

## PILOT DINNER AND MEETING – LONDON 18/19 JUNE 2014

### NOTE OF DINNER DISCUSSION AND MEETING

- Meeting attendees are listed at Annex 1

### ACTIONS AGREED

- To develop action plan to press forward with transitional projects - *action Simon Toole*
- To recruit industry secondees/short term contractors to resource transitional activity - *action DECC and Industry*
- Continue implementing recommendations in the Wood Review – *action DECC and Industry*

**DINNER DISCUSSION** - This was chaired by Energy Minister, Michael Fallon and there was a focused discussion on the implementation of “Wood”. In particular Minister used the occasion to test whether Industry was fully committed to Wood implementation, and whether there were any impediments. To which Industry representatives reiterated their commitment, with no voices of dissent.

In setting the scene Sir Ian Wood made some introductory remarks, stating the real work now lay ahead and there would need to be strong commitment from all stakeholders if we were to grasp the opportunities, which clearly still existed in the basin. He emphasised the fiscal review would be extremely important to the overall outcome and he was very pleased with Treasury’s active engagement. Full and active participation would be needed from Industry and DECC and he pressed the point that OGUK will be instrumental to success and cannot step back at all. The key challenge is to get the right person to lead the new body as soon as possible, and then have a fully-fledged regulator in place by 2015.

Stef Murphy then provided an update on Governments progress with implementing and establishing the new regulatory body. In her remarks she indicated that the name and location of the headquarters of the new body (Oil and Gas Authority in Aberdeen) had been announced by Danny Alexander at the Oil and Gas UK conference the previous week and the advert for the CEO would go live on Thursday 19<sup>th</sup> June with a closing date of 15<sup>th</sup> July.

She went on to inform PILOT that good progress was being made to introduce the necessary legislation to establish the principles of Maximising Economic Recovery of UK oil and gas resources and that a levy would be introduced so that the costs of funding a larger, better resourced regulator can be paid for by Industry. They were on target to have these measures included in the 4<sup>th</sup> session Infrastructure Bill later this month, and subject to the will of Parliament should gain Royal Assent by spring next year. Beyond that, work would continue to finalise the powers required for the effective operation of the regulator. In the interim period, and once the CEO was recruited the regulator would be initially established as a shadow body, most likely as an executive agency, and we are working towards having this in place by the autumn. Staffing this interim body would be a challenge and would need to get people in quickly and Industry secondees were viewed as the best option.

The Minister confirmed this was an extremely important time for the sector and there may be times and issues where it will not be easy for all companies. In recognition of this he invited the table to openly discuss their views on the report and also comments from both Sir Ian and Stef.

In the discussion which followed it was clear there was unanimous support for the overarching principles of the report and it was confirmed that at the OGUK away day they would be fully supporting all the initial work areas highlighted and would be discussing progress at every future board meeting. It was also acknowledged that the spirit of collaboration was already starting to be apparent and there was momentum behind the new approach.

The discussion then moved to the most critical areas with “Costs” and “Exploration” highlighted as the greatest threat to future success. It was unanimously agreed we need to get some pace into this work and that Simon’s team must be strengthened as a priority. Technology was also mentioned as an enabler and it was encouraging to hear the Technology Leadership Board had been established and were about to hold their initial meeting.

In summing up the sentiment of the discussion it was agreed there had been a lot of talk about collaboration and now was the time for action. This would be challenging and will inevitably introduce some pain into the basin but we must not back away from difficult issues.

During the dinner, the Minister made a point of congratulating Simon Toole on being recognised in The Queen’s Birthday Honours, becoming Commander of the Order of the British Empire for services to Oil and Gas and Energy Infrastructure Development, and all present joined in applause.

**PILOT MEETING** – was chaired by SoS, Edward Davey who in his opening remarks referred to the Wood review and intimated he was pleased with progress to date. He praised Sir Ian for the outstanding leadership he had brought to the process and urged all Industry stakeholders to get fully behind implementation. He also acknowledged it was important Government did not stall and clear signals of direction of travel must be given to industry to maintain investment confidence.

