C-NLOPB PERSPECTIVE

SCOTT TESSIER, CHAIR AND CEO

Placentia Bay Industrial Showcase 2015

PARC Arena

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2:30 p.m.

SLIDE 1 – Introduction

Good Afternoon. Thank you to the organizers for inviting me back to speak today. With me today from the C-NLOPB are Mike Baker, Director of Administration and Industrial Benefits and Sean Kelly, Manager of Public Relations.

SLIDE 2 – Safety Moment: Asset Integrity

For a safety moment, I'd like to reflect on the current price of oil and associated efforts of the industry to reduce costs. It stands to reason that the C-NLOPB should be more vigilant than ever in our oversight of asset integrity and the potential impacts of cost cutting on health and safety and environmental protection.

Asset integrity has been a focus for the C-NLOPB and other offshore regulators for several years. Inadequate maintenance and other cost-cutting activities increase the potential for fatalities, serious injuries or significant spills. It will be a main topic of discussion at the upcoming conference and annual general meeting of the International Regulators Forum, of which the C-NLOPB is a member, to be held next month in Washington, DC.

Several of our IRF colleagues have made public statements to caution industry not to be short-sighted when making cost-cutting decisions. Brian Salerno, Director of the US Bureau of Safety and Environmental Enforcement, said recently that:

"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."

Another colleague, Anne Myhrvold, the Director-General of Norway's Petroleum Safety Authority, stated 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."

And Stuart Smith, CEO of Australia's National Offshore Petroleum Safety and Environmental Management Authority stated that: "anecdotal evidence in some other jurisdictions internationally suggests that industry maintenance performance drops around 4-6 months after a large fall in the oil price. Duty holders should keep in mind that their decisions must prioritize protecting the offshore workforce and minimizing the environmental impact of their activities over other competing business considerations."

In the Canada-Newfoundland and Labrador Offshore Area, aging infrastructure also poses challenges to operators with respect to its maintenance and repair. Production installations are in the range of 11 to 19 years old. Some drilling rigs that have operated in our offshore area were 30 years old. The Henry Goodrich entered into service in 1985 and left our offshore area in March 2015. In addition to normal wear and tear, our harsh environment forces continuous exposure to extremes of wind, waves, icing and corrosion, not to mention deep water, high temperature and high pressure in some wells.

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. They're considered temporary repairs for a reason

All installations operating in our jurisdiction, new or old, must be fit for purpose and meet the highest standards before the Board will issue an Operations Authorization. That cannot fluctuate with the price of oil.

SLIDE 3 – Video

For the benefit of those who may know relatively little about the C-NLOPB, I have a short video to show, which is also featured on the C-NLOPB's YouTube channel.

We have also posted a "Fast Facts" video filled with concise safety, environmental, and industry information.

(PAUSE FOR VIDEO)

SLIDE 4 – Updates

During last year's showcase, I spoke during a breakfast session and provided updates on a number of new key initiatives and activities including: legislative activities, offshore activities, land tenure and the West White Rose Extension Project.

A year later, the price of oil has dropped, with some significant impacts globally, nationally and locally; but as we'll see later, it's not all bad news in the Canada-Newfoundland and Labrador Offshore Area.

SLIDE 5 – Legislative Improvements

I'd like to quickly review two significant legislative initiatives:

- An amendment to the *Atlantic Accord Implementation Acts* to include occupational health and safety, which came into effect on December 31, 2014, and
- The federal *Energy Safety and Security Act* and mirroring provincial legislation, which strengthen the safety and environmental regulatory regimes and will come into effect in February.

SLIDE 6 – OHS Amendments

The Occupational Health and Safety amendment provides 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 were some growing pains for operators 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 as regulators by creating a formal, legislative and regulatory regime for offshore occupational health and safety, 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 occupational health and safety 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 occupational health and safety 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 occupational health and safety. I look forward to the establishment of that group in the year ahead.

SLIDE 7 – Energy, Safety and Security Act - Liability Regime

The *Energy Safety and Security Act* and provincial equivalent, Bill 2, further strengthen safety, security, prevention accountability and transparency.

The "polluter pays" principle has now been enshrined in legislation.

The legislation increases absolute liability to $1 billion and gave offshore regulators "direct and unfettered access" to $100 million in funds per project, or a pooled amount of $250 million, 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 Amendments will improve transparency by making emergency planning, environmental plans and other documents available to the public.

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

Slide 8 – Offshore Activity 2014-15

With respect to offshore activity, production has remained relatively consistent compared to previous years, with few unanticipated shutdowns.

In 2014-15, Hibernia produced 40.68 million barrels of oil and Suncor produced 17.98 million barrels at the Terra Nova Field. Husky Energy produces oil from two fields, White Rose and North Amethyst. For 2014-15, production at White Rose was 12.15 million barrels and 6.43 million barrels at North Amethyst.

Cumulative production up to March 31 from all producing fields was 1.54 billion barrels.

Hebron will be the fifth producing field and first oil is still expected in 2017.

