

NOIA 2017

/ Relevant, Untapped and Resilient: Two Out of Three Ain't Bad

Speaking Notes for Chair and CEO, Scott Tessier

Thursday, June 22, 2017

Slide 1 – Introduction

First let me congratulate Sean, Bob, Andrew and the entire NOIA team on 40 years and for another great conference.

Thanks Kerri and thank you to NOIA for another opportunity to speak this year.

I'm feeling an added layer of pressure this morning because there have been three great talks this morning and two years ago, during to my speech here, someone tweeted:

“Public remarks from CEOs of C-NLOPB & C-NSOPB always seem to be dull on purpose. Scott Tessier’s remarks @ #noia2015 do not disappoint.”

I saw that and initially thought, “Tessier does not disappoint...right on!”

Anyway, I clearly need to up my game. As Kerri mentioned, I'll talk a bit about how this year's conference theme applies to us as regulators, a bit about industry's offshore performance, and supplement some of the Minister's comments about performance-based regulation. Then I'll conclude with some words about a topic near and dear to everyone, local industrial benefits.

Slide 2 – Safety Moment

For my safety moment this morning, I'll talk about the importance of international cooperation and collaboration in the advancement of safety.

With more than 30 years experience, the C-NLOPB is a world-class regulator. To remain world-class, we know we have to stay current on technological innovation, best practices and regulatory trends from around the world.

In recent weeks, we have participated in a number of international meetings and conferences.

In May, I attended the mid-year meeting of the International Regulators Forum, or IRF, along with my colleagues from the Canada-Nova Scotia Offshore Petroleum Board and the National Energy Board. The IRF is familiar by now to many of you as the group of offshore health and safety regulators from 10 countries.

The IRF has four Working Groups – on Performance Measurement, Asset Integrity, Safety Culture and Standards. Discussions at our mid-year meeting featured updates from those groups, and also included planning for the 2017 Annual General Meeting to be held in Denmark, and an Offshore Safety Conference to be held June 5th and 6th, 2018 in Scotland.

I should note that the IRF Conference organizers from the UK's Health and Safety Executive were very accommodating when I requested they work around NOIA week next June, which was the same week they were eyeing initially. So I hope some of you in turn will save the date for next year's IRF Conference.

Our Senior Safety Advisor, Dan Chicoyne, recently attended the HeliOffshore Conference in Budapest, Hungary. Offshore helicopter passenger safety obviously remains a high priority for the C-NLOPB. HeliOffshore is the global association focused on human performance, safety intelligence and reliability and resilience in the context of safe offshore helicopter travel.

The C-NLOPB also participates in a Wells Working Group of the North Sea Offshore Authorities Forum, which shares information related to drilling and well operations, well integrity and blowout prevention. The Working Group also shares lessons learned from recent well control events.

Marshall Conway, a Well Operations Engineer with the Board, attended the most recent meeting of the Working Group in Ireland, where they discussed well design, barrier management, decommissioning, alternative technology and harmonization of guidelines.

In May, our Director of Environmental Affairs, Dave Burley, attended the International Oil Spill Conference in Long Beach, California. This is a useful forum for regulators, the international response community, industry, government and non-governmental organizations to exchange ideas and lessons learned from actual spill responses and research from around the world. Following the conference, Dave attended the annual general meeting of the International Offshore Petroleum Environmental Regulators. In a similar way to the IRF, IOPER members seek to exchange information on environmental performance of the industry, and opportunities for improvement.

So, as we focus on moving forward with safety and environmental improvements in our own jurisdiction, we will continue to learn from our Canadian and international regulatory counterparts, as well as from the industry.

Slide 3 – Relevant

On to our take on this year's NOIA Conference theme: "Relevant, Untapped and Resilient". I thought about how those apply to the C-NLOPB and came up with, "Two out of three ain't bad" because as I'll describe shortly, while we at the Board are relevant and resilient, we are certainly far from untapped.

But let's start with "relevant".

With our broad mandate, we have a relatively wide range of responsibilities in these parts.

