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Canada-Newfoundland & Labrador Offshore
Petroleum Board

January 14, 2010

Mr. Max Ruelokke
Chairman and CEO
Canada-Newfoundland and Labrador Offshore Petroleum Board
5th Floor, TD Place
140 Water Street
St. John's, NL A1C 6H6

Dear Mr. Ruelokke:

Subject: OHSI Recommendation No. 21 – Stakeholder Relationship

At the request of, and on behalf of, the three Newfoundland Operators, we are writing to respond to the Board's letter to them of December 13, 2010 on the above subject matter (letter attached for convenience).

In the OHSI Report, Commissioner Wells stated:

“It is recommended that the Regulator review its relationship with CAPP, and that the oil operators define CAPP's authority so that stakeholders understand that authority.”

There was no issue raised by Commissioner Wells with regard to a new local association of the three Operators. Your letter of December 13 goes beyond this recommendation and proposes the formation by the three Operators of a local industry association. Your letter expresses concern that CAPP does not include in its membership all of the Operators in the area and therefore does not represent the oil and gas industry in Newfoundland and Labrador.

Husky Energy did defer its membership in CAPP in 2009. However, Husky Energy has formally advised that they will be re-joining CAPP for 2011. Husky Energy will be an active participant in the Association including the Atlantic Canada Executive Policy Group and Committees. Moreover, it is important to note that CAPP and the NL Operators have continued to work closely with Husky at the local level during 2009 and 2010 on all relevant issues.

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The second reason given in your letter was that CAPP is and is seen as a registered lobbyist group. CAPP is a registered lobbyist under the Lobbyist Registration Act of Newfoundland and Labrador. Lobbying involves seeking to influence the making or changing of laws, regulations, policies or programs by government entities such as the Board. It is recognized in Newfoundland and Labrador, as it is in every democratic jurisdiction, that this is a legitimate activity. CAPP member companies also comply with these requirements when they lobby. Any industry association, local or otherwise, would also be required to register when they make representations on behalf of their industry to government entities such as the Board in regard to the making or amendment of any law, regulation, policy, or program.

As a result, neither CAPP nor the Operators see merit in the formation of a separate local industry association. The three producing Operators in Newfoundland and Labrador will continue to be represented by the Canadian Association of Petroleum Producers. CAPP members support having a fully engaged industry association with appropriate membership and authority and believe that is the model we have in place today.

The Commissioner and the Board have noted the importance of clarity of the role of the Association representing industry. In response, we can say that the Operators look to CAPP to work issues where a common approach to the matter is called for, or where the matter affects the oil and gas industry in Newfoundland and Labrador. In that regard, there are oil and gas companies other than the Operators that have an interest in the regulation of oil and gas in Newfoundland and Labrador and the Newfoundland and Labrador Offshore area. CAPP's role is thus defined by the nature of the issue in terms of the generality of its effect on the industry or by the importance of adopting a common approach. Where CAPP members use CAPP as a vehicle for industry consensus on a matter that has been initiated by the Board, CAPP will review the request from the Board to ensure that expectations, including priorities and progress reporting, are clearly articulated. Where expectations are not provided by the Board or where CAPP member companies have questions in respect of the expectations, clarification will be sought by CAPP before CAPP undertakes the project. CAPP will advise the Board when it has proceeded to undertake the matter and will provide formal progress reporting at regular intervals, as well as timely formal reports if any event occurs that could significantly impact expectations.

