

UK ENERGY POLICY REVIEW

AMERADA HESS SUBMISSION

KEY POINTS

Amerada Hess fully supports the more extensive submission provided to the Review by the UK Offshore Operator's Association, and echoes strongly the need for continued fiscal stability.

Oil and gas will remain key components of the Nation's energy supply for several decades to come.

The Company believes that there are significant reserves of oil and gas still to be won on the UK Continental Shelf (UKCS), provided that the Government maintains an appropriate regulatory and fiscal regime to ensure that the UKCS remains an attractive target in the global competition for investment funds.

Maximising the production of indigenous oil and gas resources has important benefits of: -

- **Extending the period of self-sufficiency and contributing to the security of supply for the UK**
- **Continuing to provide a positive contribution to the UK balance of payments, Exchequer revenues, industrial investment and employment.**

Background

Amerada Hess is a fully integrated oil and gas company, with headquarters in New York and quoted on the NYSE. Amerada Hess Limited is the UK subsidiary of the Corporation and it is involved in oil and gas exploration and production, and in gas marketing. The company has been active in the UK since licensing began in 1964 and now employs around 700 people directly in the UK, and around 5000 indirectly.

It is now involved in 37 offshore oil and gas fields and is operator of nine of these, placing it as one of the leading companies operating on the UK Continental Shelf. AHL also has significant production, development and exploration interests in the Atlantic Margin.

Amerada Hess sees significant potential available to committed companies on the UKCS and intends to continue its record of investment. To date, AH has invested over £3.5 billion in the UK. Amerada Hess is engaged actively in the processes and initiatives created under PILOT, the government/ industry taskforce created to ensure the continuing competitiveness of the UKCS.

Whilst Amerada Hess is at the forefront of the UK oil and gas industry, it is not in a position to offer views on many of the broader questions posed by the Review Team. We have therefore restricted our comments to points directly relevant to the upstream oil and gas industry and our area of expertise. We believe the Review should acknowledge very clearly the ongoing role and the benefits of sustaining the UK's

indigenous oil and gas industry in forming its views on the future of UK Energy Policy.

On the global perspective we would emphasise the following points: -

Global Oil and Gas Reserves: Half Empty or Half Full?

Worldwide, there are 40 years of proved reserves of oil, and 60 for gas. Additional reserves will be added through increased recovery factors, new discoveries, and unconventional oil and gas. Some view these figures as evidence of a world fast running out of oil and gas and others see this as plenty. Policy needs to strike a balance between these conflicting beliefs. Although far from certain, it seems likely that the peak of conventional oil production will be reached in the second decade of this century¹. The peak of gas production will come later. Europe, being close to much of the world's gas reserves, is well placed to receive gas imports and the growing world trade in Liquefied Natural Gas (LNG) links it to remoter supplies. No matter how long oil and gas lasts there are national benefits to be gained from maximising the recovery of indigenous supplies and encouraging the development of diverse sources of supply internationally.

Security of supply: The dependence of producers and consumers is mutual.

Security comes from diversity of international trade. It is important to remember that producers need consumers just as consumers depend on producers. To illustrate this point, oil and gas has flowed to Europe from Algeria and Russia without interruption during the 1990s despite all the upheaval taking place in these exporting countries. Where embargoes have applied, they have been imposed by consuming states on producers (e.g. UN sanctions on Iraq, US sanctions on Libya and Iran). Government policy should continue to be directed toward establishing the conditions under which international trade can flourish.

More directly for the UK oil and gas sector Amerada Hess would like the Review to note the following key points: -

UK Exploration & Production: Amerada Hess is playing a leading role in the PILOT workgroup established to stimulate exploration activity throughout the UKCS. We are engaged in this process because we believe there is still worthwhile exploration activity to be undertaken both in the traditional areas of the North Sea and, with the potential for more significant size discoveries, the more frontier areas.

The Atlantic Margin area to the west of Britain offers the prospect of sufficiently large reserves to significantly extend the period during which the country will remain a net exporter of oil and gas. Deep water and strong currents make this a harsh and costly environment to work in. However with the installation of the first fixed infrastructure underway the industry will be better placed to take advantage of successful exploration efforts associated with the licences awarded in the 19th Round that will commence shortly.

¹ For a concise summary of the many factors involved in this, see the chapter on Oil Supply in *The New Economy of Oil* by John Mitchell et al, (RIIA/Earthscan, 2001)

Exploration and appraisal in the areas around existing infrastructure also offers potential, and again this is something that is being addressed fruitfully by the PILOT programme.

The continued advances in subsea technology are creating new opportunities as smaller accumulations can be tied back to existing platforms over greater distances. Subsea and floating production technology has also allowed the rapid development of smaller fields.

By way of example, AH is actively progressing production from Angus, which is due to come back into production as the first UK redevelopment of a decommissioned field. AH is involved in PILOT's Accelerator scheme (Wood, Solan and Strathmore) and is active in stimulating cluster developments. New ways of operators working together are also increasing the potential of the UKCS. In the Easington Catchment Area in the Southern Gas Basin the company's technical and commercial skills have contributed to unlocking the development of a cluster of small gas fields discovered by others.

The final area that represents a significant upside to current production forecasts is the increased recovery from mature fields through enhanced recovery.

An over-riding theme to these efforts is, however, that for the indigenous oil and gas exploration and production sector there is a clear 'window of opportunity'. On current projections, UK hydrocarbon production looks set to decline around mid decade. In order to slow this decline and maximise ultimate recovery, the remaining smaller fields need to be developed as soon as possible so that production is obtained whilst the existing infrastructure is still in place and can continue to be operated on a commercial basis.

It is therefore crucial that the UK Government plays its part in ensuring

- an encouraging and stable framework is maintained,
- dialogue continues at a high level within the PILOT framework and works with the industry to deliver the PILOT targets for production and investment
- market conditions are appropriate to allow producers to access infrastructure and markets on a fair and equitable basis.

The nature of the fiscal regime is a key component of our global capital allocation decisions. We therefore support the position of the UK Offshore Operator's Association in calling for continued stability in the regime. Provided the fiscal regime remains stable, the UK can continue to attract capital despite the considerably reduced cost and technical risk of finding and producing larger reserves in other countries.

Downstream Gas Marketing: Customer interest in green tariffs currently appears low.

In the UK, AH markets gas to industrial, commercial and domestic customers under the Amerada brand name. It also has an active trading business. Amerada was the first company to offer domestic gas customers a green tariff and currently offers a climate care gas tariff in which customers give a proportion of the money paid for their gas to repair the effects of Global Warming, using carbon sequestration projects. Amerada also makes an additional payment for every customer who signs up to the Climate Care tariff.

Despite these opportunities and incentives, our experience is that consumers are uninterested in contributing to environmental improvements through such schemes.

Environment and Sustainability: AH, and the industry more generally plays an active role in providing society with its current energy needs, at competitive prices. In doing this, care is taken to address the environmental and social issues associated with our business. Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs. The company will continue to do all it can to meet today's energy needs in an environmentally and socially responsible manner, in a way that will help safeguard the longer-term well being of future generations.

Indeed Amerada Hess was the first UK oil company to receive ISO 14001 certification. We have set targets to reduce our own carbon dioxide emissions and aim to achieve continual improvement in our environmental performance against a number of key measures. AH has led efforts to establish an offshore gas flaring trading scheme and it is through such trading mechanisms that we believe the industry can contribute most effectively and efficiently in reducing emissions.

Climate change is an international issue needing international political and business solutions, and the company supports efforts to bring this about. In particular, business needs to know what its targets are in order to progress their delivery more effectively.