



**NOIA Response to
Amendment to the Hibernia Benefits Plan:
Hibernia Southern Extension Project
May 2010**

SUBMISSION

NOIA'S INTEREST

The Newfoundland & Labrador Oil & Gas Industries Association (NOIA) is Canada's largest offshore oil & gas industries association. It has been headquartered in Newfoundland and Labrador since its founding in 1977. With over 500 members in Newfoundland & Labrador and around the world, NOIA represents the supply & service sector of the province's oil and gas industry.

NOIA members provide products and services for the petroleum sector; associate members include petroleum companies, trade associations, educational institutions, and government bodies and agencies.

NOIA's mission is "to promote development of East Coast Canada's hydrocarbon resources and to facilitate its membership's participation in global oil & gas industries".

NOIA believes that hydrocarbons are a valuable natural resource, and that the exploitation of a valuable resource must have a substantial and positive economic impact that can be captured by the industry and the economy of Newfoundland & Labrador.

GENERAL COMMENTS

The Amendment to the Hibernia Benefits Plan: Hibernia Southern Extension Project (HSE Project) provides adequate information regarding the development of up to 5 additional fault blocks in the southern sector of the Hibernia Field. Generally speaking, the amendment responds to questions regarding the Proponent's (Hibernia Management and Development Company Ltd.) commitment to the open and timely communications that foster full and fair opportunity for the resident supply and service sector to participate in the development.

It is, as always, NOIA's position to advocate for full and fair opportunity for the local supply and service sector. To that end, **we strongly believe that the amount of local content should be at least as much as that accomplished on previous projects.** Along with that, a step-change should be made from earlier projects which recognizes the growth and development in local capabilities of the supply and service sector in our province. Simply put, each new project in our offshore should 'raise the bar' from previous developments.

It is NOIA's viewpoint that the North Amethyst Project is comparable to HSE, therefore we believe that it should be held up as a benchmark to measure and ensure a step-change in benefits is made to ensure a noted increase in work scope is completed locally.

NOIA's objective in this review process is to support responsible development of the Hibernia Southern Extension resource, to recognize the proponents' efforts thus far to ensure that the objectives of all stakeholders are achieved in the development of this

resource and to encourage continuous improvement of those efforts, especially in the area of Canada – Newfoundland and Labrador Benefits.

Specifically, NOIA encourages Hibernia Management and Development Company Ltd. (HMDC) to identify clear and transparent benefit targets for the HSE Project and to establish mechanisms for measuring benefit (both as proposed in bid documents and as performed in execution of work) and tracking achievement. NOIA expects the data associated with the tracking of achievement be made available on a quarterly basis with total deliverables reported at the completion of the project.

Furthermore, we stipulate that production operation benefit numbers also be monitored and reported accordingly.

Although the obligations arising from the Accord Acts extend to the contractor, without specificity in the DPA, international EPC contractors do not have the same incentive to support local companies as do the project proponent.

NOIA recommends specificity at the DPA stage to identify clearly the activity to be undertaken in NL.

NOIA encourages responsible management of Canada-Newfoundland & Labrador Benefits. To this end, **NOIA recommends that Canada-Newfoundland & Labrador’s regulatory practices and processes be refined to be more specific, thereby increasing accountability and demonstrating a firm commitment to the local supply and service sector.** NOIA suggests the following revisions:

- Projects should be benchmarked as follows: at least as much work should be done locally as has been completed on past projects.
- A step change should also be implemented to recognize growth of industry capability. This step change could be the involvement of local engineering companies in the development of the subsea control systems.
- All “offshore activity” must be monitored and regulated (including ensuring appropriate benefits) as provided for in the *Atlantic Accord*.
- All development plans must contain an outline of specific and measurable supplier development strategies for the project. Further, these supplier development strategies must contain a list of action items supporting this.
- Decision reports must delineate specific timeframes for required action and reporting and specific percentage targets for local contract award.

- The regulator must develop tracking mechanisms to measure, record and assess a proponent's compliance to Development Plans and Decision Reports.
- The regulator must develop progressive instruments to encourage compliance and work towards a cooperative approach to attaining regulatory efficiency.
- The regulator must ensure that adequate tracking mechanisms to measure, record and assess a proponent's compliance to local benefits during production operation project phase are in place.

SPECIFIC COMMENTS

Responsible Resource Development

Hydrocarbons are a non-renewable resource and as such if exploitation of the resources offshore Newfoundland & Labrador is to provide lasting benefit to the economy of the province and the country, an exploitation strategy must be devised that encourages development of a *sustainable* resident petroleum industry.

NOIA is satisfied, thus far, that HMDC has taken this approach in its strategy for the development of the HSE Project. Opportunity will be provided for local participation, technology transfer and supplier development. New commitments in the area of Research & Development as well as Gender Equity and Diversity will also help the resident industry to evolve.

NOIA encourages HMDC to work closely with all stakeholders to enhance local participation to a level that exceeds the DPA targets.

