



NOIA Conference 2015:
Redefining Oil – Bringing the Future Home

The View from the Regulator: \$50 Oil and Beyond

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“Check against delivery”

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SLIDE 1 – Introductory Slide (Title)

Thank you Andrew and thanks to NOIA for inviting me back.

It's a credit to the industry that the regulator is provided with this forum each year.

And further credit is due for placing my time between Brent and Richard, which helps hold you captive while I speak.

By way of a Safety Moment, let me offer a few words about the local industry's performance since I spoke here last June.

SLIDES 2 - Safety Moment

In 2014/15 there were:

- 49 incidents involving damage or impairments to safety or environmentally critical equipment
- 49 helicopter occurrences
- 14 MEDEVACs (albeit mostly for non-occupational illnesses)
- 12 security incidents (many of which were flight manifest errors), and
- 6 incidents involving adverse environmental conditions

With respect to year over year comparisons, I'll note:

- Dropped objects are unfortunately starting to show another uptick, and we've gone back to operators to encourage them to increase their focus there;
- Fires are fewer, but there are still too many – and there is really no such thing as a small or minor fire offshore, in light of the potential for catastrophe;
- Plus, hydrocarbon releases have increased, as have leaks of hazardous substances, which combined with fires gives added cause for concern; and
- While the injury rate is down, there are still a significant number of high potential incidents.

So, while the safety record of the local industry is generally good and some of the increased concerns result from increased offshore activity, there is always room for improvement.

We'd like to see these numbers go to zero -- that is what we all need to continue to work towards.

SLIDE 3 - Video

For 30 years, the C-NLOPB, has regulated the industry on behalf of the federal and provincial governments.

The past couple of years in presentations like this, I've shown a few slides describing who we are and what we do. But, in keeping with the times, we now have a YouTube video for that. It's about 2 and half minutes long and available on cnlopb.ca. I'd encourage you to take a look if you haven't already.

SLIDE 4 – Two Significant Legislative Improvements

Now, I had a little rant on this stage two years ago about the Board's views as a safety regulator with respect to the theme "Playing on the Edge", so I won't subject you to that again.

Instead, to reflect on this year's added theme -- "redefining oil" -- I'd like to highlight some recent efforts by governments and regulators to redefine the approach to regulation.

Governments, the two offshore boards, the National Energy Board and others have been working together on two significant legislative initiatives:

- amendments to the *Atlantic Accord Implementation Acts* to include occupational health and safety, and
- the federal *Energy Safety and Security Act* and provincial Bill 2, which strengthen the safety and environmental regulatory regimes.

SLIDE 5 - OHS Amendments

This past December 31, amendments to *the Atlantic Accord Implementation Acts* came into force, providing additional protection for the health, safety and well-being of offshore workers. With the legislative amendments came transitional regulations, to be replaced by permanent regulations within 5 years.

There have been some growing pains in the application of the transitional regulations for short-term, seasonal seismic and construction programs. But these amendments undoubtedly

strengthen how we do our job by creating a formal, legislative and regulatory regime for offshore OHS, and a more effective enforcement tool kit for our officers.

They also clarify the roles of governments, regulators, employers and employees, recognizing that operators are ultimately responsible for ensuring worker safety.

The boards now have more formal authority to disclose information related to OHS when it is deemed to be in the public interest.

The new legislation also clarifies previous jurisdictional uncertainties, in particular with respect to the 'Right to Refuse' and the requirement for workplace OHS committees.

Another important feature is that the new occupational health and safety regime more clearly applies to workers in transit to, from, or between offshore workplaces.

Provision has also been made for establishment of an Advisory Council, which will feature representatives from industry, governments and the workforce to provide advice on matters related to OHS.

SLIDE 6 – Energy, Safety and Security Act - Liability Regime

The new federal *Energy Safety and Security Act* and provincial Bill 2 focus on four areas — prevention, response, accountability and transparency.

The new Acts help to further strengthen safety and security, to prevent incidents and ensure swift response in the unlikely event of a spill.

The “polluter pays” principle has been enshrined in legislation.

Other key elements are the increase in absolute liability and provision for offshore regulators to have “direct and unfettered access” to funds in the unlikely case that we need to take direct action to respond to a spill.

