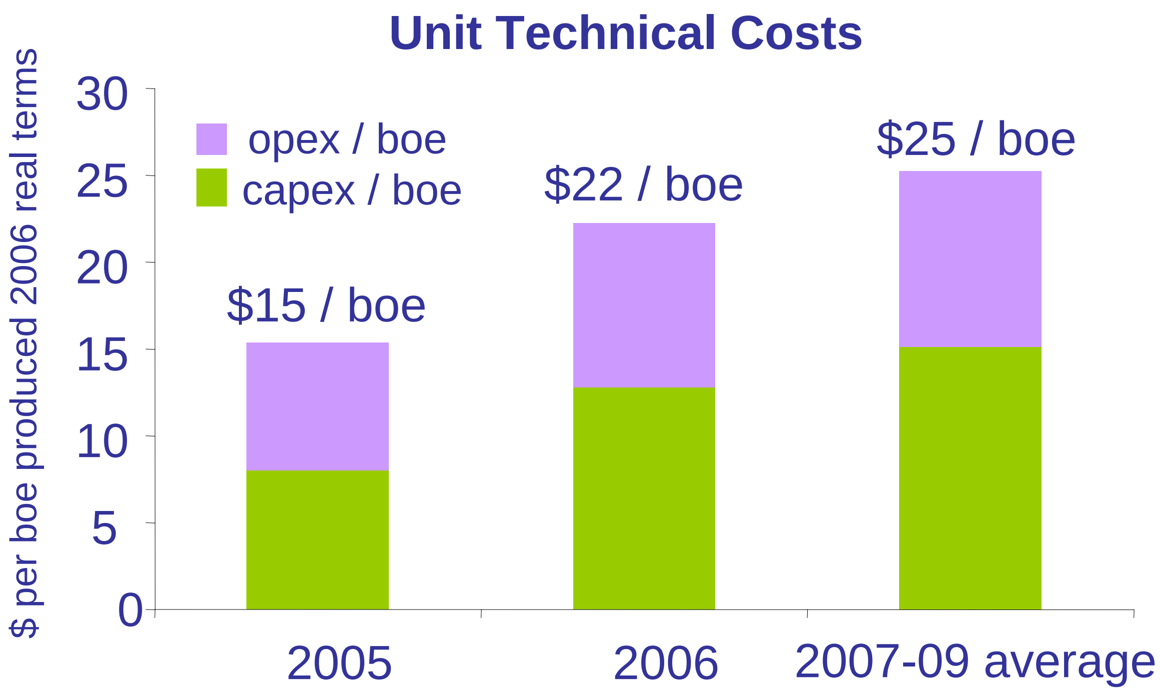
BUT, costs of new developments rising rapidly



- Technical Costs drive the economics of new developments
- Unit costs ($/boe) have risen 45% since 2005
  - Signals difficulty if oil & gas prices decline
- Operating costs now average $9-10 /boe
  - Compared with $5-6 three years ago
- Northern & Southern North Sea the most expensive areas
  - Consider impact of declining gas prices on SNS

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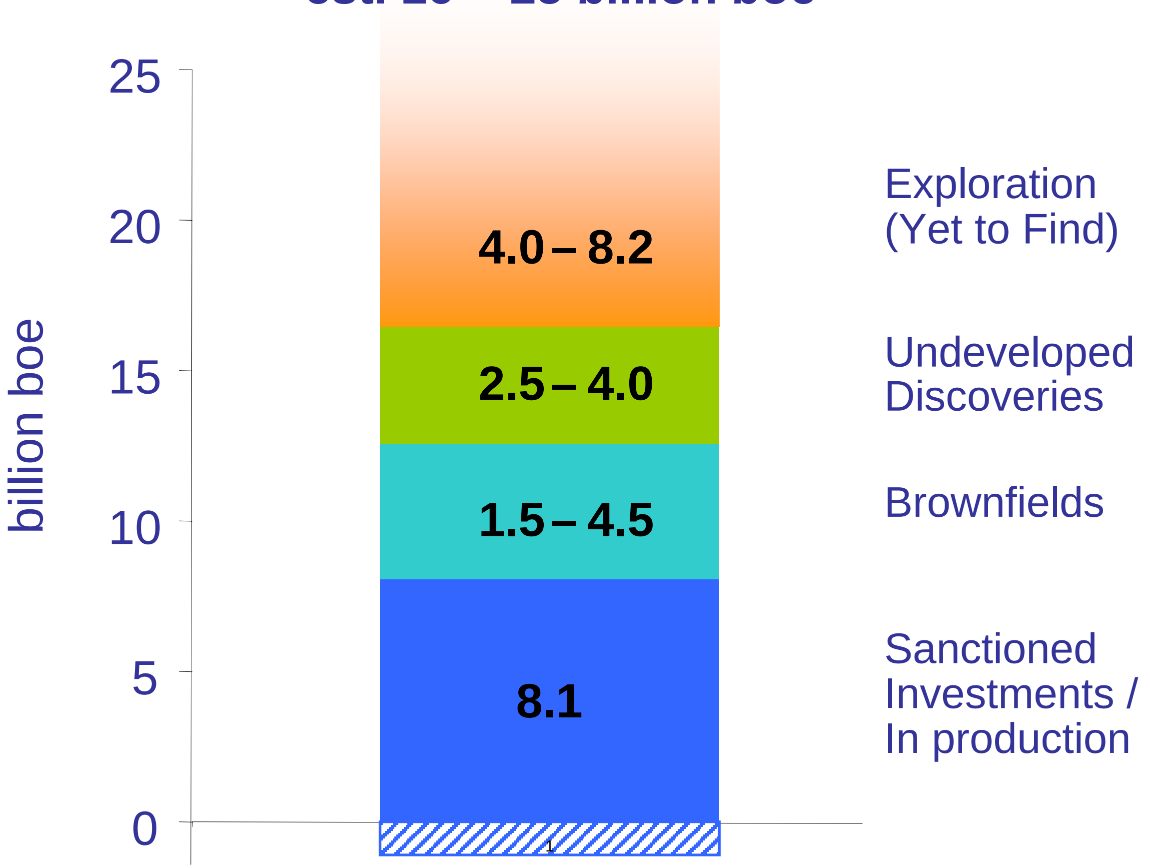
Comparing current plans with the long term prize

UKCS - Projected Reserves / Resources
est. 16 - 25 billion boe



Produced 1.1 bln boe in 2006

Source UKOOA 1.1.07

Exploration in '06
~ 0.5 billion boe
Current Activity / Plans
1.4 billion boe
0.8 billion boe
8.1 billion boe

