

**SPEAKING NOTES FOR SCOTT TESSIER, CHAIR AND CEO, C-NLOPB**

“Check against delivery”

**Placentia Bay Industrial Showcase 2014**

**Thursday, September 25<sup>th</sup>, 8:30 am**

**The Regulator’s Perspective on the  
Canada-Newfoundland and Labrador  
Offshore Oil and Gas Industry**

## **Slide 1: The Regulator's Perspective on the Canada-Newfoundland & Labrador Offshore Oil and Gas Industry**

Thank you for your introduction. It is a pleasure to be here and to have this opportunity to share with you some information and thoughts about the future of our offshore oil and gas industry from the perspective of the regulator.

These remarks have been shaped over the course of about 19 months that I have served as Chair and CEO at the C-NLOPB.

Also with me today are Mike Baker, our Director of Administration and Industrial Benefits, and Jeff Bugden, our Director of Operations.

We're all pretty excited to be beyond the overpass this morning.

## Slide 2: Safety Moment

I'd like to begin today with a safety moment highlighting five top areas of focus for the C-NLOPB with respect to offshore safety.

The first is training and competency. The demand for drilling installations remains strong and facilities may be getting built faster than the time it takes to build people to populate them. Operators are hiring new rig personnel and providing training, but many experienced workers are retiring, so there is less opportunity for mentoring to help new workers attain competency. This is certainly not unique to Newfoundland and Labrador.

The second area is a disturbing trend in the increased number of dropped objects and near misses. A near miss may not sound too serious, but often it means the possibility of serious injury or death.

The third area is the need for improved information sharing locally and globally on things like incidents and accidents, including near misses. Operators and workers need to learn from one another to avoid repeating mistakes. To help facilitate this exchange, the C-NLOPB will be holding a safety conference on November 13<sup>th</sup> at the Sheraton in St. John's. Please go to our website for further details.

A fourth issue is the fact that some of our offshore facilities are aging, creating a need for greater attention to preventative and corrective maintenance, inspection and testing.

And the fifth issue is the push for global standards. If operators want to move people and installations from region to region, I think we'd all agree there should be requirements for similar known and accepted qualifications and/or equivalency. But rest assured that we at the C-NLOPB are vigilant against the dilution or weakening of safety standards. As I've said on several occasions, I'd be fine with the C-NLOPB having the toughest safety requirements in the world.

### **Slide 3: Regulatory Agency for Canada-Newfoundland and Labrador Offshore Area**

I'd like to talk a little bit about the role of the Board. It was established under the Atlantic Accord in 1985 to regulate the offshore industry on behalf of the governments of Canada and Newfoundland and Labrador.

We have a broad mandate that includes safety, environmental protection, resource management (which includes exploration) and industrial benefits. Safety and environmental protection are paramount in Board decisions.

I'm proud to say that the C-NLOPB has evolved to become a world-class offshore regulator and a well respected member of the international regulatory community. That is evident throughout our presence at the International Regulators' Forum, the International Offshore Petroleum Environmental Regulators Organization and other dealings with our counterparts from around the world.

## Slide 4: Our Role

The Atlantic Accord legislation places ultimate responsibility for safety and environmental protection on the Operators. The Board's role is defined in the legislation as well, but essentially our job is to exercise regulatory oversight of Operators' activities.

The Board requires Operators to mitigate risk to a level that is "as low as is reasonably practicable".

In some ways, our role is similar to that of a referee in that we enforce compliance with the rules. Generally speaking, it is the role of governments to set those rules through legislation and regulations. If the rules are not followed, the legislation provides a suite of enforcement tools that can be applied including the issuance of Notices of Non-compliance, prosecution, and/or pulling an Operator's work authorization.

The legislation has enabled the Board to effectively regulate the industry for nearly 30 years through the use of regulations, guidelines and operational conditions. A lot has changed over that time, and things continue to evolve with respect to industry activity, technology, and the state of regulatory oversight in Canada and worldwide.

It's not overstating things to say that everything we do is done in the shadow of the Ocean Ranger, and the Cougar and Universal helicopter tragedies, along with events such the Piper Alpha, Montara and Macondo disasters.

## **Slide 5: Expert Capabilities**

Sometimes, when people consider the Board, they are only thinking about the seven appointed Board members, but we are more than that. The purpose of this slide is to illustrate for you the breath and depth of technical competency and expertise at the C-NLOPB. You can see from this list that we have a very well educated and highly skilled staff in areas like engineering, geology, geophysics and petroleum technology.

I am pleased to say that over 90% of our staff received their education and training in Newfoundland and Labrador post-secondary institutions and many have achieved professional designations in their field.

These are very competent men and women who have chosen a career of public service in a critical role in our province. I'm incredibly proud of them and their work.

