

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

“Check against delivery”

NOIA Conference 2014

Further, Deeper ... and Safer.

Wednesday, June 18, 3:10 p.m.

Slide 1 – Further, Deeper and Safer

Thank you to the conference organizers for inviting me here today. When I spoke here last year, I had been on the job for only a few months. A lot of good things have happened over the past year. I'm glad to have this opportunity to talk to you about some of it, and take a look ahead at some of the exciting opportunities that exist, as well as the challenges they may present.

Most significantly, I think we can all agree that my ability to use the “new guy” excuse has now officially expired.

Slide 2 – Safety Moment

For my safety moment, I'd like to highlight 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 actually 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 of the experienced rig workers are retiring, so there is less opportunity for mentoring to ensure 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 it often means the possibly of serious injury or death was significant. As George Carlin said, and I paraphrase here, a "near miss" should actually be called a "near hit".

A third issue is the fact that offshore facilities are aging, which creates a need for greater attention to preventative maintenance, inspection and testing, and corrective maintenance.

The fourth 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 that can lead to serious injuries, or death.

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 to some of you, I'm fine with the C-NLOPB having the toughest safety requirements in the world.

Slide 3 – Regulatory Agency for Can-NL Offshore Area

Many of you in this room are familiar with the C-NLOPB and what we do.

The CNLOPB was established under the *Atlantic Accord, 1985*. The genesis for the creation of the C-NLOPB as a single regulatory agency was the Hickman Inquiry into the Sinking of the *Ocean Ranger*. This past winter, we had the honour of hosting Justice Hickman at a staff event, where he shared with us his experience as head of the Ocean Ranger Inquiry.

Although we have a broad mandate that includes safety, environment, resource management and industrial benefits, safety and environmental protection are paramount in Board decisions. We have developed a culture within the C-NLOPB where all employees place very high value on safety and environmental protection, and it carries through in our professional and personal lives.

I'm proud to say that the C-NLOPB has matured to become a world-class offshore regulatory agency and a well respected member of the international regulatory community. That is evident throughout our presence at the International Regulators' Forum and other meetings with our counterparts from around the world.

Slide 4 – Our Role

The Board's role is defined in the *Atlantic Accord Acts*, but essentially our job is to exercise regulatory oversight of Operators' activities.

The *Accord* legislation places responsibility for safety and environmental protection on the operators. The Board requires Operators to mitigate risk to “as low as is reasonably practicable”. That principle is taking on added significance as activity moves further offshore, and into deeper water.

In some ways, our role is similar to that of a sports referee in that we enforce compliance with the rules. In doing so, the Board weighs all available information prior to making decisions. Safety and environmental protection are paramount in all decisions.

If the rules are not followed, the *Accord* legislation provides a suite of enforcement tools that can be applied including the issuance of Notices of Non-compliance, the option of pursuing prosecution, and/or pulling an Operator's work authorization.

The *Accord* legislation has enabled the Board to effectively regulate the industry for nearly 30 years through the use of several regulatory tools, including regulations, guidelines and operational conditions that are imposed on specific activities. A lot has changed in that time, and things continue to change with respect to industry activity, technology, and the state of regulatory oversight.

Slide 5 – Board Activity

Last year at this conference, I spoke about the increase in work activity anticipated by the Board. I mentioned that 2013 was shaping up to become the busiest year on record for the Board in terms of the issuance of authorizations and approvals. The table presented here illustrates that we were right in our projections and it also shows that 2014 will be busier again.

The Board issued 59 authorizations and approvals in 2013. The total number of authorizations and approvals projected for 2014 is about 85, which is a 44% increase over last year. The increase is most notable in the area of Geophysical Program Authorizations (GPAs) and Well Approvals.

I want to emphasize, as I did last year, that the increased workload for the Board cannot and will not adversely affect the level of due diligence that we will exercise in our review of applications for authorizations and approvals. It is important for the industry to come to the Board early in the process, with well prepared applications and your homework completed.

The Board will not lower its expectations that industry maintain high standards respecting safety and environmental protection.

Slide 6 – 2014 Proposed Exploration Activity

You can see from this slide that there are several geophysical programs underway or proposed for 2014 including:

- An extensive regional 2D seismic data acquisition Offshore Labrador, the Orphan Basin, the Flemish Pass Basin and Southern Newfoundland and Labrador.
- A large 3D seismic survey in the Flemish Pass Basin.
- A Controlled Source Electromagnetic (CSEM) Survey for the Eastern Newfoundland region.
- A well site and seabed survey for Hebron, and
- A seabed survey for Hibernia.

There are also several drilling programs proposed or under review for 2014.