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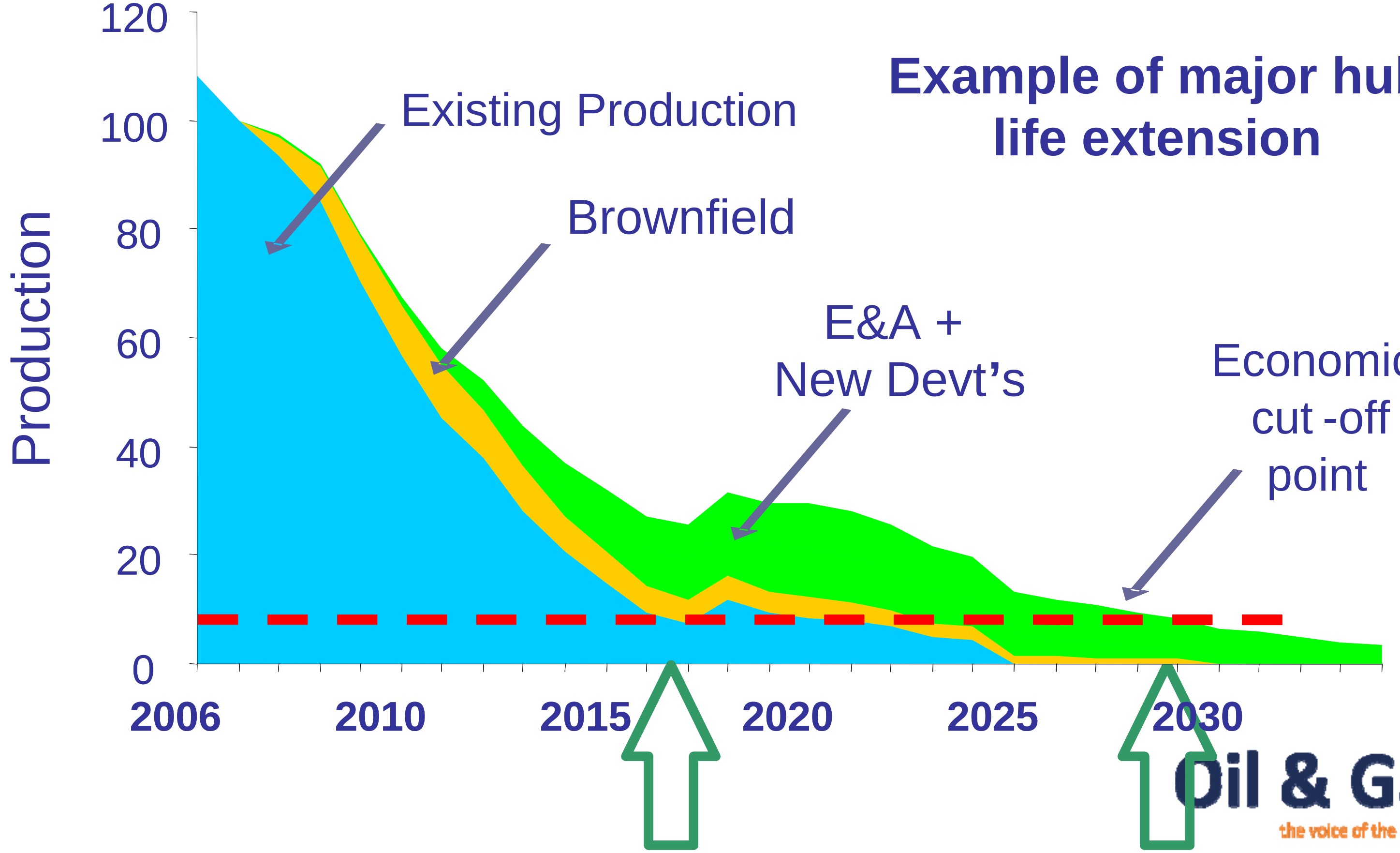
Time will not wait - there is a window of opportunity

- Around 45% of infrastructure could be decommissioned by 2020, unless current activity is sustained
- If investor confidence is maintained, decommissioning could be delayed by 10-15 years in many of the existing systems



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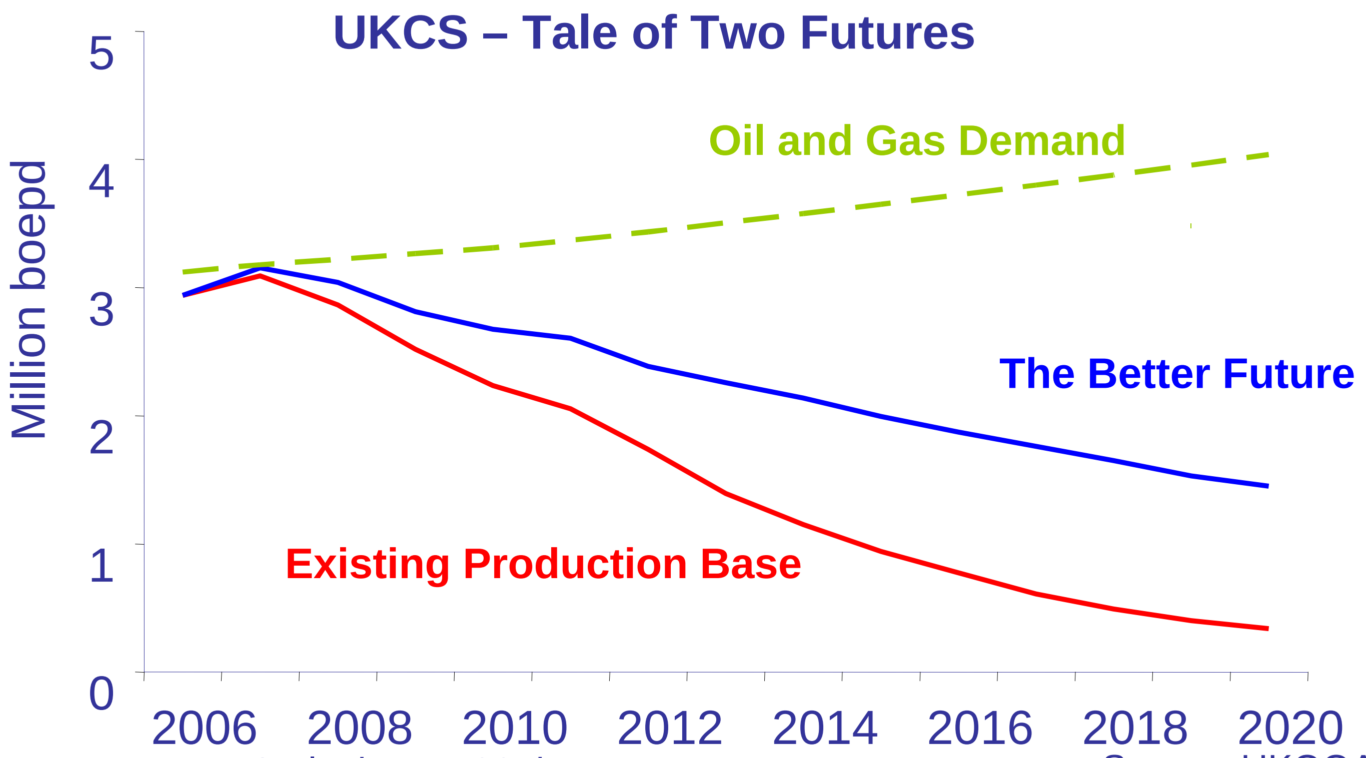
What should we look like in 2020 ?