Offshore safety, as always, is our top priority. We and our Canadian and international counterparts have continued to be vigilant in working to ensure that cost cutting doesn't come at the expense of safe operations, preventative and corrective maintenance, training and competency. We'll see in a few minutes some metrics to describe how the industry is doing in safety and environmental protection.

As many of you likely know, our environmental assessment responsibilities are currently subject to the federal government's ongoing review of EA processes and relevant legislation. I've very much appreciated the public and private votes of confidence for the C-NLOPB from the Ministers and others over the course of the week. We will work hard to maintain and build on that trust, in the public interest. Governments are working hard also and will keep working hard to make the system better; more competitive, safer and more environmentally responsible.

On the resource management and exploration fronts, we continue to see great interest in our offshore, with impressive results from bid rounds over the past few years, a continued high level of engagement in nominations, and soon all eyes will be on our call for bids that will close in November. The scheduled land tenure system is making more offshore areas accessible, and we are carefully growing our land tenure map. Now three and a half years into its implementation, it's clear that so far, scheduled land tenure has been very successful in meeting its objectives.

At the same time, we have remained conscious of the physical sensitivities in our offshore environment and the importance of cumulative impacts and stakeholder and public engagement beyond the petroleum sector. To that end, we are highly engaged with federal and provincial agencies that are working to deliver Canada's marine conservation and climate change commitments. And like governments, we are committed to innovation and continuous improvement in terms of transparency and public engagement, in keeping with evolving public expectations and technological innovation.

On that note, I'd like to take a moment to highlight the efforts of one group in particular, One Ocean. I think they have really been an underappreciated player in the Canada-Newfoundland and Labrador Offshore Area for many years, by bringing the fishing and petroleum industries together to talk and collaborate. That isn't always easy, but it's always important and we at the Board appreciate One Ocean's leadership in what they do, along with the continued engagement of its members.

The reality is that we as regulators have to work harder than ever to earn the confidence of our authorizing environment – that is, governments and the public. As the saying goes, it takes a long time to earn such trust and it can be lost in no time at all.

It will also come as no surprise to many in this room that the past twelve months have seen a fair degree of controversy and debate about local industrial benefits.

I'll come back to each of those areas in the next few minutes.

So, yes...we recognize that we are pretty relevant to the success of the Canada-Newfoundland and Labrador Offshore Area, whether we're talking about competitiveness, the public interest or public confidence, as all of these factors are increasingly intertwined these days.

Slide 4 – Untapped

Jeff O'Keefe, the Board's Director of Resource Management and Chief Conservation Officer, opened a panel discussion yesterday, the focus of which was about our untapped resource potential. I'd like to thank Jeff for his contribution to that session.

From a workload point of view, we are definitely not "untapped" these days.

I'm not 100 percent certain, but I think this may have been the busiest year we've had at the C-NLOPB. Certainly it has been in my four years with the Board. Notwithstanding the global downturn in oil prices and industry activity, we had another busy year with approximately 500 regulatory review, licencing, auditing and authorization activities.

In addition, Board staff have been fully emerged in the development and implementation of new environment, security and safety legislation and regulations, occupational health and safety amendments, and the development of framework regulations through the government-led Frontier Offshore Regulatory Review Initiative.

I'll also speak more about regulatory reform in a moment.

Slide 5 – Resilient

This brings me to "resilient".

I had a really nice chat last night with Mr. Peckford about the resilience of the Atlantic Accord, an absolutely visionary product that has stood the test of time, and then some. You hear people say, "There's an app for that", well in this case, "There's a clause for that..." even 30 years later.

Turning to current day. We at the Board haven't wavered in the least in our expectations of those we regulate because of the downturn in oil prices. As I've said before, that would be unacceptable to the public. We haven't selectively applied our regulatory framework or given anyone a "break" against their commitments or obligations due to oil prices. And in fairness to those we regulate, that consistent approach has by and large gone unchallenged throughout the downturn.

Over the years, in reaction to events beyond the Board's direct control, there have been calls for a separate safety regulator and more recently, the suggestion that a new agency is warranted for environmental or broader impact assessment.

And of course, we and other petroleum regulators come under fire from time to time, primarily by opponents of the oil and gas industry, as having specific, structural or inherent conflicts of interest.

