

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

“Check against delivery”

ONS 2014, Stavanger

INTSOK Canada Session

Wednesday, August 27th, 9:45 AM – 12:15 PM

Location: International hub, Hall A

Session Chair: Mr. Hakon Skretting, Regional Director, INTSOK

**An Overview of the Canada-Newfoundland
and Labrador Offshore Oil and Gas
Industry: A Regulator’s Perspective**

Slide 1: Overview of the Canada-Newfoundland & Labrador Offshore Oil and Gas Industry: A Regulator's Perspective

Thank you Mr. Skretting for your introduction and thank you to the organizers for providing this opportunity to provide a regulator's perspective on the Canada-Newfoundland and Labrador Offshore Industry.

I will begin my presentation today by saying that the job of the regulator is not to promote the industry. I will leave that to others. However, I do have a positive story to tell and one that certainly has relevance from an industry development perspective. As you well know, the regulatory environment plays a very significant role in the growth and development of the industry. So it is perhaps very appropriate that today's session should begin with a message from the C-NLOPB.

Over the next 20 minutes or so, I will highlight some of the important regulatory developments that have occurred in recent months that may have an effect, perhaps even a profound effect, on the future of the Canada-Newfoundland and Labrador Offshore Industry.

Slide 2: Regulatory Agency for Canada-Newfoundland and Labrador Offshore Area

In the way of background, the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) was established under the *Atlantic Accord* in 1985. The *Atlantic Accord* is a political agreement between the federal government of Canada and the provincial government of Newfoundland and Labrador for joint management and revenue sharing in relation to our offshore area. A similar Board was established for the Canada-Nova Scotia Offshore Oil and Gas Industry.

We have a broad mandate that includes safety, environment, resource management 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 3: Our Role

The *Atlantic Accord* legislation places 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 "as low as is reasonably practicable". That principle is taking on even greater significance as activity moves further offshore, and into deeper water.

In some ways, our role is similar to that of a referee in that we enforce compliance with the rules. 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 several regulatory tools, including regulations, guidelines and operational conditions. A lot has changed over that time, and things continue to change with respect to industry activity, technology, and the state of regulatory oversight in Canada and worldwide.

Slide 4: Canada-Newfoundland and Labrador Offshore Area

Offshore activity begins with the acquisition of land rights. The C-NLOPB has responsibility for the issuance of land rights in the form of exploration licences (ELs), significant discovery licences (SDLs) and production licences (PLs).

The illustration on the screen shows present offshore licences within our jurisdiction. The area highlighted in the bottom right corner is the Jeanne d'Arc Basin and Flemish Pass Area, where most of the offshore activity takes place including all production activity.

As of March 31 of this year, there were 33 Exploration Licences, 54 Significant Discovery Licences and 11 Production Licences in our offshore area.

Slide 5: Offshore Activities

The Canada-Newfoundland and Labrador Offshore industry employs a broad range of facilities for exploration, development and production.

Discovered in 1979, the Hibernia field is located approximately 300 km east southeast of St. John's. The field is being produced using a Gravity Based Structure (GBS) and is operated by Hibernia Management and Development Company Ltd. (HMDC).

The Terra Nova field was discovered in 1984 and is located 350 kilometres offshore. The field is being produced with a Floating, Production, Storage and Off-Loading vessel (FPSO) and is operated by Suncor Energy Inc.

Likewise, the White Rose field, also discovered in 1984, is located approximately 350 kilometres offshore. It too is also being produced with a Floating, Production, Storage and Off-Loading vessel (FPSO) and is operated by Husky Oil.

A second gravity based structure is under construction now for the Hebron oil field. Production is expected to commence in 2017 and 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*.

2013 was one of the busiest years on record in terms of the issuance of authorizations and approvals. This year is shaping up to be even busier. The Board issued 59 authorizations and approvals last year. The total number of authorizations and approvals projected for 2014 is about 85, a 44% increase. The increase is most notable in the area of Geophysical Program Authorizations (GPAs) 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 6: Offshore Safety – Our Highest Priority

Offshore safety is the top priority throughout the C-NLOPB. While Operators are ultimately responsible for the safety of workers and protection of the environment, the Board's role is to provide the necessary regulatory oversight of Operator activities to confirm that these obligations are met.

Prior to being issued an authorization from the Board, an Operator must submit a Safety Plan that demonstrates that "risks have been reduced to a level that is as low as is reasonably practicable".

The C-NLOPB conducts a systematic and comprehensive assessment of the Operator's Safety Plans and other safety-related information. Following authorization of an Operator's work activity, our Safety Department conducts ongoing monitoring activities, which include audits and inspections, reviews of Operator's daily reports, incident reports, complaints and Joint Occupational Health and Safety proceedings to name a few.

In June 2014, the federal Parliament amended the *Atlantic Accord* to strengthen offshore safety. This important legislative 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 it provides a comprehensive legal framework to achieve the same protections for offshore workers that onshore workers currently enjoy.

Slide 7: Canada-Newfoundland and Labrador Offshore Reportable Injury Frequency Rate

In terms of the industry's safety record, there are many indicators you could look to as part of an overall assessment of safety performance. We compared the reportable injury frequency rate for the Canada-NL offshore oil industry with the provincial average and the rate for the province's construction industry.

