

From: [REDACTED, REDACTED, REDACTED]  
Team: EDU – LED, PILOT Secretariat

Telephone: [REDACTED]  
Date: 17 June 2014

**To: Edward Davey**

## PILOT MEETING

**PURPOSE** Briefing for the PILOT meeting.

**TIMING / LOCATION** The PILOT meeting will be held on the 19<sup>th</sup> June in the Convocation Hall, Church House Conference Centre, Dean's Yard, Westminster, London from 11.00 – 12.30.

**ATTENDEES** You will be met by DECC officials Stephen Speed and Bill Cattanach. A list of attendees is at **Annex C**

**AGENDA** Agenda for the meeting is at **Annex A**

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**Annex A** Agenda

**Annex B** Chairing Brief

**Annex C** List of Attendees

**Annex D** Logistics sheet

**Appendix 1** Background to Wood report

**Appendix 2** Background to Sullom Voe Terminal

**Appendix 3** Technology update information paper

**Appendix 4** Letter from OGUK and response from Danny Alexander

**Appendix 5** Key Oil and Gas Facts

**Appendix 6** Scotland Oil and Gas Top Lines

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**MEETING AGENDA**  
**PILOT Meeting – 19 June 2014**  
**Church House, London**  
**11.00 – 12.30**

#		min	Topic	Objective	Facilitated
1.0	11.00	10	Welcome and opening remarks	The Secretary of State Edward Davey welcome and opening remarks followed by Fergus Ewing, Scottish Government Minister.	Edward Davey Fergus Ewing
2.0	11.10	10	Wood Implementation Industry	Feedback from Malcolm Webb from the Wood Report Implementation Industry Away Day	Malcolm Webb
3.0	11.20	30	Wood Implementation  Government	UKCS Maximising Recovery Review (Wood Report) and its challenges. <ul style="list-style-type: none"> <li>• Implementation</li> <li>• Bringing MER UK to life</li> <li>• Conclusions from Dinner (How will DECC synthesize with industry)</li> </ul>	Stef Murphy Simon Toole Stephen Speed
4.0	11.50	40	Wood Implementation  Workgroup responses	Provide details on the workgroups and how they are going to evolve and align with the aims of the Report <ul style="list-style-type: none"> <li>• EOR</li> <li>• Area Rejuvenation</li> <li>• Exploration</li> <li>• Production Efficiency</li> </ul>	Trevor Garlick Pete Jones Simon Toole Jim House
5.0	12:30	5	Other issues & Sum up		Edward Davey



### **CHAIRING BRIEF FOR PILOT MEETING**

**Thursday 19<sup>th</sup> June 20214**

#### **Agenda Item 1 - 11.00 to 11.10**

The content for the PILOT meeting is very much around the Wood report and your opening remarks will reflect this. The Minister of Energy, Enterprise and Tourism in the Scottish Government, Fergus Ewing MSP, is attending the meeting and it is customary to ask him also to say a few words.

The next PILOT meeting will be held in November but we have not yet fixed the date.

#### **Welcome and Secretary of State's opening remarks.**

##### **Opening Remarks:**

- *Good morning and thank you all for taking the time out of your busy schedules to attend the meeting today.*
- *Unfortunately I was unable to be at the dinner last night, but I have been informed that the discussions were both interesting and informative so I would also like to thank you all for your valuable contributions.*
- *It was 50 years last month since the bill was passed that allowed exploration and production to start in the UKCS and I am sure that in the early days nobody envisaged just how important Oil and Gas would become to the UK's economy.*
- *You will have noticed from the agenda that the main topic for the meeting is the Wood report and we will be hearing views from both Government and Industry on the impact of the report.*
- *I would therefore like to have a focussed and robust meeting and for everyone to be open and honest on how the recommendations and challenges within the report will be met.*
- *We must continue to drive forward to maximise the potential of both new fields and our older reserves and both Government and Industry have a responsibility in implementing the recommendations from the*

*report. As you will hear shortly I believe Government are making good progress implementing Sir Ian's recommendations and I look forward to hearing the steps industry are taking as a result of the report.*