## **Slide 6: 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.

## Side 7: Benefits Plan Requirements

Benefits plans 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
- 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

## Side 8: Benefits Agreement

I think it is important to point out the difference between a Benefits Plan and a Benefits Agreement. As I just pointed out, a Benefits Plan is required under Section 45 of the legislation. On the other hand, a Benefits Agreement is an agreement between the Provincial Government and an Operator which commits the Operator to doing specific work in the Province.

For example, in the case of the White Rose Extension Project, there is a Benefits Agreement in place. Some of the work that will take place in the Province includes:

- A Graving Dock and reusable gates, being done at the Argentia fabrication site
- The Concrete Gravity Structure
- The accommodation module and
- Other fabricated items such as the flare boom, helideck and lifeboat stations

The Province has requested that the Board monitor the Benefits Agreement on its behalf and we have agreed to do so. Specifically, if in the opinion of the Board, the agreement is not being adhered to, the Board will notify the Province and then it would be the responsibility of the Province and Operator to resolve the dispute.

## Slide 9: Offshore Activities

The Canada-Newfoundland and Labrador offshore industry employs a broad range of facilities for exploration, development and production. These will be familiar to most, if not all of you.

The Hibernia field is approximately 300 km east southeast of St. John's and is produced using a Gravity Based Structure operated by Hibernia Management and Development Company.

The Terra Nova field is 350 kilometres offshore, produced with a Floating, Production, Storage and Off-Loading vessel, or FPSO, operated by Suncor.

The White Rose field is also approximately 350 kilometres offshore and is also produced with a FPSO operated by Husky Energy.

A second gravity based structure is under construction for the Hebron oil field. Production is expected to commence in 2017 - the Operator is ExxonMobil.

Exploration drilling is taking place in deep water and under harsh conditions, so Operators are using drilling rigs and ships designed for these conditions, such as the *Stena Carron* and the *West Aquarius*.

2014 has already been one of the busiest years on record in terms of the issuance of authorizations and approvals. By the end of this year, we will likely have issued 85 approvals and authorizations, which is a 44% increase over last year. The increase is most notable in the area of Geophysical Program Authorizations and Well Approvals.

I want to emphasize, that the increased workload for the Board cannot and will not adversely affect the level of due diligence that we will exercise. The Board will not lower its expectations that industry maintain high standards respecting safety and environmental protection in the face of increased activity and especially in light of greater distance to that activity and the fact that is taking place in deeper water.

## Slide 10: Hibernia

Hibernia is the cornerstone in the development of our offshore industry. After 17 years of production, Hibernia has produced over 900 million barrels.

Today, Hibernia is producing, on average, about 120,000 barrels per day.

Over 100 wells have been drilled to date and SeaDrill's *West Aquarius* drilling rig is currently completing the first of ten subsea tieback water injector wells for the Hibernia Southern Extension.

Hibernia is also looking at ways of developing secondary reservoirs such as the Ben Nevis Avalon and Catalina, which could extend the life of the field for another thirty years.

## Slide 11: Terra Nova

Terra Nova is also contributing significantly to our economy. After twelve years of production over 350 million barrels have been produced.

Today, Suncor is producing, on average, about 38,000 barrels per day at the Terra Nova field.

48 wells have been drilled to date.

The *Skandi Constructor*, seen here in this slide, is a Light Intervention Vessel, or LIV, and it operated for the first time in the Newfoundland and Labrador at the Terra Nova field. The LIV is able to do workovers on subsea wells that would normally require a drilling unit.

Maintenance upgrades to the Terra Nova FPSO and flowlines have enabled Suncor to extend the life of field to 2026.

## **Slide 12: White Rose/North Amethyst**

Production started in 2005 at White Rose/North Amethyst and over 225 million barrels have been produced between the two fields.

Today, Husky Energy is producing, on average, about 56,000 barrels per day.

41 wells have been drilled to date.

The White Rose field has expanded over the last two years to include the White Rose Southern Extension. This has increased reserves by 22 million barrels and gas injection capabilities.

Pending approvals by C-NLOPB and governments, and sanctioned by Husky and its partners, the White Rose Extension Project could extend the life of field to 2029.

### **Slide 13: White Rose**

As I mentioned earlier, a substantial amount of work on the White Rose Extension Project will be undertaken here in the province, including the Placentia area. The proposed project consists of the construction of a Wellhead Platform, a Concrete Gravity Structure with a topsides drilling facility, accommodations for up to 144, utilities, flare boom and a helideck.

The plan is for 20 well slots, which will enable drilling of up to 40 wells and no oil storage.

The technical review of the design is ongoing, but the public review has recently concluded. The Board engaged the Lesley Harris Centre at Memorial University to conduct the public review and its report will be made available on our website.

It is anticipated that if all goes as planned, this project will generate 5 million person hours in engineering and construction and 18 million person hours in operations.

Richard Pratt, Vice President Atlantic Region Developments for Husky Energy is the luncheon speaker today, so you will hear more from him.