The legislation also provides the necessary tools for the offshore boards to become a “responsible authority” under the *Canadian Environmental Assessment Act*.

Work is also underway to develop appropriate mechanisms for administrative monetary penalties for regulatory contraventions.

And the legislation will also enable the safe use of spill treating agents, where their use is expected to achieve a net environmental benefit.

The legislation establishes that authorization holders are liable for the actions of their contractors, ensuring that liabilities can be recovered even if a smaller company is responsible for an incident.

The Acts will improve transparency by making emergency planning, environmental plans and other documents available to the public.

Finally, the Acts formalize a statutory basis for the recovery of the regulator's costs from industry.

SLIDE 7 – Risks of Cost Cutting

These legislative enhancements are taking place at the same time that the industry is facing significant, market-driven price and cost pressures.

As regulators, our concern is that cost cutting could lead to increased temptation to cut corners with respect to safety, environmental protection, or other areas of regulatory compliance.

This of course is not what we want to see.

To their credit, companies have to date been quite responsible in publicly affirming their commitments to safety and environmental protection in rolling out cost-cutting measures.

We as regulators expect this commitment to be reflected in on-going decisions and activities.

While we are sensitive to the operating environment, the public expects us to be steady in our oversight of legislative and regulatory compliance.

The Atlantic Accord Implementation Acts and associated regulations are silent on the price of oil.

So, risks that were deemed to be as low as is reasonably practicable, or ALARP, at \$105 per barrel should not be seen differently at \$65 per barrel.

ALARP is the only acceptable level of risk we were willing to accept then, and it's the only standard for risk we're willing to accept now.

Similarly, full and fair opportunity at \$95/barrel should still be "full and fair" at \$55/barrel, provided the local industry does its part to adjust to the market and remain competitive.

And while the industry must adjust to the market without compromising on legislative and regulatory obligations, regulators must be predictable and not unduly swayed by market considerations.

SLIDES 8 – Asset Integrity

Asset integrity is directly linked to cost pressures and is of particular concern for many regulatory agencies around the world.

This is a main topic of discussion these days at the International Regulators Forum (IRF) table.

The IRF is a group of regulators from several countries that come together to cooperate, share information and promote the advancement of offshore safety.

At the upcoming IRF conference, to be held October 19-20, 2015 in Washington, DC, asset integrity is likely to be on the mind of many in attendance.

In the coming weeks, you can obtain additional information about the conference at the website <irfoffshoresafety.com>; I'd encourage you to consider participating if possible.

Last month, we held our Spring Safety Forum, sharing information among workers, Operators, governments and the regulator.

Asset integrity was a key area of focus there as well.

In the Canada-Newfoundland and Labrador Offshore Area, production installations are in the range of 11 to 19 years old.

Aging infrastructure poses challenges to Operators with respect to its maintenance and repair.

In addition to normal wear and tear, our harsh environment forces continuous exposure to extremes of weather, waves, ice and oxidation.

New or old, installations operating in our jurisdiction must be fit for purpose and meet the highest industry standards before the Board will issue an Operations Authorization.

Operators are required to have strong preventative maintenance programs and pay particular attention to safety critical equipment.

In conjunction with the Certifying Authorities, the C-NLOPB monitors Operators' maintenance plans and activities, and inspects facilities to ensure risks are managed to a level that is as low as is reasonably practicable, and plans are executed to keep the facilities in an appropriate condition.

Special attention is being paid to temporary repairs, as well as ensuring that the scope of the maintenance, repair and replacement activities during turn-around periods is comprehensive and complete.

Slide 9 – Improving Safety. Prevention is Key

The potential for fatalities, serious injuries or significant spills due to improper maintenance or other cost-cutting activities should be incentive enough for companies to be vigilant in safety and environmental protection.

But there is a business case for vigilance as well.

My colleague, Brian Salerno, Director of the US Bureau of Safety and Environmental Enforcement, recently said: "Prevention, while it is not cost free, is almost always cheaper than experiencing a catastrophe. The ability to maintain schedule without interruption, and the avoidance of crushing liabilities, are major incentives to make safe operations a priority. So from that perspective, there is commonality of purpose between the regulated and the regulator."

