

PILOT MEETING – LONDON, 13 JANUARY 2015

NOTE OF MEETING

- Meeting attendees are listed in Annex 1

ACTIONS AGREED

- Government to continue to work collaboratively with industry to reduce the impact of the reduction in the oil price.
- Investigate how existing forums can be aligned
- Consider new name for PILOT forum
- Industry (with assistance if required from DECC/ OGA) to look at a new constructive way of working for Sullom Voe as costs have become too high. (Area rejuvenation)

Agenda item 1 – Welcome and Opening Remarks

The PILOT meeting was chaired by Matthew Hancock who in his opening remarks gave reassurance that Government fully understood the challenges that the industry was currently facing and the importance of making the right decisions and therefore he was keen to listen to the discussions at the meeting.

Fergus Ewing was then invited to give an introductory remark and said he too understood the seriousness of the situation and that the Scottish Government was keen to do everything that was in their power to help. He made a strong call for further fiscal reforms to be brought in quickly and went on to say that politics should be cast aside and that both Governments should work with industry to find sustainable solutions as there could be serious consequence's such as early decommissioning if action wasn't taken.

Matthew Hancock then invited Alistair Carmichael if he wanted to add any remarks. He highlighted the importance of this industry especially to the NE Scotland and his constituency, he agreed that it was important to work closely with industry and that it was clear that actions could be taken by both Governments to improve the situation. He welcomed the appointment of Andy Samuel and stressed the importance of getting the structure right to achieve credible outcomes.

Agenda item 2 – Establishment and Vision of the Oil and Gas Authority

Stef Murphy gave an overview of the progress in setting up the OGA; some key milestones had been delivered including:

- The recruitment of Andy Samuel as CE who took up his post at the start of January.
- Clauses have been introduced into the infrastructure bill which will set out MER UK and also allow for a levy to be applied. This is now at the Committee stage in the House of Commons and royal assent is expected early spring.
- A call for evidence was published last November as a means to engage with industry on how to put the Wood Review into practice. Overall there was board support with industry calling for simplicity, transparency and fairness especially in determining the levy.

Steph went on to say that Andy would be setting up a stakeholder group shortly and that there would be an intensive period of action in order to develop policy and legislation as soon as possible after the general election. The OGA will be operational in shadow form as an Executive Agency from 1st April 2015. Stef concluded by advising that they were in the process of appointing a Chair which would be followed by appointing a board and that the OGA would be fully operational and established as a Government Company by the summer 2016.

Matthew Hancock then asked Andy Samuel to outline his vision for the OGA.

Andy highlighted that the economic climate had changed significantly since the Wood Review had been published. He would be concentrating on 3 key priorities for OGA; developing a strong team, focused delivery and building relationships and trust.

Recruitment had commenced for key management positions and to build on the existing DECC staff. Andy advised he had a clear vision for OGA which was to be a trusted partner and valued facilitator, he recognised that there might be some bumps in the road ahead and that we require a change in culture. The OGA would start as it meant to go on and act as a GovCo from day 1; it would be a strong regulator lean, cost conscious and focussed on delivery.

Matt Hancock asked Sir Ian Wood for his views; Sir Ian responded that he was delighted with the appointment of Andy Samuel and that it was important that the team is put in place quickly and key that the OGA is given arms-length status.

Agenda Item 3 – PILOT Workgroup updates

1. **Exploration** - Simon Toole advised that the work being undertaken by the Exploration workgroup was a long term piece of work but it had been given a boost by the Wood Review. He advised they had been working on 3 key areas.
 - An analysis of failed wells in the CNS. DECC will be undertaking a project to gain a better understanding of the geology which should lead to better success.
 - The Chancellor has agreed to fund some seismic work which will allow areas previously under explored to be better understood e.g. West of Hebrides.

All three pieces of work will need funding and although there is a lot of enthusiasm for these projects some companies have not agreed to participate.

2. **Area Rejuvenation** – Pete Jones explained that the work of the group has become even more pressing with the fall in the oil price, they had been working on key areas of focus with the Northern North Sea being furthest advanced. The key drivers are production efficiency and controlling costs. Good progress has been made on the issue of the cost of fuel gas with joint purchasing a new approach for industry. They are currently negotiating a price and hope to have a deal in place shortly. He stressed that it was key that we learn from experience by sharing information and improving collaboration.

Another issue highlighted was Sullom Voe where costs have become too high and action is required. It was agreed by industry that a new constructive way of working was required and this would possibly require DECC/ OGA assistance

3. **Cost Efficiency** – John Pearson covered this and began by advising that everyone would have to change as the current situation was unsustainable in terms of growth in OPEX and CAPEX, UKCS was becoming uncompetitive on a global basis. The situation has been made worse by the rapid fall in oil price the last few months.

Four key areas had been identified for short term results:

- People – There could be quick wins achieved here with a reduction in rates of up to 25% and a move to equal time rotas.
- Offshore Efficiency – Increase in wrench time, sharing best practice and driving efficiency technologies.
- Logistics Planning - Sharing of spares and inventory and crew sharing
- Standardisation & Simplification – The current situation could be used as an opportunity to drive this forward, there could be huge rewards if achieved.