- Statoil is undertaking a drilling program in the Flemish Pass Basin, which is a multi-well program with a new MODU, and Husky is planning to drill a well in the Southern Flemish Pass Basin and another in the Jeanne d'Arc Basin.

Slide 7 – Significant Initiatives

Reviewing applications for work authorizations and approvals is a primary function of the Board, but we do much more. In addition to the day to day oversight of Operator activities, staff are engaged in several legislative and policy initiatives aimed at improving safety, environmental protection and resource management. Some of these are led by the C-NLOPB, while others are led by governments.

Some of the more significant initiatives are listed here. They are at various stages of completion and our involvement in each one varies as well.

I'll run through each of these and provide a brief status report.

Slide 8 – Bill C-5/ OHS Amendment

Recently I appeared before the Senate Standing Committee on Energy, the Environment and Natural Resources to speak in favour of *Bill C-5 – An Act to Amend the Atlantic Accord Implementation Act*. We refer to the Bill simply as the OHS Amendment, a very positive development in offshore safety.

The OHS amendment creates a formal legislative and regulatory regime for offshore occupational health and safety and a more effective enforcement tool kit for our officers. It extends authority and fundamental principles of occupational health and safety to the offshore within the *Atlantic Accord Acts* and will provide a comprehensive legal framework to achieve the same protections for offshore workers that onshore workers currently enjoy.

Some of the significant changes proposed in the Bill include:

- On matters related to occupational health and safety, the C-NLOPB will report to the responsible Provincial Minister, the Minister of Service Newfoundland and Labrador.
- It clarifies the roles of governments, regulators, employers and employees. It recognizes that the operator is ultimately responsible for ensuring worker safety in the offshore environment.
- It grants the offshore petroleum boards formal authority to disclose information to the public related to occupational health and safety. The amendments in Bill C-5 will guide the C-NLOPB in our decision-making around information disclosure on matters of offshore safety that are in the public interest.
- The Bill establishes an Advisory Council with representatives from industry, governments and the workforce to provide advice on matters related to occupational health and safety.
- As well, the new legislation will clarify any jurisdictional uncertainties respecting occupational health and safety matters, in particular the Right to Refuse and the requirement for occupational health and safety committees.

I am pleased to report that Bill C-5 has passed 3rd Reading in the Senate and is now awaiting Royal Assent.

Slide 9 – Bill C-22/Energy Safety and Security

Another significant legislative change presenting moving through Parliament is *Bill C-22 – The Energy Safety and Security Act*. This important legislative initiative will strengthen the regulatory regime for offshore oil and gas. Some key features of this Bill include:

- It reinforces the “polluter-pays principle”
- Increases “absolute” liability (no fault) limits in the offshore to \$1 Billion and establishes a \$1 Billion minimum financial resources (capacity) requirement
- It allows for non-financial damages (e.g., environment) to be included in liability
- The Act will increase the “direct access” amount required from authorization holders to \$100 million with an option for industry to develop a pooled fund of \$250 million available to all regulators
- It also formally establishes that authorization holders are responsible for their contractors, and
- It permits the safe use of spill treating agents with appropriate vetting and approvals.

Slide 10 – OHSI Implementation Progress

There has been good progress made in implementing the Offshore Helicopter Safety Inquiry recommendations. Some highlights include:

- A dedicated SAR service is in place with wheels up time of 15-20 minutes.
- A First Response Dispatch Protocol is in place as is a formal protocol between DND and Cougar.
- Offshore workers have greater access to information about flight safety. Cougar maintains a kiosk and website which provide notice of incidents and pilots brief passengers whenever an incident occurs.
- New passenger transportation suits are being tested and will be introduced to the industry.
- The C-NLOPB is holding Safety Forums semi-annually and is planning a safety conference for this coming fall.
- The NEB, CNSOPB and C-NLOPB released a Framework Document which calls on the industry to do more to promote safety culture.

Slide 11 – Strategic Environmental Assessments

A Strategic Environmental Assessment (SEA) is a broad examination of the regional environment that provides a foundation for program planning and informs future decisions, such as the potential issuance of exploration licences. It provides an overview of the biophysical and socio-economic environment, including potential environmental sensitivities.

In regions where the Board is actively working on a strategic environmental assessment, a Call for Bids issued in that region will not close for a minimum of 120 days after the completion of the SEA.

The C-NLOPB released the Western Newfoundland and Labrador SEA Update on May 5, 2014. It is a 700 page document that improves on the volume of environmental information compiled on the Gulf of St. Lawrence.

Presently the C-NLOPB is working towards completion of the Eastern Newfoundland SEA, which is scheduled for publication this summer.