There's no perfect governance model and there's no doubt the industry we regulate can be polarizing.

Where things get counter-productive is when discussions about the mandate or competencies of regulators are used as a proxy for debate about the types of activities we regulate.

I think it's unfortunate when those things get conflated.

But through it all, I'm proud that the professional staff of the C-NLOPB have kept their heads down, maintained great pride in their public service and kept on working hard to resiliently deliver world-class regulatory oversight.

The degree of complexity in its regulation has increased dramatically, even in my four years with the Board, not only because of cost cutting but also innovation and technological advancement, the move into deeper and farther areas offshore and the push for standardization, ageing facilities and asset life extension.

Add to these the realities of globalization and free trade, emphasis on economic diversification, commitments to action on environmental protection and climate change, enhanced public engagement, the need for more meaningful Indigenous engagement, and increased public scrutiny.

And all of this comes at a time when the economic and fiscal situation in our province is challenging, to say the least.

This all adds up to a highly dynamic and complex time for the C-NLOPB, as it is for all of you, which demands resilience. Minister Coady spoke of a defining moment and one thing that should help enhance our long-term resilience is performance-based regulation.

Slide 6 – Performance-Based Regulation

We support the transition by governments to more performance-based regulations for a number of reasons. First and foremost, our interest is in being able to hold companies to the highest standards of health and safety, protection of the environment and conservation of resources.

As noted, operators continue to explore in more technologically complicated ways and more physically challenging environments with varied hazards and risks. The regulatory framework should promote advancements in equipment and continuous improvement in operating practices.

But a prescriptive approach generally addresses a specific set of circumstances and is unable to quickly adapt to technological advancements and improvements in best practices, so “the bar” remains static.

The requirement to have a management system, embedded within the performance-based approach, ensures that operators proactively evaluate project-specific hazards and risks and identify the most appropriate technology, design, and operational requirements for the circumstances.

A performance-based regulatory framework provides the basis for regulators to challenge and hold operators accountable to having the necessary processes in place to effectively identify and manage health, safety and environmental issues.

So that makes sense. There are some keys to success here that are worth noting.

Well-resourced regulators are critical to ensuring we have the advantage of ongoing training and skills development. We have worked hard to cut discretionary spending and control our costs over the past few years, while protecting training for our staff. Being well trained means we are better than ever at being risk focused, which in turn means our policies, procedures, structures and resource allocation are able to be put where they are most needed.

Performance-based regulatory instruments need to be characterized by clarity of expectations in terms of what is acceptable, but with flexibility; and characterized by good alignment of policy intent, regulations and guidance.

And of course there needs to be continued commitment by operators to reduce risk to a level that is as low as is reasonably practicable, and to clearly demonstrate this to regulators.

There should also be incentives for regulated entities to perform better.

In a performance-based regime, everyone should be regulated more according to their own performance, not the failures or successes of others.

And there should be an appropriate transition period and plan when new approaches are to be implemented.

We all need to recognize that there will be continuous improvement in this journey – it won't happen overnight, it won't always be perfect and performance-based regulation is a significant change for governments, regulators and industry that some will find uncomfortable.

In the case of regulators, that discomfort will often stem from the need for us to move away from our beloved checklists, and increasingly rely on professional judgment and understanding of risk.

Slide 7 – Regulatory Activity 2016

In addition to our ongoing efforts to support governments in their development of performance-based regulations, the past year has seen a number of operational highlights.

C-NLOPB staff issued 12 new authorizations and 10 amendments to authorizations, the latter mainly covering the addition of support vessels.

There were six geoscientific programs with field work authorized last year. Approximately 13,000 square kilometres of 3D seismic data were acquired, along with approximately 41,000 line kilometres of 2D seismic data. The Board also approved 21 Geological Programs without field work.

So far this year, we have authorized one 2D and one 3D seismic program, with more authorizations for geoscientific programs expected in the coming months.

The Board issued six calls for nominations and two new calls for bids, and closed two calls for bids in Eastern Newfoundland and the Jeanne d’Arc Region, with over \$750 million in work commitments.