Project Execution

All HSE Project activities will be managed from the Proponents' offices in St. John's, NL. In doing so, HMDC has promoted equality of access for the resident supply and service sector to the project team at the earliest possible stage.

Additionally, Front-End Engineering & Design (FEED) was executed "in house" supported by various specialist engineering contractors with technical support from ExxonMobil headquarters in Houston.

The term "In House" does not differentiate from work completed in NL and work completed internationally by the proponent. The involvement of local companies at the FEED stage is critical to obtaining technology transfer and elevating local capability for future projects.

While FEED is complete, NOIA would like to express its concern about local content at this stage. More detailed information should have been provided on local content and supplier development at the FEED stage. This detailed information should specify the activity to be performed in NL.

The execution strategies for each major component of the project are as follows:

- Detailed Engineering will be undertaken by international specialist subsea Contractors
- Construction and Installation will be undertaken by international specialist subsea contractors

- Topsides Modifications will be undertaken by HMDC's long-term EPC modifications contractor
- Platform drilling will consist of up to a 5-well program undertaken by HMDC using existing drilling organization, support infrastructure and contractors
- Subsea drilling will consist of up to a 5-well program undertaken by HMDC using a subsea drilling contractor commencing in 2012
- Production operations will be undertaken by HMDC using existing offshore production facilities and support infrastructure
- Logistics and support will be undertaken by HMDC using existing shore-based infrastructure including support vessels, helicopter support, shore-base, and producing operations organization.

HMDC will require Engineering, Procurement and Construction (EPC) contractors to have contracts and procurement offices in the Province. The proponent acknowledges the local capability to supply fabricated components and to assist in system integration testing. It is clear that capability exists locally to fabricate the pipeline end terminations, drilling template/manifolds and subsea manifolds as well as to conduct system integration testing. These should be specified **TO BE** completed in NL.

NOIA recommends that the Proponents provide detailed information with respect to the detailed engineering and construction and installation that will be required to undertake the Project, specifically with respect to local content.

Benefits Monitoring and Tracking

HMDC has made efforts to foster opportunities for the resident supply and service sector. However, targets and measurement mechanisms are needed to validate achievement of objectives and to track areas that need additional effort. HMDC have indicated that the intention is to utilize HMDC's established internal processes to monitor and report benefits related information for the Project.

Key elements of the process are:

- Employment reporting (number of people directly employed on the project) reported quarterly as per HMDC's quarterly benefits report
- Expenditure/content reported quarterly as per HMDC's quarterly benefits report
- Procurement and contracting activities reported as per the C-NLOPB's established Guidelines

- R&D expenditures reported in accordance with the Board's established Guidelines
- Gender Equity and Diversity reporting per processes and procedures to be established in consultation with various stakeholder groups, including the C-NLOPB.

The Benefits Plan Amendment outlines some specific targets and action items for R&D as well as Gender Equity and Diversity. However, there is no indication of the specific value HMDC places on any of the above elements, nor is there any hierarchy of priority.

NOIA recommends that for all bid packages, all criteria should be identifiably weighted, including all key elements above which demonstrate the Canada - Newfoundland and Labrador economic impact.

Contracting Strategy and Local Capability Assessment

Acknowledging that international competitiveness is a challenge, **NOIA recommends that HMDC explore the potential for a technology transfer/supplier development arrangement that would enable a local company to develop capacity for the engineering, procurement and construction (EPC) contract packages.**

RECOMMENDATION

NOIA supports the HSE project, particularly in view of the proponent's increased commitment to working with the local stakeholders to enhance resident supply and service capability.

The project as proposed will provide:

- **new drilling activity**, which represents substantial local contracting and employment opportunity and demonstrates confidence in the region and helps attract new investment;
- **new opportunity** for the resident petroleum supply and service sector;
- **business certainty** for key HSE contractors whose contracts will be extended as per the Plan Amendment (and for their supply chain) at a time of uncertainty in the industry;
- **maximization of existing offshore facilities**, which improves overall project cost-effectiveness and thus enhances our region's competitive positioning for investment attraction;

In summary, NOIA recommends that:

1. NOIA recommends specificity at the DPA stage to identify clearly the activity to be undertaken in NL.
2. NOIA recommends that Canada-Newfoundland & Labrador's regulatory practices and processes be refined to be more specific, thereby increasing accountability and demonstrating a firm commitment to the local supply and service sector.
 - a. In particular, projects should be benchmarked as follows: at least as much work should be done locally as has been completed on past projects.
 - b. A step change should also be implemented to recognize growth of industry capability. This step change could be the involvement of local engineering companies in the development of the subsea control systems.
3. Proponents provide detailed information with respect to the detailed engineering and construction and installation work to be done to progress the project.
4. In all bid packages, all criteria should be identifiably weighted, including Canada - Newfoundland and Labrador economic impact.
5. HMDC explore the potential for a technology transfer/supplier development arrangement that would advance local capacity to bid on EPC contracts.