It is important to note that no activity can take place offshore without a project-specific Environmental Assessment (EA).

Slide 12 – Additional Regulatory Oversight for Safer Deep Water Drilling

Whenever a major incident occurs, like the Macondo blowout in the Gulf of Mexico, it is important for regulators, companies and governments to undertake a lessons learned exercise to help prevent similar incidents from occurring again or elsewhere.

In our jurisdiction, the C-NLOPB's initial assessment of what went wrong in the Macondo incident led to the creation of special regulatory oversight measures for Chevron's Lona O-55 deep water well. Today, many of these measures have become standard practice for oversight of deep water wells, or in cases where circumstances deem it necessary.

Those measures include:

- Establishing a dedicated regulatory oversight team within the C-NLOPB to oversee the operator's execution of the drilling program.
- Timely submittal of daily reports, seven days a week.
- Formal bi-weekly meetings between the oversight team and the operator
- Increasing the frequency of audits and inspections onboard the offshore installation.
- Placing C-NLOPB technical experts onboard the offshore drilling installation from time to time to observe specific operations, such as casing and cementing operations, BOP testing, well control drills or the well termination program. In the case of BOP testing, the C-NLOPB may also request a representative of the Certifying Authority to be present.
- Scrutinizing reports received from Operators respecting the testing of both primary and back-up BOP control systems.

C-NLOPB Operations staff have received special training in deep water drilling and we continue to monitor for any new developments and lessons learned with respect to well operations, BOP equipment or spill response readiness. Sharing lessons learned with other regulators through the International Regulators Forum is a key aspect for ensuring that the C-NLOPB's regulatory practices and procedures remain world class.

Slide 13 - The Game Changer: A New Scheduled Land Tenure System

At last year's NOIA Conference, then Premier Dunderdale spoke about the land tenure system administered by the C-NLOPB and noted that it did not provide adequate time for new players to assess prospectivity. We have addressed this problem in the development of a new scheduled land tenure system.

The new scheduled system improves transparency, predictability and industry input. It is a game changer in that 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 licencing round. Companies will be given to opportunity to nominate Areas of Interest and parcels, for consideration in a Call for Bids. The system will now operate in four year, two year and one year cycles and which are designed to take into account variances in activity, data coverage and overall geoscientific knowledge of offshore basins.

The scheduled land tenure system may well attract new entrants to the Canada-Newfoundland and Labrador Offshore Area.

Slide 14 – New Scheduled Land Tenure System

Under the new scheduled land tenure system, the Canada-Newfoundland and Labrador 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 also different time cycles for each category.

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

A two-year cycle for High Activity region provides interested parties with as much as 24 months to explore and assess the location defined in the Call for Bids.

A one-year cycle has been established for the Mature region 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 15 – Opportunities and Challenges Arising From Scheduled Land Tenure System

Although the new scheduled land tenure system may result in increased exploration activity and new players to the Canada-Newfoundland and Labrador Offshore Area, it will not be done at the expense of safety and environmental protection.

It is incumbent upon new entrants to become more knowledgeable about our local industry. The additional time provided under the new system for assessing prospectivity should also be used for assessing the requirements for operating in our jurisdiction.

New entrants should fully understand the harsh environmental conditions that exist offshore. They should be knowledgeable about the robust regulatory regime that we administer. They should also be 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.

As you can surmise from my presentation, a lot of work has been done and is ongoing by governments and the C-NLOPB to improve safety and environmental protection. Companies that wish to operate in our offshore area must be able to meet the requirements for safety and environmental protection. Particular attention should be given to safe helicopter travel, satisfactory spill prevention and response capability and the ability to drill wells safely.

Slide 16 - What New and Existing Operators Need To Know

The *Atlantic Accord* legislation establishes one of the most robust regulatory regimes in the world. Operators and other companies doing business in the Canada-Newfoundland and Labrador Offshore Area need to be very familiar with the regulatory regime and also keep up to date with any changes that may occur.

In terms of industrial benefits, 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 area is to engage early in discussions with the C-NLOPB to avoid running into lengthy delays or barriers due to regulatory requirements.

It is important to speak with us about your planned activity well in advance of submitting an application. The better prepared you are in advance, the more efficiently we can provide our regulatory services.

Slide 17 – Website and Twitter

I'd like to close today by acknowledging the Board and staff of the C-NLOPB. NOIA activities are capturing a lot of attention this week, but I'd like to point out that it is also National Public Service Week. It's worth noting that without the dedicated staff and my fellow Board members, the success of the Canada-Newfoundland and Labrador offshore industry and all of the wonderful things you'll hear about this week would be impossible.

So I thank them, and thank you for your interest and attention. I wish you all the best.