Slide 8 – Hebron

More recently, we have been busily ensuring that legislative and regulatory requirements were met before the new Hebron Platform was towed to field. We congratulate the Hebron partners and I’m very proud of the work of our staff in this regard. We are now working to ensure legislative and regulatory requirements are met prior to the start of drilling and production operations.

Slide 9 – Our Environmental Assessment Experience

I’d like to turn your attention now to environmental assessment.

Prior to 2012, the C-NLOPB was a Responsible Authority under the *Canadian Environmental Assessment Act*. Today, we conduct environmental assessments under the general powers of the *Atlantic Accord Acts*.

Our experience is broad including geophysical programs, geotechnical programs, geological programs, exploration drilling and production.

Since 2003, we have completed 72 EAs and nine Strategic Environmental Assessments, including one SEA Update and one SEA Amendment. We are presently working on the Labrador SEA Update, which I will talk about shortly.

Our EA processes have been very effective and transparent, with opportunities for public comment at several stages. All documents related to a project are publicly available on our EA Registry. Documents that are available for public review are also now pushed out via Twitter.

There are presently seven new active EAs on our website. These are additional to the four active CEAA 2012 offshore drilling EAs.

Slide 10 – Strategic Environmental Assessment

Since 2002, one of the most important environmental protection tools we have had available is strategic environmental assessment. An SEA examines environmental effects that may be associated with a plan, program or policy proposal and allows for the incorporation of environmental considerations at the earliest stages of program planning.

SEA considers a relatively large ecological setting and includes consultation with a wide array of stakeholders. A project-specific environmental assessment later focuses on site-specific issues that must be addressed in order for petroleum related activity to be undertaken within a licence area.

There is a complete SEA for each area highlighted on this map. Over the past few years, we have focused on reviewing and updating an SEA after a period typically in the order of seven to eight years, to incorporate new information and update existing information.

Slide 11 – Labrador SEA Update

Together with our partner and co-chair, the Nunatsiavut Government, we are presently updating the Labrador Shelf SEA. The initial SEA was completed in 2008. A multi-stakeholder Working Group, which includes representation from Indigenous groups, fisheries representatives, One Ocean and other stakeholders, has been established to assist in conducting the SEA.

The Scoping Document for the SEA Update was recently completed after a period of public consultation and we will be seeking interest from environmental consulting firms to help with the SEA Update. An important element of this SEA Update will be the inclusion of traditional knowledge.

Our commitment is that an SEA Update must be completed a minimum of 120 days prior to the close of a Call for Bids, so we are looking at the implications for the Labrador Call for Bids that was originally intended to close this November. I understand the question was raised earlier in the week. We'll have more to say about the close of that call in the next couple of weeks.

Slide 12 – Offshore Performance – Safety Improvement Staircase

Now let's turn to the recent performance of the local industry. It's the last day of school for many kids. I feel tempted to hand out report cards for operators up here, but I will not do that. Maybe next year! For the most part, and notwithstanding the industry downturn, Operators continue to conduct safe and environmentally responsible activities. Of course, there is always room for improvement.

We receive incident reports from drilling and production facilities as well as seismic operations and offshore diving and construction activity. This chart is a local version of a concept included in a new report by the International Oil and Gas Producers.

It illustrates some of the more significant types of incidents that have been reported to us since 2015. It doesn't include the 216 First Aid incidents that were reported and fortunately, there were no fatalities during this period.

It essentially shows what it would have taken to get to zero significant incidents over the past two years or so.

And it shows there is room to improve.

Slide 13 – Reportable Incidents 2006-2016

This chart shows the total number of incidents reported to us annually over the past 10 years. One thing to remember is that the number of incidents is also a reflection of the amount of activity. Locally, the last few years have been very active and we have seen a number of new installations operating here for the first time as well.

For just the past three years, the average number of incidents reported to us is 240. The best I can tell you is like you, we'd like that number to decrease and keep decreasing.

Slide 14 – Reportable Injuries 2006-2016

Looking at reportable injuries, which includes all lost time, restricted work, and major injuries, as well as occupational illnesses, the injury rate is steady at approximately five per million hours worked.