- 4. Fiscal - Matthew** Hancock introduced this item by advising that the Fiscal review was acutely under consideration and that he was very keen to hear from around the table after Helen Dickinson had spoken.

Helen Dickinson advised that since the autumn review it had been acknowledged that a change was needed to create a more competitive, simple and predictable fiscal regime that took more account of the basin. Recently there had been intensive work carried out with OGUK and they hoped to have an investment allowance paper published shortly. She also acknowledged that there was a strong desire to continue to work closely with industry.

Agenda Item 5 – Roundtable Discussion

Matthew Hancock advised that Government was moving at pace and opened the discussion by inviting views from around the table.

The main focus of the discussions was that there was a need for immediate action and a bold move by treasury. Industry is looking for significant reduction in tax in the budget in March if it is not possible to do so before, otherwise projects could be suspended or cancelled. There is also the potential for significant job losses and the possibility that a flood of decommissioning projects will be brought forward as more fields become uneconomical.

Agenda Item 6 – Closing Remarks

Matthew Hancock thanked everyone for the interesting discussions and advised he was planning on visiting Aberdeen in February and looked forward to seeing some of the attendees there.

Dinner discussion

In the discussion during dinner Jim House gave an update on the work of the Production Efficiency Task force. The main points were:

- There has been a halt in decline in production in 2014 however there will be significant challenges to maintain this during 2015 due to the current oil price.
- MD forum meeting in March (top 10 operators) to discuss current projects their performance for the year, how to improve, current issues and ideas for collaboration. Andy Samuel will chair.
- Policing and accountability is needed and costs have to be examined - what are the key lessons learned and how can they be used to improve PE.

- Suggested OGA help will be needed to engage with companies on their plans and get a commitment to reducing production losses.
- Industry need to spend on maintaining asset integrity – what, if any fiscal help is there for asset integrity?
- The largest loss sources came from plant equipment failure & unplanned Maintenance at 47% and annual shutdowns at 20%.

During the PETF update there was an active discussion around the importance of having the right level of people attending meetings/forums. Everyone has busy workloads but where important decisions have to be made the attendees must have the empowerment to deliver.

A further discussion was held around jobs and the recent losses:

- Currently 10% but could see this rise to 40% over the next 12 months
- It was stated that Apprentices and Graduate entry schemes will continue in some companies as it is still necessary to think about the long term of the industry. However there will be a halt on hiring mature personnel
- It is a cyclical industry so still very important to continue to promote the industry within schools, colleges etc.
- Suggested that companies should try and help employees in their next steps to find employment
- There is a concern for many SME's as they may cease if they are unable to find work

There was a final discussion around the consolidation of forums as it can be a challenge for Industry leaders to attend them all throughout the year, especially when the company is based in Aberdeen and the meetings are held in London. There was a suggestion to align the PILOT, Fiscal and Oil and Gas Industry Council Forum to have them all on one day – 'An industry day'. It was felt this was worth further discussion as would need to be clear on how the day would run including agendas, attendees and also that the purpose/objective for each forum was upheld. There was a further question on the sustainability of such a day but could try it for a couple of years then review. Another concern would be the challenge to get commitment from the SoS or Minister for a whole day meeting especially if planned months ahead.

List of Main PILOT Meeting Attendees – 13th January, 2015

Mathew Hancock	- Minister of State – DECC
Alistair Carmichael	- Secretary of State for Scotland – Scotland Office
Fergus Ewing	- Scottish Government Minister for Energy, Enterprise & Tourism
Andy Samuel	- Chief Executive, Oil & Gas Authority – DECC
Stephen Speed	- Director, Energy Development Unit – DECC
Simon Toole	- Director, Licensing, Exploration & Development – EDU – DECC
Wendy Kennedy	- Head of Offshore Environment & Decommissioning – DECC
Bill Cattanaach	- Head of PILOT Secretariat/PILOT Secretary – DECC
Stef Murphy	- Head of Wood Review Implementation Team – DECC
Tony Chanter	- Assistant Director - HMRC LBS Oil & Gas
Helen Dickinson	- Deputy Director – HM Treasury
Gordon Ballard	- Schlumberger
Trevor Garlick	- BP
Malcolm Webb	- Oil & Gas UK
John Pearson	- Amec
Jim House	- Apache
Paul Warwick	- Talisman
Steve Jenkins	- Cairn Energy
Oonagh Werngren	- Oil & Gas UK
David Chenier	- ConocoPhillips
Pete Jones	- TAQA
Craig May	- Chevron
Neil McCulloch	- Enquest
Louise McKenzie	- ExxonMobil
Martin Rune Pederson	- Maersk
Mike Skitmore	- Premier
Philippe Guys	- Total
Sir Ian Wood	- Wood Group
Melfort Campbell	- Imes Group
Vince Graham	- OMV
Adrian Rose	- Transocean
Mike Tholen	- Oil & Gas UK

Apologies

Glen Cayley	- Shell
James Edens	- CNR
Archie Kennedy	- Nexen
Graham Smith	- STUC