Note: Outlook Nov '06 data
Source: UKOOA

- There is an "Appetite for Action"

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In Summary

- Plenty to play for on the UKCS

But ……….

- Increasingly difficult

- Increasingly costly

- **Above all,** it needs a much more sensitive fiscal and regulatory regime, tuned to the maturity of the UKCS, **if** the maximum economic recovery of our oil and gas reserves is to be achieved.

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(ii) the Future of UK Gas:

a 'Phase Diagram'

Report by Poyry Energy Consulting
for Oil & Gas UK

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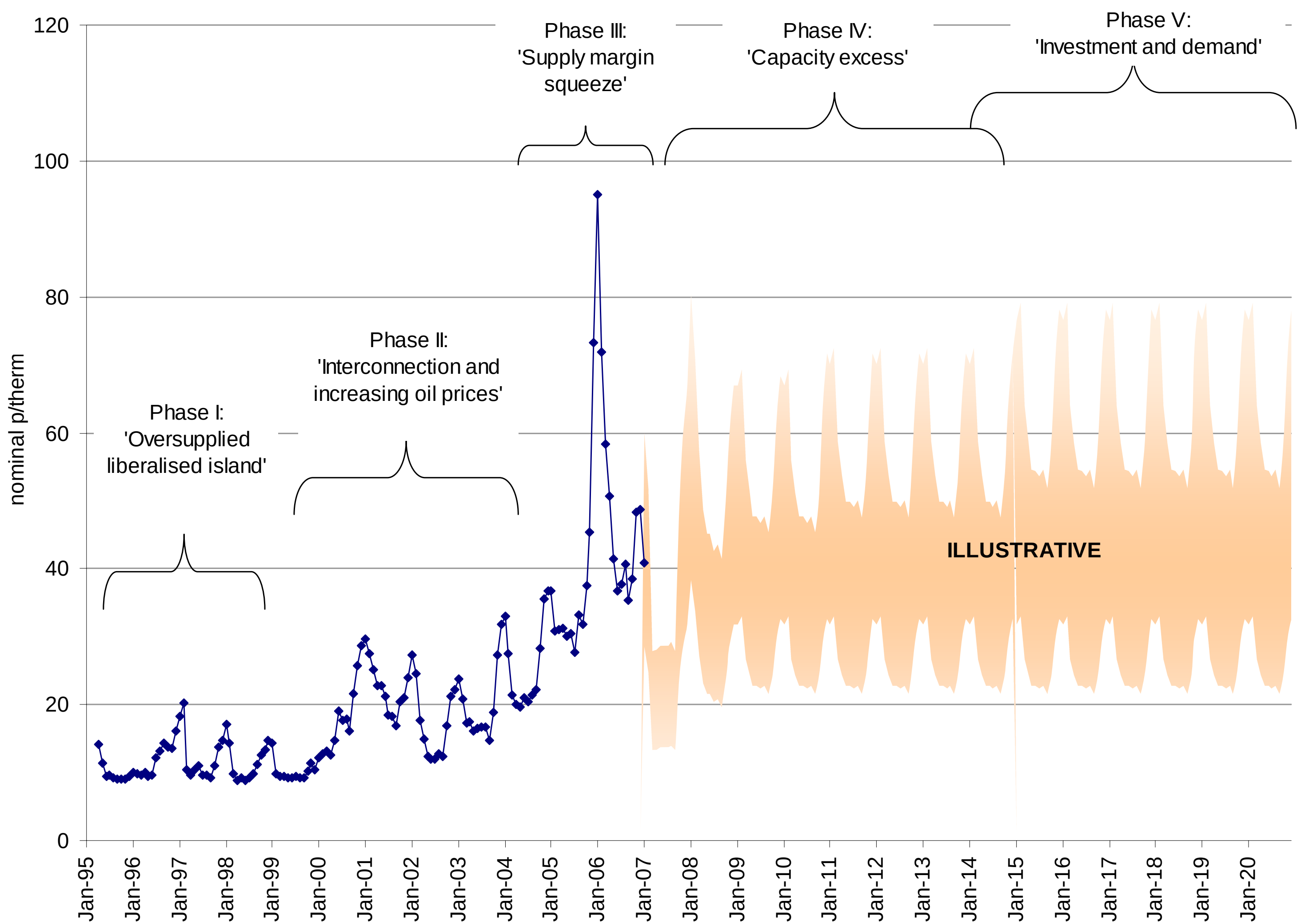
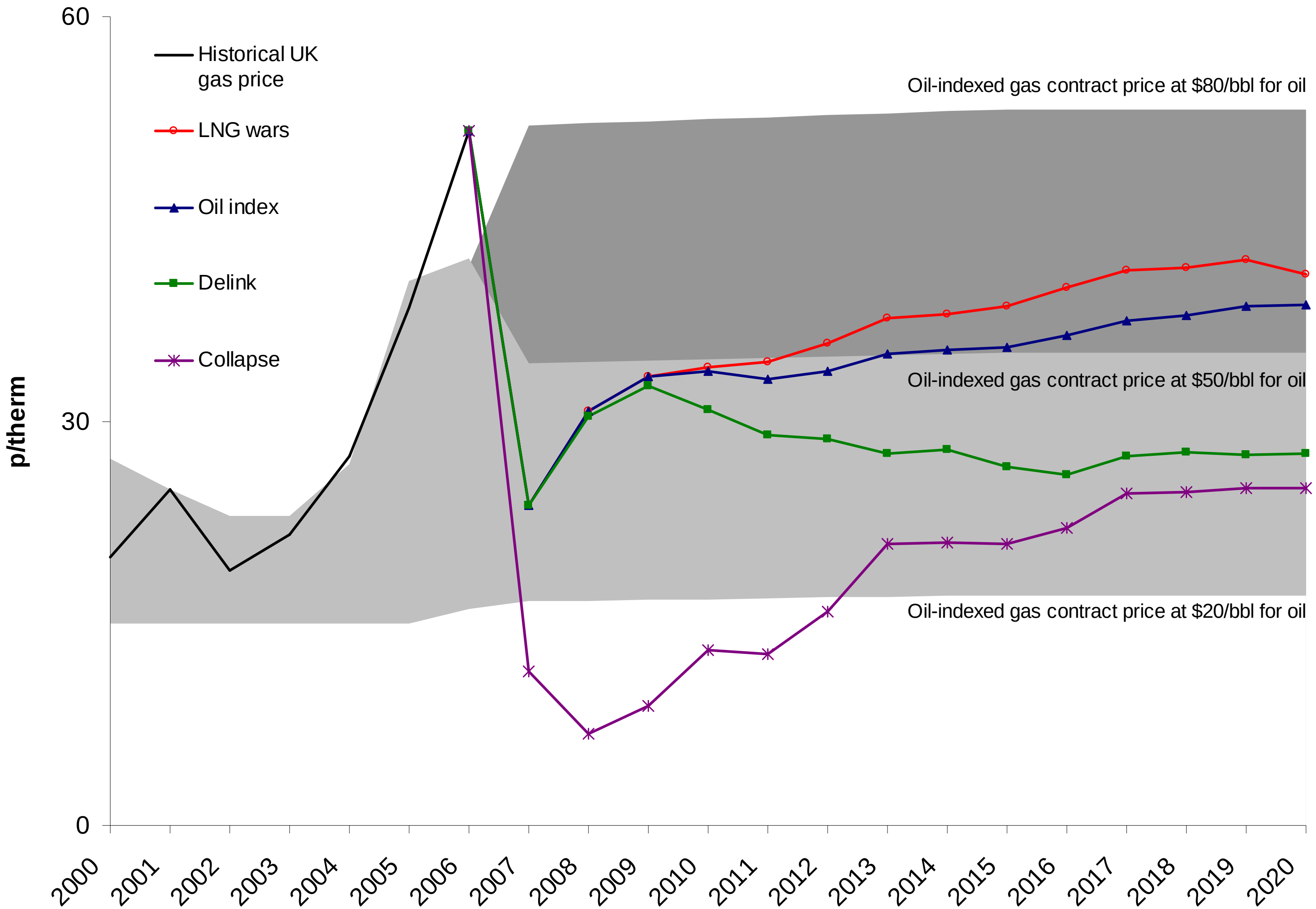
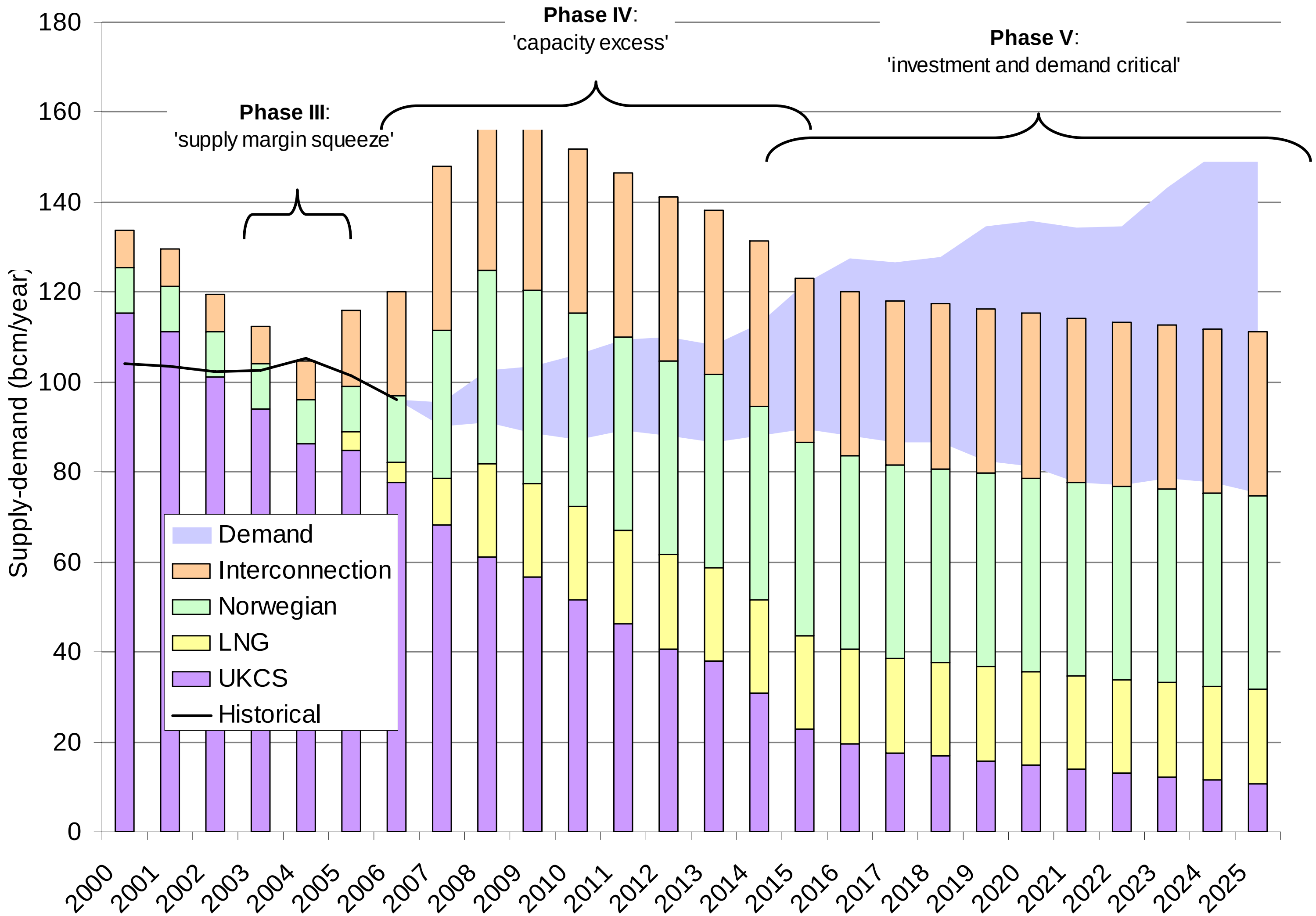
Historical and future evolution of UK gas market