- *You will be aware the Chief Secretary to the Treasury announced at the Oil & Gas UK annual conference last week that the new body will be called the Oil and Gas Authority, which will be based in Aberdeen. I'm sure this will not have come as a surprise to you given the significance of Aberdeen to our oil and gas industry.*
- *And I am pleased to say that the job advert for the new CEO was published today on both the government and Odgers website, and will be advertised in other media in the coming days.*
- *There are substantial rewards to be achieved but only if we create the right environment. It is therefore vital that both Government and Industry continue to work closely together.*
- *Indeed this is a positive time for growth and we have had a strong and encouraging response to the latest licensing round with 173 applications from industry for around 370 blocks. This is evidence that there is still a great deal of interest in the UKCS.*
- *It is important that we act swiftly and decisively and that is the reason why the agenda for today's meeting continues with the theme from the dinner last night.*
- *I would like to talk a little about the current issues around Sullom Voe Terminal. This terminal is a critical element in the UK Energy Infrastructure. The terminal has served the UK well over the past forty years, and needs to be made fit for service for the coming decades.*
- *Given the number of companies with interests in Sullom Voe Terminal, it is understandable there are a range of views on the future. However, consensus and agreement is urgently required to ensure that the terminal continues to serve the fields in the northern North Sea and West of Shetland.*
- *In line with the mandate of the coming Oil and Gas Authority, senior staff from the existing DECC organisation will now take a leading role in reaching this consensus and agreement.*

- ***I will continue to take a close interest in this work, and may intervene further if progress falters.***
- ***For those of you who have not been to a PILOT meeting before, you will see that we have very action focused meetings and I am keen for this impetus to continue and for everyone around the table to take an active part. I urge you to be candid and fully involved.***
- ***We have apologies from Alistair Carmichael Secretary of State for Scotland, Gordon Ballard, Paul Warwick and John Pearson.***
- ***I would also like to welcome the following as guests at the meeting today, Sir Ian Wood, Andy Samuel, Philippe Guys, Craig May and Nigel Wilson***
- ***I would like to ask Fergus Ewing, minister for Energy, Enterprise and Tourism in the Scottish Government to say a few words.***



## **Agenda Item 2 - 11.10 to 11.20**

### **Wood Report Implementation – Industry**

Malcolm Webb will provide an update on the Wood Report Implementation Industry away day held in May.

#### **Chairing brief**

Malcolm Webb, CEO of Oil and Gas UK, will lead on this agenda item.

You should invite Malcolm Webb to set out the findings/conclusions from the industry away day and then open up for questions

Questions/points you may wish to make:

- *I would be interested to hear the views of Industry on the Wood report and its recommendations*
- *There will be challenges ahead, what do you anticipate will be the main ones and what preparation is being done by industry?*
- *Is industry committed to working in the spirit of the MER UK principles before they are brought into legislation?*

#### **Objective of this item**

For Malcolm Webb to give PILOT members an update on the findings and conclusions from the recent Industry away around the recommendations in the Wood Report

## Agenda Item 3 - 11.20 to 11.50

### Wood Report Implementation – Government

Outline of the Governments response to the Wood review and implementation progress. This session will be covered by Stef Murphy, Simon Toole and Stephen Speed and includes a recap of the main points from the dinner from the previous night.

### Implementation – 11.20 to 11.30

#### Chairing brief

#### Implementation

- *You should invite Stef Murphy to provide an update on the progress the Government is making with regards to implementation of the Wood Review, including legislation, CEO recruitment and the formal Government Response.*

Questions/points you may wish to make to further stimulate the discussion:

- *What are your reactions to Stef's update? Are things progressing as you expected them to?*

#### Objective of this item

For Stef Murphy to give PILOT members a briefing on the progress being made to implement the recommendations in the Wood Report.

- Stef will update on:
  - **Legislation:** The MER UK principles will be introduced into legislation in the 4th Session Infrastructure Bill in June 2014. The Bill itself is projected to be read in autumn 2014 and – subject to the will of Parliament - gain Royal Assent in spring 2015. The Bill will also introduce a levy on industry to fund the costs of the new regulator.
  - **CEO recruitment:** Recruitment agency Odgers were last week appointed to lead the search for the CEO for the new body and the job advert was

published on the Government and Odgers websites this morning (19 June).

- Formal Government response: Government will publish its formal response to Sir Ian's report and recommendations in early July. This response will set out the action Government is taking to implement Sir Ian's recommendations, and will also seek input on the role and scope of the body.

## **Bringing MER UK to life - 11.30 to 11.40**

### **Chairing brief**

#### **Bringing MER UK to life**

- ***You should invite Simon Toole to provide an in depth account of how the Government is bringing the MER UK principles to life, and the action we are taking now in the spirit of these changes.***

**Questions/points you may wish to make to further stimulate the discussion:**

- ***Do you have any reactions to Simon's presentation? Are the projects Simon outlined the right ones to focus on at this stage?***
- ***I am grateful to Malcolm Webb for sending a note to his members asking them to consider seconding staff to the shadow body; I would encourage you to consider this.***

#### **Objective of the item:**

- For Simon Toole to give PILOT members a briefing on the work DECC are undertaking now in the spirit of the MER UK principles, and to request secondees from industry to provide short to medium term resource which, aligned with a recruitment campaign over the summer, will provide the resource required to achieve this.