Anne Myhrvold, the Director-General of Norway's Petroleum Safety Authority, has added that that: "All decisions must meet two requirements in particular – prudent operation and continuous safety improvements. Even at a time of cut-backs and savings, nobody can compromise on these basic principles."

Slide 10 – Information Sharing and Cooperation

Recently, Anne and I signed an MOU formalizing our commitment to exchange information and cooperate on matters of mutual interest so that we can improve our respective regulatory regimes.

My message here is that regulators across Canada and around the world are united in ensuring that safety and environmental protection remain paramount in the offshore oil and gas industry, even -- and especially -- at times of depressed oil prices.

Slide 11 – Five Areas of Focus

Through our involvement in the IRF, our inspection and auditing activities, and by our research into safety trends, the C-NLOPB identified five key areas of focus late in 2013.

As mentioned, asset integrity is one of those. The others are: training and competency, dropped objects, information sharing, and global standards.

I mentioned these at last year's conference and I am pleased to report that progress is being made in each area.

Slide 12 – Dropped Objects

For example, during the past year we continued to focus on dropped objects in an effort to reduce the number of occurrences.

Operators now have improved drop prevention processes in place and that they are working with contractors to ensure the risk is reduced to as low as reasonably practicable.

2014 saw a reduction in incidents involving dropped objects from 20 in 2013 to 13 in 2014, but as noted in my Safety Moment, recent statistics indicate that the number may be heading upwards.

So we continue to monitor this hazard in an effort to encourage sustained improvement.

Slide 13 – Sharing Lessons Learned

The C-NLOPB engages frequently with Operators and workers through Safety Forums and meetings with the offshore workplace committees in an effort to further promote information sharing.

We also meet separately with each of the Operators on a quarterly basis and receive reports on such matters as preventive and corrective maintenance efforts and backlogs.

Last Fall, we held our first international safety conference, featuring about 200 delegates and expert speakers from Australia, Brazil, Norway and the U.S., who shared excellent information on offshore safety issues and initiatives.

The C-NLOPB, the Canada-Nova Scotia Offshore Petroleum Board and the National Energy Board are working together and with our international colleagues to improve and promote safety culture.

Together, we are working to create a global view and better understanding of safety culture.

The safety culture in the Canada-Newfoundland and Labrador offshore oil and gas industry is as good as, or better than, anywhere else in the world, but again, that doesn't mean there is no room for improvement.

Some of the events of the past 12 months confirm that we have not reached the finish line in this regard.

Slide 14 – Helicopter Safety

Offshore helicopter safety continues to be a high priority for the C-NLOPB. Work is continuing on the implementation of Wells Inquiry recommendations. 21 of the 29 recommendations have now been fully implemented; some are weeks away; a couple are months out; and some (such as safety culture) are long term by design.

The Board continues to be an international leader in offshore helicopter safety.

Slide 15 – Oversight of Drilling Activity

In the five years since the *Deepwater Horizon* catastrophe, good progress has been made in strengthening the C-NLOPB's regulatory oversight of deepwater drilling.

The Board updated its guidelines to incorporate learnings from a variety of sources, including the Montara and Macondo investigations, and the North Sea Regulators' analysis of drilling practices based on the Macondo findings.

In the spirit of continuous improvement, the C-NLOPB uses every available opportunity to exchange knowledge, participate in technical discussions, and assess guidance and best practices from other regulatory bodies and industry experts.

We are again reviewing Board Guidelines with the intention to issue a draft update for review in 2015-16.

The Board also continues to work with Operators to ensure they have modern, up-to-date spill response plans as part of the regulatory authorization process.

In addition to having plans for emergency response and relief well drilling, Operators must now have access to a rapidly deployable subsea well incident intervention system.

Stricter expectations have also been established on the details for relief well drilling contingency arrangements.

As always, spill prevention is the key. The C-NLOPB will not issue a well approval until the Operator has demonstrated that the drilling of the well will be conducted safely, without pollution and without waste, in compliance with the Drilling and Production Regulations.

SLIDE 16 - IOPER

The C-NLOPB is also working with other regulators from around the world on the environmental front.

We are a founding member of the International Offshore Petroleum Environmental Regulators (IOPER), whose focus is to drive improvements in environmental performance by the global industry.