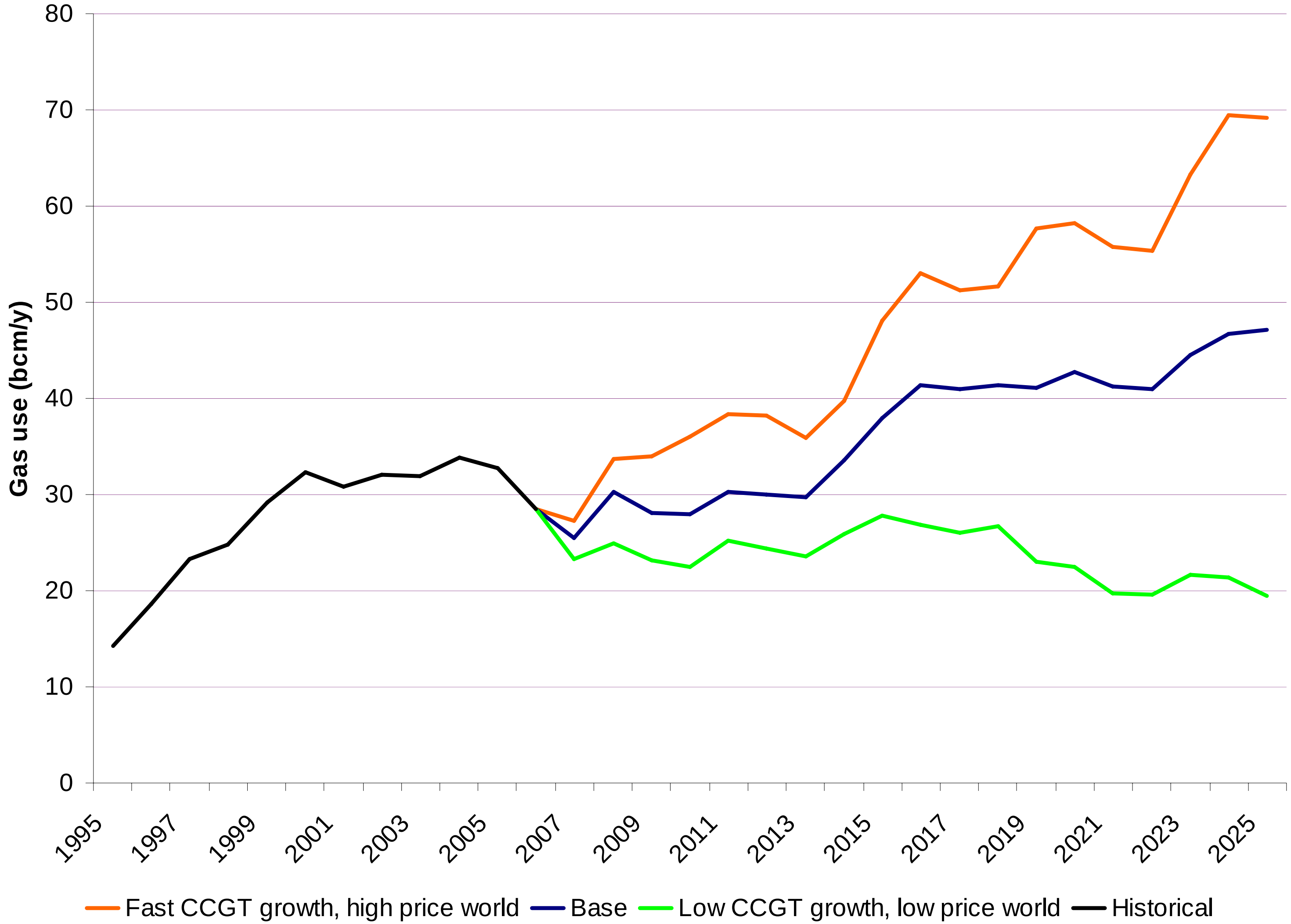
Possible worlds in Phase IV and into Phase V