**Conclusions from the PILOT Dinner , DECC / Industry Alignment**  
**11.40 – 11.50**

**Chairing brief**

**Conclusion from dinner**

- *You should invite Stephen Speed to provide conclusions from the dinner from the previous evening*

Questions/points you may wish to make to further stimulate the discussion:

- *How would industry like to be engaged during the implementation process?*

**Objective of the item:**

For Stephen Speed to provide conclusions from the dinner the previous evening, and to give his reflections on progress made so far and the challenges ahead.

## **Agenda Item 4 11.50 to 12.40**

### **Wood Report Implementation - PILOT Work Group Responses**

Details on how the PILOT workgroups are going to evolve to ensure they are aligned with the aims of the Wood Review Report.

### **Enhanced Oil Recovery (EOR) - 11.50 – 12.00**

Trevor Garlick, Regional President of BP North Sea, is the workgroup lead of Enhanced Oil Recovery.

#### **Chairing brief**

- *At the last PILOT meeting the group identified the challenge was individual EOR technologies and 4 workgroups were going to be covering these. There was also a group working on Lo Sal and there was momentum to do something similar on Chemical EOR.*
- *You should invite Trevor Garlick to give an update on how the workgroups have progressed since the last meeting and also advice how the group will evolve and ensure it is aligned with the aims of the report*

Questions/points you may wish to make to further stimulate the discussion:

- *Is industry participating and working with the group in the spirit of the MER UK principles*

#### **Objective of this item**

- Establish how the workgroup plans to evolve and align with the aims of the Wood Report.
- To gain commitment from the workgroup that they will take this forward without delay.

#### **Background**

**Enhanced Oil Recovery (EOR)** methods aim to improve the way in which oil is recovered at a microscopic scale. EOR schemes are operating in the North Sea and Atlantic Margin, but are not widespread.



## **Area Rejuvenation (Infrastructure) 12:10 – 12:20**

Pete Jones, managing director of TAQA Bratani Ltd, is the lead of NNS sub-workgroup and is also the lead within PILOT for area rejuvenation. Glen Cayley (Shell) is the sponsor of the CNS sub-workgroup. The SNS sub-workgroup was recently established and is being jointly led by representatives from Centrica and Shell. Oonagh Werngren (OGUK) manages and facilitates the sub-workgroups.

### **Chairing brief**

- *At the last PILOT meeting the groups were meeting regularly and were aiming to produce a report with draft area development plans.*
- *You should invite Pete Jones to give an update on the Infrastructure workgroup report and also advice how the group will evolve and ensure it is aligned with the aims of the report*

Questions/points you may wish to make to further stimulate the discussion:

- *Collaboration is extremely important for the success of this group, what have been your main challenges, what has been learned which can help future collaborative initiatives?*
- *These workgroups have been active for one year (in most cases). Has a clear direction been established which is aligned with MER principles? Are all parties committed to this direction?*

### **Objective of this item**

- Establish how the workgroup plans to evolve and align with the aims of the Wood Report.
- To gain commitment from the workgroup that they will take this forward without delay.

## Background

At the PILOT meeting in May 2013 it was agreed that a number of regional sub-workgroups would be formed to develop plans for co-ordinated exploration and development and infrastructure activities which would result in additional oil and gas recovery. In 2012 an earlier PILOT workgroup identified a potential prize of several billion barrels oil equivalent from such co-ordination.

Sub-groups have been formed for the Southern, Northern and Central North Sea regions.

Collaborative working on this scale is new for industry and it has taken time to find a modus operandi which does not violate Competition Law. The Northern and Central Northern North Sea workgroups have found different solutions in this regard. Industry participation and commitment has been slow and, at times, uncertain.

It will be many months before the size of the prize and pathways to success will be clear. What can be anticipated is that the best for UK solution may not be attractive for all current licensees given their existing positions and interests.

The Infrastructure workgroup was set up to address areas which were thought to be of fundamental importance to the long term health of the UKCS. These include:

- To establish what infrastructure is crucial to the long term development of the basin and to determine when infrastructure needs significant investment to maintain integrity and safety.
- Consider likely prospectively for each area to ensure consideration of extra capacity being built into all new and upgraded infrastructure to cope with future production.
- Examine the problems around the Access to Infrastructure code and determine if there is still an issue to be addressed, as well as how it should be taken forward.
- Identify the critical infrastructure in the basin and consider mechanisms to maintain it, with particular regard to the mature assets, which are essential to

Given the optimism bias clear in industry forecasts over many years, Industry and Government need to be sure that the conclusions of this work is realistic.