Currently the interest in the basin was good as demonstrated in the recent licensing round however, the maturity of the basin made it timely to push forward with change.

He then raised Sullom Voe as an example of the collaborative work already being undertaken by Industry. The terminal had served the UKCS well over the past 40 years and it is important that it

remains available and cost effective for the coming decades. BP faces a formidable challenge as operator given the large range of owners and the age and complexity of both the facilities and contractual arrangements. This is a perfect example of where a collaborative approach will be required given the number of companies with interests in the terminal and their varying objectives. It is an excellent opportunity for the owners together to demonstrate how they can respond to the challenges of Wood. He offered his personal assistance in unlocking any issues if that would be helpful.

Fergus Ewing was then invited to give some introductory remarks and in doing so said the Scottish Government were very pleased with the announcement that Aberdeen would be the location for the HQ of the new regulator. He went on to say the recent OTC oil show in Houston had been very successful for Scottish supply chain companies and now over half of their income was being derived from overseas business. In conclusion he highlighted that the Scottish Government were committed to work in collaboration to ensure MER is fully implemented.

## **Agenda item 2 – Wood report implementation**

Malcolm Webb started off this item by stating the Wood Review was featured heavily at their recent board away day and that there remained strong enthusiasm on all recommendations. Progress on Wood would be an on-going focus at all future OGUK board meeting. His board had however reflected on financing of the new regulator and held the view that Government should make some contribution and they would continue to lobby on this issue.

Malcolm went on to say that “costs” were now one of the most talked about issues in the Industry and it was a pity there was not an express strategy on this issue within Wood and his board had agreed to establish a workgroup on this topic, which would be chaired by John Pearson.

Malcolm also highlighted a potential issue with regards to EU regulations and duty holder status and the potential disruption on MER.

SoS then challenged Malcolm as to whether OGUK were ready to get started on MER ahead of the new regulator to which the response was – yes they were and MER was already in action with a number of examples of collaboration being demonstrated at the recent conference. Costs and exploration were the highest current priority albeit all areas were important.

Stef Murphy then restated her message from the previous evening for the benefit of those who had not attended the dinner emphasising her team were committed to implementing Wood as quickly as possible, and were already making good progress.

Continuing the theme of Wood, Simon Toole presented on “Bringing MER UK to Life” stating there was a little bit of time until the Oil and Gas Authority would be up and running and to ensure momentum DECC would be continuing to press forward with work on Exploration, Infrastructure, Production Efficiency, EOR, Technology and Supply Chain Development. In addition there was an immediate need for proactive action on a number of other fronts and provided sufficient suitable resource could be identified Simon put forward the following project candidates:

- 21<sup>st</sup> Century Exploration project
- Data access
- Northern North Sea fuel gas availability
- Future of Theddlethorpe and Sullom Voe
- Tight and off-spec gas
- Feasibility of Alliance contracting.

Simon told PILOT these projects could only be taken forward if the right people could be found and he was seeking short term contractors and secondees with the required skills from Industry to carry out a lot of this work, which would be going beyond business as usual.

There was general agreement around the table that these were all important areas but there was a caution as to whether the list was over ambitious. A strong message was given that work should not be started on any of the projects unless they could be suitably resourced and therefore had a good chance of success. SoS agreed that we need to prioritise and achieve some early wins but we cannot leave other pressing issues behind.

Other areas flagged as important included; late life management of critical hubs and the whole issue of “costs”.