IOPER made progress in 2014 through a work program focused on performance indicators; spill preparedness and response; consultation; environmental impact research collaboration; and enforcement tool research.

Further information is available at <www.ioper.org>.

SLIDE 17 – Industrial Benefits

Beyond safety and environmental protection, our mandate includes regulatory oversight of exploration, resource management and industrial benefits.

Here as well, I must emphasize that lower oil prices do not offer an excuse to bypass the Atlantic Accord’s legislative requirements.

The local supply industry has matured considerably over the past 30 years. Local companies have developed their expertise and in some cases have grown to become global players.

As the industry continues to expand into areas further offshore, in deeper water, and in an increasingly global marketplace, the local industry must be ready to meet the associated challenges if it is to remain competitive.

I’ve said before that new entrants to our local industry should become familiar with the local supply industry and the obligations in the Atlantic Accord legislation for full and fair opportunity for Canadian companies, with first consideration to Newfoundland and Labrador companies on a competitive basis.

I’ve cautioned new and existing operators about the use of Global Frame or Supply Agreements that do not afford full and fair opportunity to companies in the Province or in Canada.

But there is undoubtedly a growing, collective realization on the part of the local industry, governments, regulators and operators alike that the solutions of the last 30 years will not work as well for the next 30 years.

Thus we gather this week to discuss “Redefining Oil: Bringing the Future Home”.

NOIA has called upon leaders from across the industry to reflect on the current climate of oil and gas and discuss how to prepare for the future.

The C-NLOPB is pleased to be part of that discussion, and we look forward to continuing the dialogue.

SLIDE 18 – Benefits Agreements

Our role is to oversee operator compliance with the requirements for a Canada-Newfoundland and Labrador Benefits Plan.

We do not have a role in the development or negotiation of Benefits Agreements, which are between the Provincial Government and an Operator.

Benefits Agreements are what commit the Operator to undertake specific work in the province, such as the construction of a graving dock and gates, a concrete gravity structure, an accommodations module, or other fabricated items.

SLIDE 19 – Benefits Plans

A Benefits Plan, on the other hand, addresses the Operator's statutory obligations for employment, procurement, research and development, and education and training.

Benefits Plans must meet certain statutory requirements under the Accord Acts including:

- Establishment of an office in the Province with appropriate levels of decision-making
- A plan for the employment of Canadians, in particular members of the labour force of this Province
- Provision for manufacturers, consultants, contractors, and service companies in the province, and other parts of Canada, to have full and fair opportunity to participate in the supply of goods and services, with first consideration provided to those within the Province on a competitive basis
- Expenditures for research and development and education and training are to be made here in the Province, and
- Disadvantaged individuals or groups are to have access to training and employment opportunities and be able to participate in the supply of goods and services.

In a time of low oil prices, everyone's scrutiny with respect to benefits plans and benefits agreements is heightened.

Slide 20 – Offshore Exploration Activity 2014-15

Over the past year, there has been a significant amount of offshore activity and this continues.

In 2014, we saw the most 2D seismic acquisition in 30 years.

Anticipated exploration activities this year include:

- 2D seismic programs in the Eastern Newfoundland and South Eastern Newfoundland regions
- 3D seismic programs in the Labrador South region – the first ever 3D seismic program offshore Labrador – and in the Eastern Newfoundland region
- a 4D seismic program in the Jeanne d'Arc Basin
- Controlled Source Electromagnetic programs in the Eastern and Western Newfoundland regions
- a geological program, including Seafloor and Seep Sampling offshore Labrador and,
- geotechnical, geohazard and drilling programs in the Flemish Pass Basin

SLIDE 21 - Drilling and Production Activity

In terms of historical activity:

- 416 wells have been spudded since 1966, including 160 exploration wells
- 24 wells have been drilled in deep water (>500 metres)
- 1.52 billion barrels of oil have been produced from 4 projects - Hibernia, Terra Nova, White Rose and North Amethyst (2014-12-31)

So there has been and there will continue to be a considerable amount of activity in the Canada-Newfoundland and Labrador Offshore Area.