## **Exploration - 12:10 to 12:20**

The Exploration Task Force is co-chaired by Simon Toole (DECC) and Nick Fretwell (Total UK) and is composed of exploration managers and senior level contractor representatives.

### **Chairing brief**

- *At the last PILOT meeting the group made several recommendations which included collaborative approach and sharing of knowledge, using advanced imaging technology to create an exploration map and to hold a conference in 2014 to share experiences.*
- *You should invite Simon Toole to give an update on how the group is progressing and also how workgroup plans to evolve and ensure it is aligned with the aims of the report*

Questions/points you may wish to make to further stimulate the discussion:

- *I challenged the Industry 13 months ago on the issues around Exploration and it is good to see progress being made*
- *Exploration activity is at low levels and we need to work hard together if the full potential of the basin is to be achieved.*
- *What have been/are the main challenges in achieving collaboration on this issue*

### **Objective of this item**

- Establish how the workgroup plans to evolve and align with the aims of the Wood Report.
- To gain commitment from the workgroup that they will take this forward without delay.

## **Background**

### UKCS EXPLORATION

In the last five years the number of exploration wells drilled on the UKCS has reduced and the frequency of economic success has significantly decreased (average discovery size ~20Mboe). This is all at a time when existing offshore infrastructure is ageing and decommissioning is emerging as a topical subject.

The objective of the PILOT Exploration Task Force (ETF) is to increase investment in UKCS exploration and to increase exploration success rates. However, a step-change in exploration strategy is required in order to do this.

ETF has identified four main approaches to help invigorate UKCS Exploration;

- (1) Improve and share geological understanding;
- (2) Improve access to seismic data: imaging the subsurface using the best seismic datasets and more accurately targeting new/frontier areas for acquisition;
- (3) Ensure exploration is linked to infrastructure – by investigating exploration potential around existing production hubs in conjunction with the rejuvenation project;
- (4) Ensure sharing of exploration pitfalls – through a lessons learned conference.

The group made a number of recommendations at the last PILOT meeting in October which include;

- A more collaborative approach with sharing of knowledge
- Using the most advanced imaging technologies to create an up to date exploration road map for the UKCS and carry out an analysis of the yet to find potential of the basin
- Sell the success of the UKCS and hold a conference to share experiences

### CURRENT CHALLENGES TO UK EXPLORATION

There has not been a significant (multi-hundred million barrel) discovery on the UKCS for several years and a step change in exploration strategy or knowledge is required to unlock this. More exploration in risky frontier or under-explored regions is needed, which in itself requires acquisition of more regional seismic surveys.

There is also an urgent problem with intensive exploration within the known basins: infrastructure is becoming older so exploration wells need to be drilled in the very near future to take advantage of the remaining life of facilities before they are decommissioned. A major challenge to the success of the Exploration Task Force is the willingness of the industry to collaborate on sharing its geological knowledge

and understanding of the subsurface. This is particularly true at a time when competition is intense between operators leading up to and during new licence rounds.

### EXPLORATION TASK FORCE WAY FORWARD

Publicising the remaining exploration potential of the UKCS is a cornerstone of the work of the ETF. It is critical in order to stimulate renewed interest in UKCS exploration investment and to maximise recovery of hydrocarbons from the UK.

Work will also continue to identify new areas of the UKCS where new advanced technology seismic is required. In certain cases this will involve the need for new environmental studies which may take some time to acquire.

### The 21<sup>st</sup> Century Exploration Road Map Scoping project

In March this year, the Exploration Task Force engaged SLR Consultants to prepare a scope for the XRM. This work has just been completed. Through the project, SLR interviewed 25 oil companies and industry opinion leaders along with the major seismic contractors and data owners.

#### **The proposition**

The XRM project board recommend that an XRM programme is set up that will

- Systematically evaluate the basins in the UKCS to determine:
  - Source rock distribution for each mega-sequence;
  - Source type, generation, migration and volumes through 2D/3D petroleum systems modelling (as necessary);
  - Reservoir play fairway mapping;
  - Yet to find resources, prospect scale and play risk.

The pace and priority is to be determined by industry and government respecting competitive pressures and commercial value.

- The expected outcome of the programme will be
  - Increased success rate in mature plays
  - Investment in new and underexplored plays on the UKCS

## **Production Efficiency - 12.20 to 12:30**

Jim House, managing director of Apache North Sea, is the lead for the Production Efficiency workgroup and Oonagh Werngren (OGUK) manages and facilitates the workgroup activities.

