

PILOT DINNER AND MEETING – LONDON 30/31 OCTOBER 2013

NOTE OF DINNER DISCUSSION AND MEETING

- Meeting attendees are listed at Annex 1

ACTIONS AGREED

- Establish a technology leadership board (*joint OGUK/DECC action*)
- Develop new exploration road map for UKCS (*action exploration task force*)
- Develop resource strategy to align sufficient trained people to operate and maintain the succession of new platforms and FPSO'S due to come on stream in next 5 years (*joint Industry and Government action*)
- In relation to infrastructure have draft area development plans prepared by Q2 2014
- Develop funding model for Central North Sea infrastructure work (*action industry*)
- Strategic Production efficiency process to be developed which can be applied to all failing assets (*joint action DECC/OGUK and Industry champion Jim House*)

Dinner Discussion - This was chaired by Energy Minister, Michael Fallon and there was a focused debate covering three topics including Technology strategy, Exploration and future resource issues.

Topic 1 – Technology strategy

This was jointly led by Paul Warwick and Andy Leonard. It was explained this workstream was initiated following a somewhat heated discussion on technology 18 months ago where there were lots of views but agreement that the UKCS needed a technology strategy. An industry group has been formed and included in their early recommendations is the formation of leadership board comprising industry leaders who could provide strategic technology clarity for the UKCS and report back to PILOT. Membership of this group should be substantially drawn from the board of OGUK but should also include representation from Government and be inclusive of ITF. What is not required is a 'talk shop', we need action and this is something the leadership board can provide. This board

would also be a vehicle to identify key technology needs and to connect innovators with the operator community.

In the discussion which followed it was evident that Norway had adopted a different approach to technology development which was based much more on a partnership model where significant Government funding was made available. It was however acknowledged that technology in the UKCS was competitive as opposed to a collaborative approach in Norway. While money is always helpful it was not considered funding was a major issue in the UKCS – the bigger problem was implementation. There are gaps and commitment is needed from inception through to field trials. Industry needs to define what the problems are so solutions can be found. There was also a multitude of organisations dabbling in technology and this was not helpful, it was also confusing how the TSB operated and how they could be more engaged in the oil and gas sector.

There was also a general view that ITF had lost its identity and now only attracts a low level of industry participation – the basin now needs a single script approach to create a consistent technology view of the basin and ITF were failing to fill that space.

In summing up the discussion Minister said there was a need to pull key players together and identify funding – he considered there were lessons to be learned from the automotive and aerospace sectors.

Topic 2 Exploration

This discussion was led by Nick Fretwell who had recently picked up the work previously carried out under the chair of John Austin. He reminded the group that exploration activity was at very low levels and the full potential of the basin could not be realised unless there was a step change in exploration and new reserves were identified – it was quite probable there could still be a number of elephant fields still out there.

The group had made a number of recommendations which include;

- A more collaborative approach with sharing of knowledge
- Using the most advanced imaging technologies to create an up to date exploration road map for the UKCS and carry out an analysis of the yet to find potential of the basin
- Sell the success of the UKCS and hold a conference next year to share experiences

It was agreed there was some urgency in relation to exploration but to achieve the necessary progress there will need to be significant resources and funding applied and a dedicated team of experienced people established – a team led by BP will be developing and pulling an overall proposal together.

It was suggested that DECC held lots of knowledge on the basin and should be sharing this with industry albeit it was accepted there would be issues as ability to discover new reserves was very competitive.

It was highlighted that Norway had a completely different fiscal approach to exploration which encouraged many more wells to be drilled and had led to significant additional reserves being

discovered. While giving no promises Treasury indicated a willingness to work more collaboratively with industry on exploration. In summing up it was suggested consideration should be given to change license round conditions to give more weight to applicants with good geological surveys and be less focused on well commitments.

Topic 3 Future operations and maintenance resources

This topic was introduced by John Pearson who said this was a problem without a solution. There were currently around 30 new offshore platforms in the pipeline which would require around 6000 additional offshore workers. This is 'real' work and it was alarming there were no strategic plans in place to train a new workforce of this scale.

It was agreed this was not about graduates but more about traditional skills which in the past came from shipyards and the fabrication sector. British manufacturing needs to be encouraged and apprenticeships created to give people the opportunity to train while platforms are being built and other fabricating work carried out in UK yards.

There were views that some personnel could be sourced from the military but that could only be part of the solution and that Industry will need to waken up to the challenge and start to develop new and innovative approaches.

No tangible decisions or actions were agreed and the issue needs to be worked further and returned to PILOT.

PILOT Meeting - This was substantially chaired by SoS Edward Davey albeit he had to leave before the end at which time Simon Toole took over as chair.

Item 1; UKCS Maximising Recovery Review

The bulk of the meeting was given over to Sir Ian Wood who shared some initial finding from his review which will be published in draft form in early November. – This discussion was not recorded other than to note there was unanimous support from all around the table to the initial findings.