In a few seconds, Richard will no doubt provide a more enthusiastic and optimistic forecast than would be appropriate for one in my role as regulator.

Slide 22 – Scheduled Land Tenure

But just to tee that up for him, I'll note that our Scheduled Land Tenure System has received a favourable response from industry.

We are seeing significant interest from several companies that do not currently have a presence in our Offshore Area.

Since its inception in late 2013, we have issued five Calls for Nominations and four Calls for Bids.

The Board also released the results of Call for Bids NL13-01 in the Flemish Pass, which saw the largest bid on a single parcel in the history of the Canada-Newfoundland and Labrador Offshore Area, totaling \$559 million.

We continue to progress through scheduled nomination and bid rounds offering extensive lands for future exploration licencing.

November 12 will mark the close of a major Call for Bids in the Scheduled land tenure system, wherein we are offering 11 large exploration parcels in the highly prospective Eastern Newfoundland Region.

Slide 23 – Scheduled Land Tenure Summary

This slide is a comparison of current lands that are in play, versus a potential, 2017 success case.

I should stress that this is for illustrative purposes, to demonstrate the cumulative effect of lands being introduced into the scheduled land tenure system and based on possible future nomination and bids rounds.

In 2015 approximately 9 % of the offshore is covered by either a licence, call for bids or sector, but by 2017, there could be up to 20% of the offshore area accessible or covered by licences, calls for bids and sectors.

Again this is speculative, but the scheduled land tenure system will provide known locations of long lead licencing rounds, allowing for increased data acquisition, and thorough assessments of the new data by interested oil and gas companies, prior to the close of the call for bids.

The heightened interest speaks for a lengthy and hopefully bright future for continued exploration in the Canada-Newfoundland and Labrador Offshore Area.

Slide 24 – Closing

In closing, the C-NLOPB is committed to maintaining high levels of public trust. The world is changing, the industry is changing, and our approach to regulating will change as required, but always in a way that is in keeping with the public interest.

Disputes with the industry about regulations, our application of them and our level of oversight are part of the job. Often, they can be constructive.

I opened with some industry performance statistics.

I'll finish with a few words about what those statistics didn't capture, namely the number of times when I sit with our Safety personnel reviewing an offshore incident and someone says, "They were lucky..." or as we say in these parts, "They were some lucky..."

That happens, maybe 3 or 4 times a year. So that's 3 or 4 incidents wherein luck intervened favourably, preventing something much more significant. Or tragic.

Could be a dropped object, or it could be a man overboard.

But of course, luck eventually runs out and tragedy ensues.

That's when public scrutiny of the regulator pivots, and discussion shifts from the costs of regulatory oversight to the public, media, elected officials and God forbid family members asking, "How could the regulator have allowed this to happen?" Or "Is the C-NLOPB is too 'tight' with industry?"

In the worst case scenario, people really don't want to hear me on the evening news arguing that, "Well, there is always risk inherent in offshore operations" or "We only provide oversight, it's ultimately the industry's responsibility".

These are true statements, but they'd be cold comfort in the aftermath of a loss of life or an environmental disaster.

Criticism, even in the best of times, comes with the territory for a regulator.

“The C-NLOPB is too picky.”

“They don’t know what they’re talking about.”

“It’s okay in other parts of the world, why not here?”

Well, the conditions in our offshore aren’t as forgiving as other parts of the world.

We operate in an environment where hard learned lessons arose out of tragedy. No one should ever forget that. The report of the Royal Commission on the *Ocean Ranger* stated:

“High standards of safety in the workplace are achieved when well-designed equipment is operated properly by well-managed and trained persons. Occupational safety is maintained by keeping these factors in a state of positive balance, in what is normally a highly dynamic situation.”

The C-NLOPB staff consists of educated, trained and experienced professionals providing the regulatory oversight that governments and the public expect.

We expect and we deliver:

- Regulatory compliance;
- A level of risk that is as low as reasonably practicable;
- Transparency; and
- Accountability

And we regulate while remembering the tragedies of the past, at home and abroad, never losing sight of the inherent risks and harsh environmental conditions that I mentioned.

It has happened before and it can happen again...unless we all do our part.

Thank you for your attention. Thank you again to NOIA for the opportunity, and enjoy the rest of your day.