### **Chairing brief**

- *Work on production efficiency is fundamental to the aims of the Wood Review and early progress on this will be crucial to providing a baseline of current production potential.*
- *At the last PILOT meeting Jim House said there were many issues that had been identified and the group would be concentrating on the major ones first.*
- *You should invite Jim to give an update on work completed so far and how it could evolve to align with the aims of the report.*

Questions/points you may wish to make to further stimulate the discussion:

- *What are the main areas to be identified where we can pull together to address the problems that operators are currently facing?*
- *This time last year, a target was set to restore Production Efficiency to 80%, are we on-track to achieve this target?*
- *Production Efficiency is an important factor in Maximising Economic Recovery, what new powers and changes in regulatory approach does Industry believe would drive improved Production Efficiency?*

### **Objective of this item**

- Establish how the workgroup plans to evolve and align with the aims of the Wood Report to improve production efficiency.
- To understand the problems around Production efficiency that are being faced across industry and needs further work.

### **Background**

At the May 2013 PILOT meeting there was a presentation and extensive discussion on the declining Production Efficiency (a measure of operational performance) of offshore facilities. The issue had significantly worsened in the past few years some 500,000 barrels per day of production was being lost. This was clearly unacceptable to Government, and should also be unacceptable to company shareholders.

Restoring Production efficiency to 80% (from 60%) by 2016 was accepted as the industry target.

Oil & Gas UK proposed to reinvigorate their Production Forum to work this issue. Some of the solutions could be based on industry campaigns similar to Step Change with tough improvement targets being set. Consequences for any operator with persistently poor Production Efficiency was put forward, but not discussed.

Last year Production Efficiency Task Force (PETF) has been formed, with active participation including the main operators and production service companies.

Over the past year the PETF has focussed on diagnosing causes of poor performance, by means of events to share experience and performance improvement programmes along with insights from data analysis. From these a number of improvement themes have been identified, and two are currently active. Firstly, as progress on large offshore workscope (sometimes backlogs) is typically constrained by Personnel-on-Board (POB) bed limits, a Wrench Time theme is looking into improving offshore productivity. Secondly, planned shutdowns, aka Turnarounds, have been a major cause of production losses, and this is also the subject of a theme. Other themes are under consideration.

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## **Agenda item 5 – 12.30 to 12.35**

### **Any other business and sum up**

You may wish to invite the PILOT members to raise any issues not already discussed and close the meeting and remind everyone that the next meeting will be held in November but we have not yet fixed the date.



## ANNEX C

### List of Attendees – PILOT Meeting 19 June

#### Government

Edward Davey	- Secretary of State – DECC
Fergus Ewen	- Scottish Government Minister for Energy, Enterprise & Tourism
Stephen Speed	- Director Energy Development Unit, DECC
Simon Toole	- Director, Licensing, Exploration & Development – EDU –DECC
Wendy Kennedy	- Head of Offshore Environment & Decommissioning - DECC
Bill Cattanach	- Head of PILOT Secretariat/PILOT Secretary – DECC
Helen Dickinson	- Environment & Transportation Tax Team – HM Treasury
Steph Murphy	- DECC

#### Oil and Gas UK

Malcolm Webb	- Oil and Gas UK
Trevor Garlick	- BP
Glen Cayley	- Shell
Archie Kennedy	- Nexen
Mike Tholen	- Oil & Gas UK

#### Industry Advisors

Jim House	- Apache
Steve Jenkins	-Cairn Energy

#### Trade Union

Grahame Smith	- STUC
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#### Guests

Sir Ian Wood	- Wood Group
Nigel Hares	- Enquest
Andy Samuel	- BG
David Chenier	- ConocoPhillips
Pete Jones	- TAQA
Philippe Guys	- TOTAL
Craig May	- Chevron
Louise McKenzie	- ExxonMobil
Mike Skitmore	- Premier Oil

## **Observers**

[REDACTED]  
[REDACTED]

## **Apologies**

Alistair Carmichael - Secretary of State for Scotland – Scotland Office  
Gordon Ballard - Schlumberger  
Paul Warwick - Talisman  
John Pearson - Amec  
Martin Rune Pederson – Maersk  
James Edens - CNR