Slide 15 – Dropped Objects

Dropped objects remain one of our top priorities and concerns. There were eight of these incidents last year, compared with the 20 incidents in 2015. So far this year, there have been a few dropped objects, but we may see another improvement in the year end number, depending how the second half goes.

Slide 16 – Fires

Two fires were reported in 2016 - still too many. Obviously, zero fires is where we want to be.

Slide 17 – Leaks of Hazardous Substances

Last year there were nine leaks of hazardous substances compared to five in 2015. The management and handling of hazardous substances requires particularly close attention due to the risks of harm to personnel. Again, zero is where we all want to be.

Slide 18 – Hydrocarbon Releases

Finally, the number of hydrocarbon releases is relatively high in recent years. Although there were no major releases last year, the number of incidents can certainly be reduced with greater focus on the part of Operators.

Before I wrap up, I want to look in a more qualitative manner at industry performance in the area of local industrial benefits.

Slide 19 - Industrial Benefits

In the latter part of 2016 and early 2017, we received what I think was an unprecedented number of complaints from the local supply and service community and members of the local workforce with respect to local benefits.

These concerns are almost always brought forward with requests for anonymity from complainants, presumably out of fear of reprisal. This makes enforcement difficult for the Board and it speaks to an underlying issue.

Like safety and environmental protection, obligations regarding local benefits are underpinned by the Atlantic Accord regime. The Accord states that "It is the objective of both governments to ensure that the offshore area is managed in a manner which will promote economic growth and development in order to optimize benefits accruing to Newfoundland and Labrador in particular and to Canada as a whole".

These obligations carry from operators to contractors to sub-contractors, with an onus on operators to ensure compliance with the Accord Acts and the commitments in benefits plans throughout the procurement chain.

While the Board recognizes that these obligations are generally taken seriously, and we appreciate the challenges of the downturn, operators' commitments to promoting local economic growth and development to optimize local benefits were often being called into question over the past 15 months or so. Building and sustaining local economic growth must remain at the core of operators' approach to local supplier development.

Any dilution of local capacity in the short-term interest of cutting costs, whether deliberate or inadvertent, also runs counter to operators' own best interests and their commitments to responsible corporate citizenship.

Just as local providers of supplies and services must remain truly competitive on a risk-adjusted basis if the objectives of the Atlantic Accord are to be fulfilled in an appropriate manner, operators need to place a greater priority on sustaining local capability and capacity through the downturn, and then continuing to build that capability and capacity as the industry rebounds.

In addition to compliance with the Atlantic Accord regime's obligations in all procurement matters, a more robust approach is necessary by operators to improve transparency, accountability and deliver more effective communications with and among suppliers, contractors and sub-contractors.

For its part, the Board has exercised increased oversight in this area, including designation of more contracts, conducting more in depth reviews, and seeking additional information from operators to confirm that they -- and their contractors and sub-contractors -- are fully meeting the requirements of the Atlantic Accord regime and benefits plan commitments.

We are also exercising continued vigilance against the use of global frame or supply agreements in a manner that does not respect the Atlantic Accord Acts.

We are committed to working with operators, governments, NOIA and others to confirm, and where necessary enhance, the collective appreciation of long-term thinking with respect to local benefits and supplier development.

Slide 20 – Plug for the 2017 Safety Conference

Before I go, I want to put a plug in for a conference later this year. The C-NLOPB and Memorial University's Centre for Risk, Integrity and Safety Engineering, also known as C-RISE, have partnered to host a Workshop and Symposium here in St. John's at the Holiday Inn, October 18th to the 20th. The theme is Safety and Integrity Management of Operations in Harsh Environments.

I invite you all to visit the conference website and register online. There is a link to the conference website on our homepage www.cnlopb.ca.

Slide 21 – Thank You and Contact Information

I'll leave by noting that while the C-NLOPB has effectively delivered on all pillars of its mandate for over 30 years, you can rest assured that we are committed to continuous improvement in keeping up with the changing landscape locally, nationally and internationally.

Thank you for your attention this morning and I'd gladly welcome your questions or comments.