

# CRIPPS SEARS & PARTNERS

## Senior Energy Lawyers Networking Luncheon 10<sup>th</sup> November 2005

Cripps Sears & Partners 5<sup>th</sup> bi-annual Networking Luncheon for Senior lawyers with an interest in the Energy sector was held on *Thursday 10<sup>th</sup> November 2005* at The City of London Club.

The luncheon was attended by representatives of UK and US law firms and energy companies.

***Note:** The Chatham House Rule applies at our lunches. Accordingly this note seeks to summarise the points made during our conversation without attributing them to individual attendees. The note is not exhaustive and does not necessarily reflect the views of Cripps Sears & Partners. Apologies for any omissions or unintentional inaccuracies.*

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### **1. Is the single European energy market a realistic prospect?**

It was unanimously agreed that in the near future this was extremely unlikely. There were far too many vested and nationalistic interests to prevent it happening.

Competition actually mitigates against investment in supplies from developing countries as prices are driven down by regulation/competition issues at the customer level.

With regard to pan European legal firms it was agreed that they did not offer a true seam-free service across national boundaries. From a client perspective it is very hard to gain a fixed quote for work that crosses national boundaries such as A&D work.

**2. Financing the necessary investment in non-industrialised countries is one of the biggest challenges posed by our energy-supply projections, according to Claude Mandil of the IEA. How does the world meet this challenge?**

Again national interests have a major part to play in this. Some developing countries have much less access to finance than others. For instance China and India have public sector capital but a limited number of private sector financiers are prepared to risk investment.

The reality is that commercial investors can only be expected to invest in 3<sup>rd</sup> world countries if there is a significant reward on offer to offset their risk. They do not want to be faced with additional political risk. However there are still countries that despite significant political risk seem able to attract inward investment such as the recent Libyan licencing round that attracted significant western interest with extremely high prices paid for exploration blocks.

**3. Offshore Generation & Transmission – do the economics add up?**

The consensus opinion was that an offshore grid needs to be established before significant offshore generation becomes a viable option. The grid operator currently requires an advance payment or at least a letter of credit prior to connecting a new generator to the network. Clearly, for remote locations such as those offshore this would come at a significant premium and this is one factor behind the delays, particularly as many of the schemes proposed are sponsored by emerging players with limited funds at their disposal. However, this could change once a major player really commits to the market and infrastructure costs begin to fall.

However, there still remains a fundamental risk that the technology is relatively unproven for long term reliable generation in such remote and harsh environments as the North Sea. In summary offshore generation is still some time away.

**4. The world is moving East and this is already having a significant impact on the energy sector.**

The overriding opinion was yes this was true of Eastern Europe, the Middle East and Far East. However, the east still needs western expertise even if it is becoming less reliant on western money. There are still major questions over investments made in the east and the reality of repatriating your profits at the end of a project or investment.

**5. How high can the oil price go (revisited from November 2004)?**

The oil majors have such sophisticated forecasting capabilities that they know the economics of all future exploration activities at varying oil prices. Clearly at \$60 per barrel many more become worthwhile investments. It was agreed that with the increasing demand for oil globally the price would be maintained at this level for the next 12 months at least, and could still go higher. This clearly has implications for other fuel sources for generation in particular, especially with the gas price generally being linked to oil. It seems that some new nuclear build in the UK is inevitable despite it seeming uneconomic, unattractive to many and the fact that the waste issue is still unresolved. It was agreed that the government's agreement/commitment to new build was some way off.

Other alternatives such as clean coal, wind and wave all have their part to play and their own technical problems

***Many thanks to all those who attended. The next luncheon will be held on Friday 5<sup>th</sup> May 2006.***

***All those interested in attending should email Vicki Chung at [vchung@crippssears.com](mailto:vchung@crippssears.com)***

***Best regards,***

***Andrew Somerville  
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