# Appendix 1

## **Background on the Wood Report**

- Sir Ian published his report on 24 February. His key finding is that Government (HM Treasury and a new Regulator) and Industry must adopt a cohesive tripartite approach to develop and commit to a new, shared strategy of Maximising Economic Recovery for the UK (MER UK) to maximise the huge economic and energy security opportunity that lies off the UK's shores.
- The UKCS is a very different, and more complex, operating environment now than in the past and the report recommends that DECC should create a new arm's length body with additional powers to take on the role of stewardship, with the aim of maximising economic recovery as we move into the next phase of the UKCS.
- The Wood Review Implementation team has been set up in the Energy Development Unit to implement the changes Sir Ian recommends, and is making good progress in doing so.
- Ministers have decided that the new body will be called the Oil and Gas Authority (OGA) and will be based in Aberdeen.
- Recruitment agency Odgers were last week appointed to lead the search for the CEO for the new body and the job advert will be released on 19 June. Furthermore, we expect to introduce clauses in the Infrastructure Bill before summer recess that will take a power to introduce a levy on industry to fund the costs of the new regulator, and will put the MER UK principles on statute.

## **Background on funding the new body:**

- As part of the Queen's Speech announcements, we published our intention to introduce a levy on industry to pay the costs of the new ALB we are setting up. This has generated a negative reaction from OGUK, which put out a press release stating their view that DECC should continue to meet some of the costs of the new body. They have since written to Danny Alexander expressing this view, who responded that he was sympathetic with this view and will discuss it with DECC (a copy of these letters are attached at Appendix 3). Privately, OGUK have been lobbying us and HMT colleagues to say that the budget DECC currently spends on the Licensing, Exploration and Development team (whose main functions and staff will move into the new body) should be transferred to the new body, on an on-going basis. We have

argued firmly against this point. The Wood Review concluded that it seemed appropriate for industry to pay for the new regulator to oversee oil and gas production in the UK Continental Shelf, which ultimately will be better resourced, and it is an established precedent with independent regulators that the costs of regulation should be met by those who most directly benefit, rather than the taxpayer. OGUK were also involved throughout the Review process and did not raise such strong objections at the time.

- We currently expect the annual running costs of the new ALB will be in the region of £15m – which is a small amount compared to the costs and profits the oil and gas industry deals with and the benefits that are expected to result from the new arrangements for regulating the industry. The 2014/15 budget for the team in DECC's baseline is about £3m admin and £2.4m programme, which would not make a material difference to the costs each company would incur, but would have a big impact on future Departmental decisions on resource allocation.
- Finance colleagues advise that without a commitment from HMT to ring-fence this budget (which we are extremely unlikely to get) it would be extremely unwise to give an undertaking that this budget could be protected in the next spending review, which will take place early in the new Parliament. Any protection given would be at the cost of gearing up savings required elsewhere in DECC.
- HMT officials previously agree with this line and also point out that (i) it is not in the industry's interests to have a regulator whose funding is at risk from the next spending review and (ii) payments to the new regulator will, in any event be allowable costs subject to full relief from the tax on profits – which is 62% for most fields.





### Technology Update

#### **Technology Strategy – update paper for PILOT**

Technology is one of the current PILOT work areas and has a group led by Paul Warwick. The purpose of this short paper is to update members on progress made to date. As Paul will not be attending this PILOT meeting it is not expected to have a structured discussion on the subject but will feature at a future meeting.

Since the work was started over 18 months ago, significant progress has been achieved with a comprehensive strategy document completed back in March this year. That document made a number of high level recommendations including the establishment of a UKCS Technology Leadership Board which would have a key focus of identifying technology areas and needs. It is expected at least in the near to medium term these needs would be closely aligned with the aims and visions of the Wood Review.

To be effective it was concluded this group should comprise a range of experts including senior industry leaders, strategic funding stakeholders and representatives from academia. A list of potential members has been drawn up and invitations sent to 14 individuals with a particular interest or expertise in technology for the sector. It is hoped to have all members confirmed at an early date with the first meeting of the TLB provisionally set for the morning of 25<sup>th</sup> June. Paul Warwick has agreed to continue as chair at least in the medium term which will provide excellent continuity of thinking and understanding. Terms of reference for the board have been drafted and are set out below.

#### **Terms of Reference for the TLB:**

- The TLB will be the single industry voice giving strategic technology clarity, direction and priorities
- The board will lead and put in place the mechanisms to:
  - Evaluate, define and refresh strategic technology priorities for the UKCS. Working with DECC (or new regulator) and BIS to create and analyse a coherent database of N Sea resources, infrastructure etc.. (Incorporating, amongst other inputs, output from the PILOT workgroup themes).
- The board will create and deliver the prioritised technology themes.