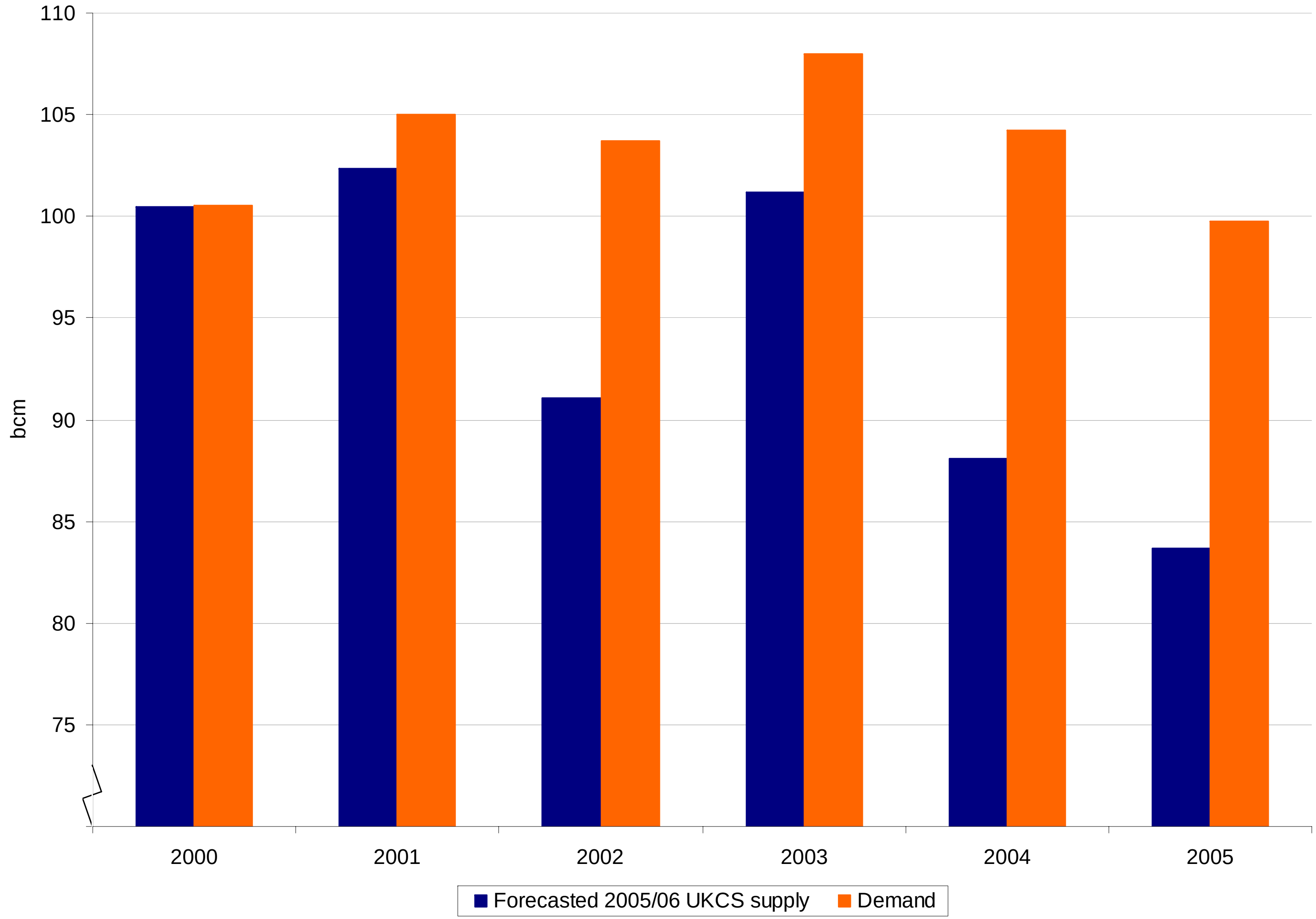
Transition to Phase V



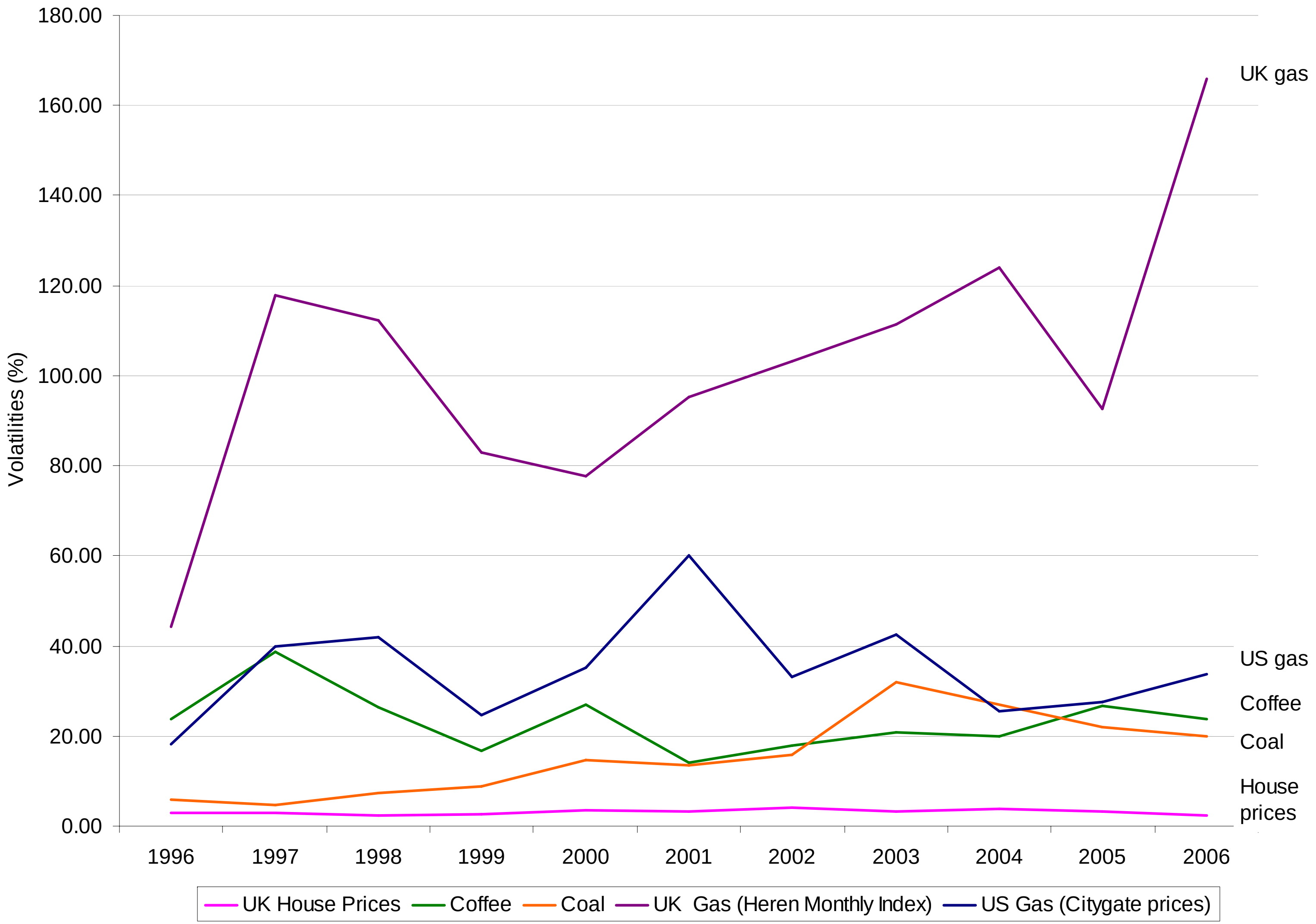
Gas demand from power generation in high and low worlds
(“high” and “low” refer to electricity prices)



Shifting change in UKCS supply and UK demand forecasts for 2005-6



Volatility of monthly traded products



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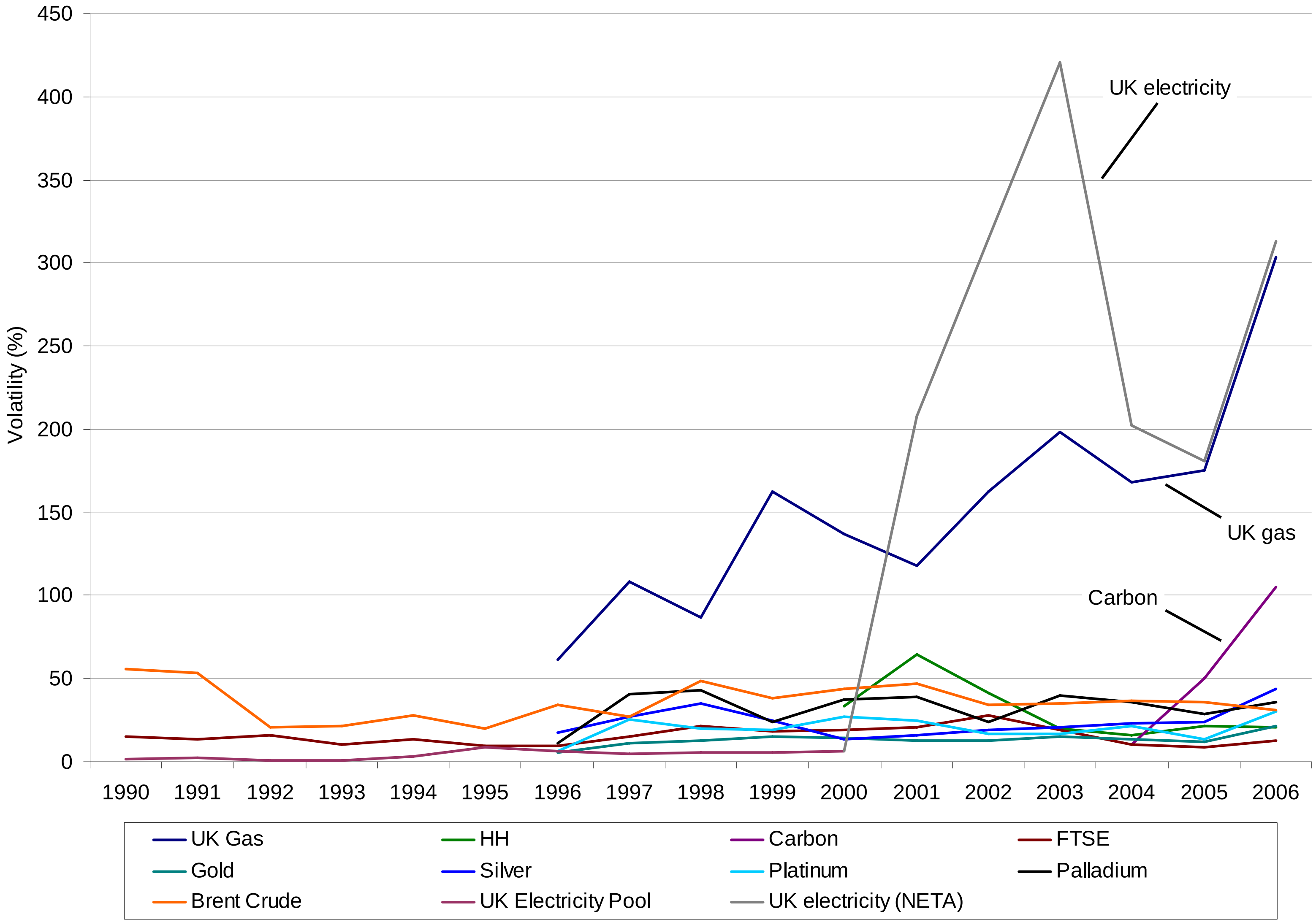
Daily volatilities