You can see from the chart presented here that the Reportable Injury Frequency Rate for the offshore industry, as represented by the blue line, is tracking below the provincial average, the red line, and below the rate for the province's construction industry, the green line.

Certainly this gives the impression that the safety record for the offshore oil and gas industry is very good, but again, it is only one indicator. A more comprehensive analysis is needed in order to truly assess the safety culture within the province's offshore oil industry.

Even with the numbers presented here, there is always room for improvement and Canada's three offshore regulatory agencies, the National Energy Board, the Canada-Nova Scotia Offshore Petroleum Board and the C-NLOPB, recently released a statement to better define and promote safety culture. The document aims to advance the concept of safety culture in the offshore oil and gas industry and it can be found on the C-NLOPB website.

When I say there is always room for improvement, I would can point to five key areas of focus for the C-NLOPB with respect to offshore safety.

Slide 8: Offshore Safety -Five Key Areas of Focus

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 possibility 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. 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’m fine with the C-NLOPB having the toughest safety requirements in the world. But we can always learn from the best practices, or mistakes of others.

Slide 9: Safer Offshore Helicopter Transportation

Whenever a major incident occurs, like a helicopter crash, a blowout, or catastrophic event on an offshore oil and gas installation, it is important for regulators, companies and governments to undertake a lessons learned exercise to help prevent similar incidents from occurring again or elsewhere.

Over the past few years, helicopter crashes have claimed the lives of offshore workers around the world. Travel to and from offshore facilities represents one of the most significant risks to health and safety in this industry. This is why offshore helicopter travel remains a key priority of the C-NLOPB.

In the weeks following the crash of Cougar 491 in March 2009, the C-NLOPB initiated an Inquiry into offshore helicopter passenger safety led by retired Supreme Court Judge, Robert Wells. The Wells Commission Report contained 29 recommendations.

There has also been good progress made in implementing the 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 the Department of National Defense and Cougar Helicopters.
- 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 in 2015.
- The C-NLOPB is holding Safety Forums semi-annually and is planning a safety conference for November 13, 2014 in St. John's, so please mark your calendars and follow us on Twitter for conference updates.

Slide 10: Safer Drilling in Deep Water

The Macondo blowout in the Gulf of Mexico in 2010 was another example of where regulators, companies and governments undertake lessons learned to help prevent similar occurrences from happening.

In Canada, the C-NLOPB's initial assessment of what went wrong in the Macondo incident led to the creation of special regulatory oversight measures, many of which have become standard practice for oversight of deep water wells.

Some of 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, and

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 key to ensuring that the C-NLOPB's regulatory practices and procedures remain world class.

Slide 11: Strategic Environmental Assessments

Turning now to the environmental component of our mandate, I'd like to share with you some information about environmental protection offshore.

The C-NLOPB prepares Strategic Environmental Assessments, or SEAs, for regions around the province. A 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 sensitivities.

In areas where the Board is actively working on a SEA, 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 5th and the Eastern Newfoundland SEA on August 5th.

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

Slide 12: Environmental Record Offshore

The environmental record for the offshore oil industry is usually based on an assessment of the number and impact of spills and discharges into the marine environment.

In the Canada-Newfoundland and Labrador offshore industry, 401 wells have been spudded since 1966, including 155 exploration wells.

19 wells have been in deep water, which is defined as being greater than 500 metres.

1.5 billion barrels of oil have been produced from 4 projects: Hibernia, Terra Nova, White Rose and North Amethyst

There have been no blowouts in our offshore area

1,142 barrels of crude have been spilled in our offshore area

A 6000 L spill at Hibernia in late December 2013 is still under investigation by C-NLOPB

Slide 13: Annual Predicted Offshore Oil Production Forecast

On the resource management side, you will notice a significant bump in production around 2017 which is the planned date for first oil from Hebron. Production at Hebron will greatly extend the life of the Canada-Newfoundland and Labrador offshore industry.

Not shown here is the impact of a potential significant discovery by Statoil in the Flemish Pass. Until a determination has been made by the C-NLOPB with respect to a significant discovery, the Board does not include these projections in our forecast.

Slide 14: 2014 Exploration Activity

There are several geophysical programs underway for 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 the Eastern Newfoundland.
- A well site and seabed survey for Hebron
- A seabed survey for Hibernia, and
- A seafloor and seep sampling program Offshore Labrador

There are also several drilling programs underway for 2014.

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

Slide 15: The Game Changer - A New Scheduled Land Tenure System

In December 2013, the C-NLOPB announced a new scheduled land tenure system. In our view, the new system is 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 a Call 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.

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

Slide 16: 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 17: Atlantic Accord and Regulatory Requirements

Although the new scheduled land tenure system may result in increased exploration activity, it will not be done at the expense of safety and environmental protection. The *Atlantic Accord* legislation 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.

As you can surmise from my presentation, a lot of work has been done over the past year and is on-going by governments and the C-NLOPB to improve safety, environmental protection and land tenure. 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.

New entrants 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.

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 ahead of submitting an application. The better prepared you are in advance, the more efficiently we can provide our regulatory services.

Slide 18: Website and Twitter

Thank you for your interest and attention. Check us out on Twitter if you want to keep up to date on C-NLOPB activities.

I wish you all the best.