- Communicate with Government, funding bodies and research/technology development communities.
- Develop and intervene to progress strategic technologies
- Recommend and prioritise the focus areas for public funding of oil and gas R&D
- Facilitate the delivery of appropriate field trials
- Measure progress against KPIs

**Specific actions for 2014 are expected to be:**

- Create the Technology Delivery Groups – with the objective of delivering agreed technology road maps for the four highest priority themes by end 2014 (the approach taken by the automotive industry being used as a template).
- Work with BIS, DECC and the PILOT Rejuvenation work groups to support ongoing technology prioritisation
- Set the frame for technology delivery vehicles:
  - Clarify the business processes needed to support the progression of technology from research to deployment –
  - Confirm the key chokes in the system
  - Guide the creation of OGIC and re-shaping of ITF as key delivery vehicles
- Undertake R&D funding study of oil and gas in UK and Norway and recommend forward funding model for UK.
- Set-up a field trial working group to define delivery options.

**Technology Leadership Board composition:**

Ensure continuity from the PILOT Technology Work Group. Composition should include MD level representation:

- Operators – different scale and scope
- Suppliers – SME and large service company
- Academic research community
- OGUK
- DECC & BIS
- Observers from: TSB, RCUK, etc.,

**Cadence of meetings:**

Generally quarterly but with five meetings envisaged for the remainder of 2014 during the foundational phase of the TLB

## Appendix 4



The Rt. Hon. Danny Alexander MP  
Chief Secretary to the Treasury  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

06 June 2014

Malcolm Webb  
Chief Executive

Oil & Gas UK  
6th Floor East  
Portland House  
Bressenden Place  
London SW1E 5BH

Telephone +44 (0)20 7802 2414  
Fax +44 (0)20 7802 2401  
Email [mwebb@oilandgasuk.co.uk](mailto:mwebb@oilandgasuk.co.uk)

[www.oilandgasuk.co.uk](http://www.oilandgasuk.co.uk)

I write following the Queen's Speech on Wednesday 4 June. We are pleased that there is enduring political unity over Sir Ian Wood's recommendations and welcomed the announcement in the Queen's Speech to introduce legislation to embed them into UK law. We hope that the legislation can be introduced in Parliament before the summer recess. We believe this is a correct prescription to help maximise economic recovery from the UK Continental Shelf. We also see the Fiscal Review as another very important element in the process of change which is urgently needed to secure that end.

Industry does, however, take issue with the proposal that it should bear the full cost of the new Regulator. Collaboration is at the heart of the Wood Report and collaboration works best when there is a sense of shared responsibility.

The new tripartite approach, set out in the Wood Report, has been welcomed by industry and Government. We do recognise that all government departments are under pressure to cut costs. However, given the very significant economic contribution already made by this industry to HM Government and the further benefits will flow from maximising recovery, we suggest that passing the full cost to industry is a poor start to this new approach. We believe that, in the interests of good governance, transparency and fairness, at least a part of the cost should continue to be borne by the Department of Energy.

We suggest that the Department of Energy should continue to pay the relatively small amount that it currently expends on UK oil and gas regulation. Industry would then pick up the much larger additional amount required to run the new well-resourced arm's length body envisaged by Wood, but importantly, the Government will also have an interest in the cost of the new body. Furthermore if the finance comes solely from industry there is a risk that the independence of the new body will be questioned by some.

As you know, this industry pays many billions of pounds in production taxes each year. Furthermore oil companies already pay, in total, about £70 million each year to Department of Energy in licence

rentals for their offshore permits. We would be extremely surprised if the annual cost of the regulator was anywhere near as much as that. So, in fact, through annual licence fees alone, oil companies already pay more than enough to cover the full cost of the new Regulator – several times over. There is therefore a case which could be made that the industry should not be required to pay any more.

In any event we believe it is wrong in principle that industry should bear all the cost and relieve DECC from bearing any share of the financial responsibility for oil and gas regulation and we therefore request that the Government reconsider its position on this matter.

I look forward to welcoming you to our annual conference in Aberdeen next week, where your presentation to our plenary session on Thursday is eagerly anticipated. I expect there to be little time to discuss this issue there, so I should be grateful if we could discuss this issue with you or senior officials in the near future.

*with best regards,  
Yours sincerely*

Malcolm Webb

*Malcolm*

CC The Rt. Hon. Edward Davey MP | Secretary of State for Energy and Climate Change  
The Rt. Hon. Nicky Morgan MP | Financial Secretary to the Treasury



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Malcolm Webb  
Chief Executive  
Oil & Gas UK  
6<sup>th</sup> Floor East, Portland House  
Bressenden Place  
London, SW1E 5BH

11 June 2014

Dear Malcolm

#### **NEW OIL AND GAS BODY**

Thank you for your letter of 6 June regarding funding for the new oil and gas arm's length body.