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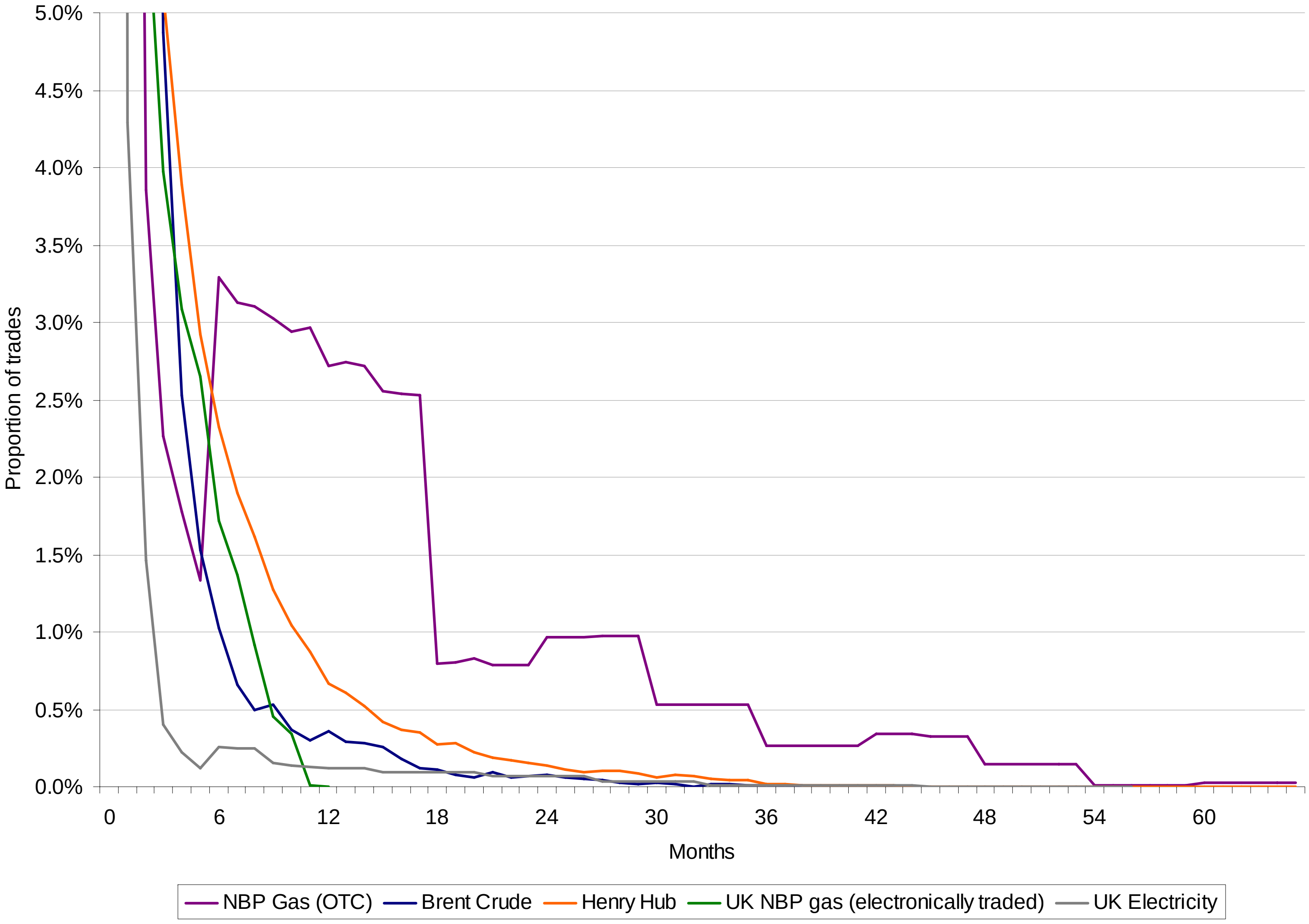
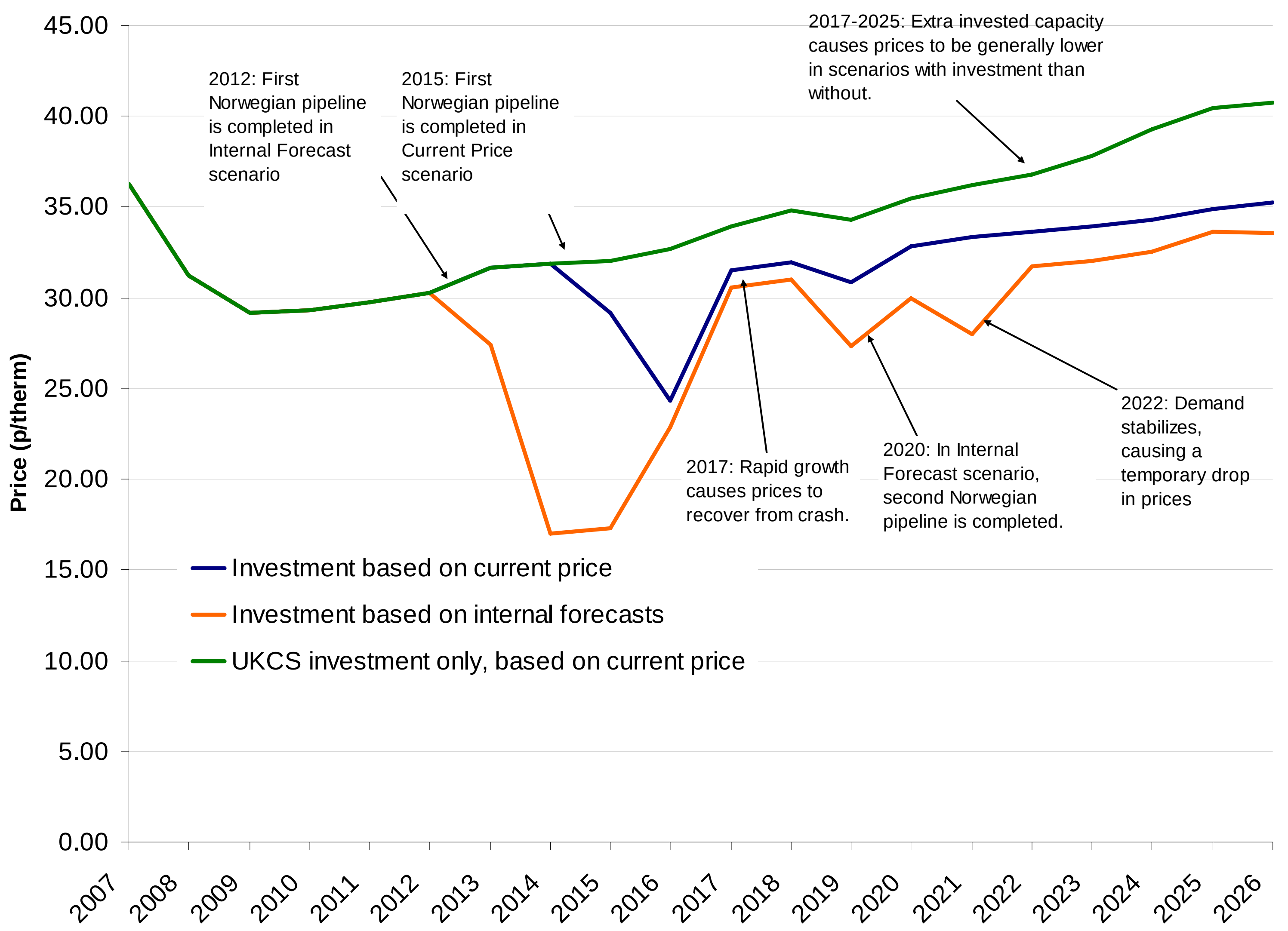
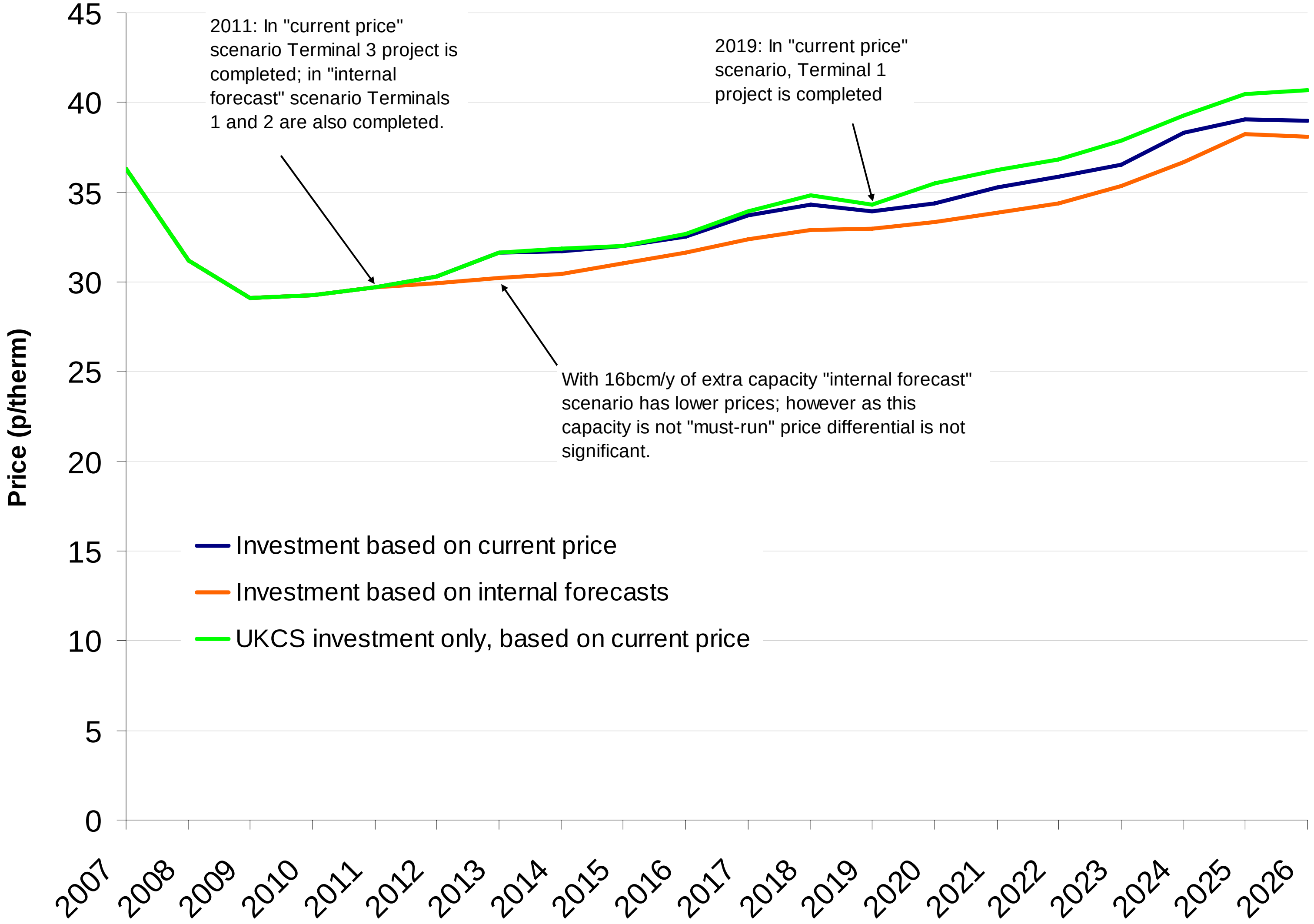
Proportion of trades at each month on forward curve in 2006



Effect of new import pipeline on UKCS price



Effect of new LNG import terminals on UK gas price



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For further information, please refer to
www.oilandgas.org.uk
(see Industry Issues – Economics, Energy Policy & Gas)
Poyry's report – published in June 2007
Activity Survey 2006 – published in February 2007
Economic Report for 2007 – to be published in July

Thank you!

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