The Operators consider that CAPP provides effective representation of the industry in Atlantic Canada. CAPP maintains a St. John's office staffed with local personnel who work closely and on a day to day basis with members located in Newfoundland and Labrador, as well as with locally based stakeholders and with the many locally based public servants, including Board staff, who interact with the oil and gas industry in Newfoundland and Labrador. CAPP's St. John's staff also draws on the support of the full CAPP staff complement of economists, engineers, communicators, accountants, political scientists, lawyers and administrative staff: some 60 staff in all. The CAPP Board of Governors has established an Executive Policy Group to direct the work of CAPP in Atlantic Canada. The Atlantic Canada EPG is made up of senior management representatives of all Operators (or their owner companies), as well as other CAPP

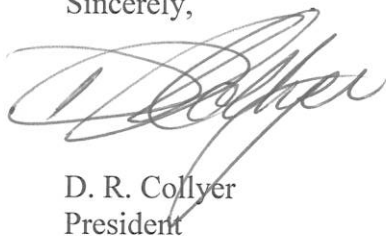
members active or interested in oil and gas exploration and development in Atlantic Canada. Through the Executive Policy Group and supporting committees, representatives of CAPP member companies are very actively involved in local issues. In summary, it is important for CAPP to have local presence via resources located in St. John's. However, CAPP's resources extend well beyond the local office, both through connectivity with other CAPP staff resources and with our members. There would undoubtedly be duplication of effort and cost arising from the formation of a separate local industry association representing the three NL Operators.

The issues affecting the exploration and development of oil and gas in Newfoundland and Labrador have national as well as local relevance. There are many commonalities between the offshore in Atlantic Canada and in Northern Canada. Issues of oil and gas policy and regulation in Canada are not unique to Newfoundland and Labrador. Oil and gas companies in Canada are concerned with, and CAPP as the industry voice is involved with, key oil and gas issues in every Canadian jurisdiction. One of CAPP's strengths is that it represents the interests of the industry across Canada.

CAPP has a long history of constructive and successful engagement with the Board. We value that relationship. It is a relationship that has yielded many positive outcomes in the advancement of the goals of safety and environmental performance in the Newfoundland and Labrador offshore area, and in making the area a desirable place to invest and to do business. We look forward to continuing this engagement in the future on behalf of our member companies, including the three NL Operators.

I would be pleased to meet with you, along with representatives of the three NL Operators, to discuss the forward working relationship between CAPP and the Board.

Sincerely,



D. R. Collyer
President

c.c. Honourable Shawn Skinner
Minister of Natural Resources
Government of Newfoundland and Labrador

Honourable Christian Paradis
Minister
Natural Resources Canada

Attachment



December 13, 2010

Paul Leonard
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Alan R. Brown
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Gentlemen:

Re: OHSI Recommendation #21 – Stakeholder Relationships

In the OHSI Report, Commissioner Wells stated:

It is recommended that the Regulator review its relationship with CAPP, and that the oil operators define CAPP's authority so that stakeholders understand that authority.

Industry Codes of Practice and Industry Standards are an integral aspect of modern regulatory practice. Often, Codes and Standards are developed collaboratively by the industry and the regulator. Industry, which often consists of multiple companies or operators, is usually represented in this collaborative process by an effective industry association.

In Newfoundland and Labrador, CAPP is the industry association that represents the oil and gas industry. The Inquiry Report recommends that the regulator "review its relationship with CAPP"; and, that the Operators "define CAPP's authority.

In its consideration of this matter, the C-NLOPB's conclusion is that for the Newfoundland and Labrador Offshore Area CAPP is not an effective industry association. We hasten to add that this assertion is not a reflection on the personnel at the


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local CAPP office. The most important consideration is that CAPP does not include in its membership all of the Operators in this area. There are three producing Operators in this area and one of these is not a member of CAPP. With such a gap in its membership CAPP does not represent the oil and gas industry in Newfoundland and Labrador; and therefore, cannot be an effective industry association for purposes of liaison with the regulator. Another impediment is the fact that CAPP is and is seen as a registered lobbyist group.

The C-NLOPB believes there would be mutual advantage in collaborative liaison between itself and a representative and adequately resourced local industry association. We urge all operators to form such an association, and, define its authority.

We anticipate your cooperation in this regard and ask that you promptly acknowledge receipt of this letter and confirm your undertaking to accommodate our request in this regard.

Sincerely,


Max Ruelokke, P. Eng.
Chairman & CEO