### **Agenda item 3 - Workgroup updates**

1. EOR - Trevor Garlick updated on behalf of this workgroup and intimated that EOR did not currently feature heavily in the UKCS with only a handful of projects in operation. It cannot be acceptable to leave more hydrocarbons behind than we recover but time is of the essence and we must shift to delivery on this issue. Work from the past 18 months had been reported and the aim now was to move to a field specific basis and 10 targets had been selected (8 operators have these 10 fields). Going forward DECC will lead on carrying out further field reviews to ensure the best candidate reservoirs are identified and progressed. Trevor confirmed the group had expanded and he felt there was now much more comfort in sharing information and expertise. In conclusion he mentioned BP had produced a brochure on EOR for its own use and he had made copies available.
2. Area Rejuvenation – Pete Jones covered this and began by challenging PILOT as to how we get better development plans brought together for the wider basin as opposed to individual projects. He also commented on the number of new FPSO’s arriving in the basin and questioned whether fixed platforms would not lead to higher recovery in the longer term.

In the discussion which followed it was clear there had been some positive progress made however there were still many challenges in getting companies to work collaboratively together. One example was highlighted where a project was being held up due to lack of alignment within the partnership. There was a call for DECC/the new regulator to play a proactive role in moving such issues forward and it was agreed this project would be a good test case of meaningful collaboration. In summing up this item SoS said there were existing powers and we may need to use them.

3. Exploration – Simon Toole led on this and explained that Exploration was a major issue – as an Industry we are spending more and finding less and we needed better geology if we are to make progress. He explained this would be the object of the 21<sup>st</sup> century roadmap, which he hoped would lead to better success in both mature and new play areas. The workgroup have identified 4 projects and the first will be to examine past failures and see what can be learned from them. It was agreed DECC would take the first stage forward but there would need to be broader funding for the wider and bigger parts. It was suggested around £5 million per year would have to be invested in this area. In summing up SoS emphasised how important this work was to the future success of the basin and we needed to move on as a matter of urgency.
  
4. Production Efficiency – Jim House reported on this work area and stated that much had happened and good progress had been made in a year. Production Efficiency had started to improve, having increased from 60% in 2012 to 64% in 2013, and is now a key issue for every company. There were a wide range of issues and there was not a single silver bullet. The group had however identified the key components impacting on PE were:
  - Efficiency of annual turnarounds
  - Unplanned downtime
  - Need for more regular performance updates
  - “Wrench time” was still a major issue

There were several observations that the league tables were useful encouragements to improvement but that these could overlook dependencies between fields and their infrastructure and could lag investment and improvement SoS stated that we should use this information sensibly to encourage improvements.

SoS then briefly summed up the discussion and closed the meeting.

## **Annex 1**

### **List of Main PILOT Meeting Attendees –19<sup>th</sup> June 2014**

Edward Davey	- Secretary of State – DECC
Fergus Ewing	- Scottish Government Minister for Energy, Enterprise & Tourism
Stephen Speed	- Director, Energy Development Unit, DECC
Simon Toole	- Director, Oil & Gas Licensing, Exploration & Development - DECC
Wendy Kennedy	- Head of Offshore Environment & Decommissioning - DECC
Bill Cattanach	- Head of PILOT Secretariat/PILOT Secretary – DECC
Helen Dickinson	- Deputy Director Business & International Tax Group - HM Treasury
Stef Murphy	- Head of Wood Review Implementation Team - DECC
Malcolm Webb	- Oil & Gas UK
Trevor Garlick	- BP
Glen Cayley	- Shell
Archie Kennedy	- Nexen
Mike Tholen	- Oil & Gas UK
Oonagh Werngren	- Oil & Gas UK
Jim House	- Apache
Steve Jenkins	- Cairn Energy
Grahame Smith	- STUC
Sir Ian Wood	- Wood Group
Nigel Hares	- Enquest
Andy Samuel	- BG
David Chenier	- ConocoPhillips
Pete Jones	- TAQA
Philippe Guys	- TOTAL
Craig May	- Chevron
Louise McKenzie	- ExxonMobil
Mike Skitmore	- Premier Oil

### **Apologies**

Alistair Carmichael	- Secretary of State for Scotland – Scotland Office
Gordon Ballard	- Schlumberger
Paul Warwick	- Talisman
John Pearson	- Amec
Martin Rune Pederson	- Maersk
James Edens	- CNR