Slide 9 – Offshore Exploration Activity 2014-15

This past year, we saw a significant amount of offshore exploration activity, including the most 2D seismic acquisition in 30 years. So there is cause for optimism even at a difficult time for the industry.

This year's exploration activities include:

- Statoil's Drilling Program in the Flemish Pass
- 2D seismic programs in the Eastern Newfoundland, Labrador South and South Eastern Newfoundland regions
- Multiple 3D seismic programs in the Eastern Newfoundland region
- a 4D seismic program in the Jeanne d'Arc Basin
- a geological program, including Seafloor and Seep Sampling offshore Labrador and,
- geotechnical and geohazard programs in the Flemish Pass Basin

Slide 10 – Canada-Newfoundland and Labrador Offshore Area (Licenses)

At present, there are 26 Exploration Licences, 54 Significant Discovery Licences and 11 Production Licences.

Slide 11 – Scheduled Land Tenure System

Our scheduled land tenure system is now in its second full year of implementation and the response from industry has been very positive and encouraging. The system was announced in December 2013 and it provides additional time for exploration companies to conduct geoscientific assessments of the hydrocarbon prospectivity in the lesser explored basins of the Newfoundland and Labrador offshore area, during a licensing round. It also provides increased predictability and consistency to the process.

Under this system, the Offshore Area has been divided into eight regions, which have been individually categorized as either low activity, high activity, or mature, based on the level of oil and gas exploration and development activities.

There are three rights issuance timing cycles, corresponding to the activity designations. Low activity – a four year cycle, high activity – a two year cycle, and mature – a one year cycle.

In the Scheduled Land Tenure System, the rights issuance cycle will commence with a call for nominations for Areas of Interest. The Board will consider all nominations received and assess the nominations to design a sector. Subsequent to the Sector Identification, the Board will issue a call for nominations for Parcels within the previously identified sector. Parcel nominations will be assessed by the C-NLOPB and used in the design of the call for bids.

Slide 12 – Land Tenure Update: Calls for Bids

The current Call for Bids consists of 11 parcels totaling 2,581,655 hectares in the Eastern Newfoundland Region. The sole criterion for the winning bid is the amount of money the bidder commits to spend exploring the parcel. The minimum bid for parcel offered is $10,000,000 in work commitments. The closing date is November 12th. The eyes of the world will be on Newfoundland and Labrador at that point.

Slide 13 – Land Tenure Update: Calls for Nominations (Parcels)

Presently, the Board has two active Calls for Nominations for parcels underway located in Sector NL02-EN and the Jeanne d' Arc region. The closing date for nominations is October 20th.

Responses to these Calls for Nominations will be included in a 2016 Call for Bids.

Slide 14 – Industrial Benefits Mandate

Part of the Board's role is to administer industrial benefits and employment provisions, as defined in Section 45 of the *Atlantic Accord Implementation Acts*.

A Benefits Plan must be approved by the Board before any work or activity is authorized.

The role of the governments is to provide advice on the Benefits Plan and other related matters, but the final decision on approval remains with the Board.

<u>Slide 15 – Industrial Benefits: Benefits Plan vs. Benefits Agreement</u>

I think it is important to point out the difference between a Benefits Plan and a Benefits Agreement.

A Benefits Plan is required under Section 45 of the legislation and must meet certain requirements 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

- Companies in Canada must 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

- 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 contrast, a Benefits Agreement is a contractual agreement between the Provincial Government and an Operator which commits the Operator to doing specific work in the Province. For example, the work committed to by ExxonMobil and its partners to construct the Hebron Gravity Based Structure at Bull Arm is part of a Benefits Agreement. Another example is Husky's Benefits Agreement with the Provincial Government for the West White Rose extension. Husky committed to build a Graving Dock and Gates, a Concrete Gravity Structure and other fabricated items. The Graving Dock has been completed and if the project goes forward as approved, Husky will be obligated to undertake the other commitments.

The Board has agreed to monitor Benefits Agreements on behalf of the province, but does not enforce compliance with the Agreements.

Slide 16 – West White Rose Extension Development Plan

Conditional approval has been granted to develop the West Pool, North Pool and Blocks 2 and 5 of the South Pool of the White Rose field. Also, Reserves and Resources have been updated to reflect the Board's estimate of an additional 165 MMbbls of oil.

I'm sure many of you are wondering what this means. This decision allows Husky to proceed with further development of the West White Rose Field in the manner proposed in their new Development Plan Amendment Application to the Board, if they so choose. As everyone knows, that application included a Well Head Platform.

If Husky chooses sub-sea development instead of the Wellhead Platform, they would have to submit a new Development Plan Amendment Application to the Board and begin the process of seeking Board approval of the amendment again.

With regard to the current status of this plan, Dexter has completed the Graving Dock Construction, but Husky is completing only limited scopes of work to refine costs and to help with investment decision making.

Ultimately, the project is still being assessed by Husky and requires a final investment decision.

Slide 17 – Conclusion: Website and Twitter

This concludes my presentation. If you would like more information about the C-NLOPB or our activities, please visit our website and follow us on Twitter.

Thank you for your interest and attention, and enjoy the remainder of the showcase.