## Slide 14: Hebron

Another major project drawing significant interest is Hebron. In a short while you will be getting a detailed presentation from ExxonMobil about this project, so I don't need to say much about it.

On July 22, a milestone was reached when the Gravity Based Structure was towed to the deepwater site where construction will continue.

It is estimated that in-province employment will reach a peak of approximately 5,000 this year. First oil is on schedule to be produced before the end of 2017.

It is estimated that 700 million barrels will be produced over thirty years.

A significant amount of work is being done here as WorleyParsons undertake construction of the Topsides and Kiewit-Kvaerner Contractors undertake construction of the Gravity Based Structure.

## Slide 15: Exploration Drilling 2014

Statoil's announcement of a substantial oil discovery in 2013 at the Bay du Nord exploration well caught a lot of attention worldwide. Statoil is planning to drill a multi-well follow up program in the Flemish Pass Basin pending regulatory approval. The company has indicated they plan to use a new drilling rig, the *West Hercules*, pictured here. Drilling may commence next month.

In addition, Husky Energy is planning to drill a well in the Southern Flemish Pass Basin pending regulatory approval. They intend to use the *Henry Goodrich*.

## Slide 16: Exploration Geophysical Programs 2014-15

There are several geophysical programs in 2014 including:

- Regional 2D seismic data acquisition Offshore Labrador, the Orphan Basin, the Flemish Pass and Southern Newfoundland and Labrador
- A large 3D seismic survey in the Flemish Pass Basin
- A Controlled Source Electromagnetic Survey for Eastern Newfoundland
- A well site and seabed survey for Hebron
- A seabed survey for Hibernia
- A wellsite survey for Husky, and
- A seafloor and seep sampling program Offshore Labrador

In 2015, we are expecting to see further increases in seismic data acquisition.

## **Slide 17: Canada – Newfoundland and Labrador Offshore Area (Licences)**

At present, there are 33 Exploration Licences that have been issued by the Board, along with 54 Significant Discovery Licences and 11 Production Licences.

In December 2013, we announced a new scheduled land tenure system which may well attract new entrants to the Canada-Newfoundland and Labrador Offshore Area.

## **Slide 18: The Game Changer - A New Scheduled Land Tenure System**

The new scheduled land tenure system has been characterized as a game changer. It improves transparency, predictability and industry input. Scheduled land tenure 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 licencing round.

Companies will be given to opportunity to nominate Areas of Interest and parcels for consideration in Calls for Bids. The system will now operate in four year, two year and one year cycles, which are designed to take into account variances in activity, data coverage and overall geoscientific knowledge of offshore basins.

## Slide 19: New Scheduled Land Tenure System

Under the new scheduled land tenure system, our Offshore Area will be subdivided into three categories based on historic level of oil and gas activity.

**Low Activity regions** generally have few exploratory wells and limited seismic data acquisition.

**High Activity regions** typically have elevated activity levels including 2D and 3D seismic data acquisition and exploration drilling.

**A Mature region** would have substantial 2D and 3D seismic data coverage and extensive exploration/delineation drilling and production activities.

There are corresponding time cycles for each category.

**A four-year cycle** for the Low Activity region provides interested parties with 48 months to assess the region defined in the Call for Bids.

**A two-year cycle** for the High Activity region.

**And a one-year cycle for the Mature regions and for any lands not publically announced in the scheduled system.** This cycle will proceed annually based on nominations from interested parties and assessment by the C-NLOPB.

## Slide 20: Atlantic Accord and Regulatory Requirements

Although the new scheduled land tenure system may result in increased exploration activity, it will not come at the expense of safety and environmental protection. The *Atlantic Accord* establishes one of the most robust regulatory regimes in the world. It is incumbent on new entrants to become knowledgeable about our local industry and regulatory regime. The additional time provided for assessing prospectivity should also be used for assessing the requirements for operating in our jurisdiction.

Companies that wish to operate in our offshore area must be able to meet the legislative requirements for safety, environmental protection, resource management and industrial benefits.

New entrants should also become familiar with the local supply industry and the obligations created 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.

New and existing operators alike are cautioned about the use of Global Frame Agreements, sometimes called global supply agreements. These are multi-project arrangements between an Operator and Contractor that are not in compliance with the *Atlantic Accord Acts* when full and fair opportunity is not afforded to companies in the Province or in Canada.

In summary, my advice to any new or existing companies seeking to conduct activities in our offshore is to engage early in discussions with the C-NLOPB in order to avoid running into lengthy delays or barriers due to regulatory requirements.

It is important to speak with us about your planned activity well ahead of submitting an application.

## **Slide 21: Website and Twitter**

That's my overview.

If you would like more information about the C-NLOPB, our activities, or the upcoming safety conference in November, please visit our website and follow us on Twitter.

Thank you for your interest and attention.