Item 2; Infrastructure

This item was led by Pete Jones who had recently taken on the lead role for the Northern North Sea part but would be speaking for the whole work area. He informed PILOT that the Northern North Sea piece was most advanced with 28 companies participating but they still need more quality information and better collaboration. He feared this would require a radical shift in thinking and the main challenge is likely to be competition law but perhaps using independent 3rd parties could be a possible way through this. It was also agreed this is a leadership issue and senior management will need to get buy in down through their companies.

Potentially there was an enormous prize at stake and many additional barrels could be recovered if industry could be persuaded to adopt a UK plc approach. Using an independent 3rd party vehicle should be advantageous but overall the industry needs to adopt a simple commercial agreement process.

The groups were meeting on a regular basis with good levels of energy and commitment and they are aiming to produce a report with draft area development plans by the spring of next year. Summing up it was agreed the NNS part was progressing well and was being funded by OGUK. The CNS part was trailing a bit and will need to be funded so there is a challenge to develop and funding model. The SNS part has not yet got off the starting blocks and an industry champion needs to be found for this part.

Item 3: Production Efficiency

This discussion was led by Jim House who said there were a lot of companies with different cultures and it was challenging to get industry wide traction. He stressed the figures on production efficiency were not good and there was an urgent need for improvement as substantial daily production was being foregone. From the work already carried out some 51 significant assets key for PE had been identified. An ambitious target had been set to get these all up to 80% efficiency by 2016. While it was acknowledged this would be tough it represented around 100,000 barrels per day.

As a group they can only focus on a few issues at a time so will be concentrating on major issues first. The group was meeting on a regular 6 weekly basis and were starting to develop individual improvement plans which should deliver a long term recovery plan for the basin. While there was a role for a stronger regulator to push this forward the industry needs to move towards a more self-regulating regime.

In summing up there was an action for DECC, OGUK and Jim House to meet at an early date to see how some pressure can be placed on these top 51 assets to develop and pursue improvement plans.

Item 4; EOR

There was a brief discussion on this issue led by Dave Lynch who said the group had been working for nearly 2 years and there had been a good level of commitment. The initial work had identified the size of the prize and broken the challenge down into individual EOR technologies. In pursuit of this there had been 4 workshops covering - Low Sal, Miscible Gas, Water Flood and Chemical EOR.

Falling out of this there was now a cluster group working on Low Sal and there was momentum gathering to do something similar on Chemical EOR but efforts on all fronts now need to be scaled up. Certain operators need encouragement to participate and there is now a role for DECC to help focus pressure on those assets with the greatest potential.

Item 5; AOB

Fergus Ewing gave positive feedback on the progress of the PILOT workgroups and made particular reference to high current activity levels in Aberdeen and the need to broaden the activity beyond the North East of Scotland. He then touched on the access to capital issue and indicated the Scottish Government are very willing to work with UK government on hosting further events on this topic, he also made reference to the good co-operation on the recent Grangemouth issue and the positive outcome which had been achieved.

Finally the issue of increasing the “yield” of the existing workforce was raised and it was suggested the current arrangement where more than 50% of the workforce were employed on an IR35 (day rate basis) was creating difficulties.

The meeting was then closed.

List of PILOT Meeting Attendees – 31st October, 2013

Oonagh Werngren	- Oil & Gas UK
Gordon Ballard	- Schlumberger
David Lynch	- BP
John Pearson	- Amec
David Kemshell	- Shell
Steve Jenkins	- Cairn Energy
Jim House	- Apache
Dennis Clark	- OGN Group
Andy Leonard	- Oil & Gas UK
Paul Warwick	- Talisman
Edward Davey	- Secretary of State – DECC
Fergus Ewing	- Scottish Government Minister for Energy, Enterprise & Tourism
Margaret Porteous	- Deputy Director Policy - Scotland Office
Stephen Speed	- Acting DG of International Climate Change and Energy – DECC
Ian McKenzie	- Acting Head of Energy and Development Unit – DECC
Simon Toole	- Director, Licensing, Exploration & Development – EDU –DECC
Wendy Kennedy	- Head of Offshore Environment & Decommissioning - DECC
Bill Cattanach	- Head of PILOT Secretariat/PILOT Secretary – DECC
Audrey Banner	- Business and Technology Development Manager - DECC
Andrew Hoar	- Assistant Director - HMRC LBS Oil & Gas
Nico Heslop	- Environment & Transportation Tax Team – HM Treasury
Grahame Smith	- STUC
Sir Ian Wood	- Wood Group
Nigel Hares	- Enquest
Andy Samuel	- BG Group

Geoff Holmes - Talisman
David Chenier - ConocoPhillips
Pete Jones - TAQA
Nick Fretwell - TOTAL

Apologies

Alistair Carmichael - Secretary of State for Scotland – Scotland Office
Malcolm Webb - Oil & Gas UK
Trevor Garlick - BP
James Edens - CNR
Glen Cayley - Shell
Archie Kennedy - Nexen