2. As you are aware, Sir Ian's final report suggested that it would be appropriate for the new body to be fully funded by industry, in line with other regulators, including Ofgem.

3. The government accepted all of Sir Ian's recommendations, so we have been working on the basis that the new body will be completely industry funded – with details of the exact mechanism still to be determined, in consultation with industry.

4. I am sympathetic to the issues you raise covering funding, good governance and fairness. I am determined to ensure this is a credible body that can achieve the objectives outlined in Sir Ian's report, and do not want funding to interfere with that.

5. This comes at a time, however, when I am squeezing all departments on their spending. I will discuss further the appropriate funding model with DECC, ahead of any firm proposal in the government's formal response to Sir Ian's review.



6. I look forward to seeing you in Aberdeen this week.

*Bert wishes*  
*Danny*

DANNY ALEXANDER

### Key Oil and Gas Facts

- The offshore oil and gas industry is the UK's largest industrial investor, supporting 450,000 jobs across the UK
- Since 1970, the industry has spent over £500 billion by:
  - Investing £317 billion in exploration drilling and field developments
  - Spending £183 billion on production operations
  - Spending £2 billion on decommissioning assets that have ceased production
- Over 50 oil companies, predominantly international, are investing as Operators on UKCS
- Almost 42 billion barrels of oil equivalent per day (boe) has been recovered from the UKCS so far.
- Further overall recovery is forecast to be in the range of 15 to 24 billion boe

### Key findings from Oil & Gas UK Activity Summary 2014

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#### Industry Performance in 2013

- Invested a record £14.4 billion of capital, 25 per cent of which was invested in just four fields
- Spent £1.6 billion drilling 15 exploration and 29 appraisal wells and discovered 80 million boe
- Initiated development of 26 brownfield opportunities, 23 of which were enabled by the brown Field Allowance
- Spent £8.9 billion operating on the UKCS, 15.5 per cent higher than in 2012
- Produced 1.43 million barrels of oil equivalent per day( boepd), eight per cent less than in 2012

#### 2014 and beyond....

- Total Oil & Gas reserves of 10.7 billion boe are reported as either in production, under development or potentially being considered for investment and around 9.4 billion boe are forecast to have a 50 per cent or greater chance of being recovered.

- Based on operators' forecasts, it is anticipated that 25 exploration wells and 11 appraisal wells will be drilled in 2014. These plans however remain under market pressure, not least from any further increase in drilling costs.
- In 2013 the UKCS experienced the highest rate of investment for more than three decades, at £14.4 billion. This is expected to fall to around £13 billion in 2014.
- Currently, a total of £39 billion of investment is approved on the UKCS; £27 billion is on new fields whilst £12 billion will be spent on existing assets.
- More than half of all investments in 2014 is in receipt of a field allowance, demonstrating the effectiveness of these allowances.
- Whilst production efficiency has fallen from an average of around 80 per cent to 60 per cent over the last decade, it is expected to improve in 2014
- Looking ahead, 25 fields are expected to start production in the next two years bringing combined reserves of 1.3 billion boe on-stream. By 2018, 40 per cent of production will come from new field developments.

### Scotland

#### Oil and Gas - Top Lines

- The United Kingdom Continental Shelf is one of the UK's success stories.
- It has been a major contributor to the UK's energy supply, producing over 40 billion barrels of oil equivalent to date. It has also brought widespread economic benefits in terms of jobs and investment including direct employment of at least 450,000 people across the UK. Industry estimates that approximately half of the UK oil and gas industry jobs are based in Scotland.
- As part of the UK Scotland benefits from being part of a larger economy, better able to support the industry to ensure the continued exploitation of oil and gas reserves. This includes:
  - a £3 billion allowance for large and deep fields;
  - a £500 million allowance for larger shallow-water gas field;
  - decommissioning relief worth £20 billion; and
  - the broader and more diverse UK tax base which shields the Scottish economy from the volatile exploration tax receipts; and
  - an active UK Government working at home and internationally to promote the industry and secure investment.
- The UK Continental Shelf is a relatively mature region, which must compete for investment with other younger basins across the world, many of which have fewer technical and economic challenges associated with extraction.
- The UK Government is committed to increase the competitive appeal of the UK Continental Shelf and maximising the economic recovery of the UK's offshore oil and gas resources.
- Over the coming decades, the challenges of extraction are changing, with greater investment needed to recover reserves. This requires greater emphasis on fiscal incentives than ever before.
- By accepting and fast-tracking all the main recommendations of Sir Ian Wood's review into maximising North Sea revenue, the UK Government is providing substantial support to the industry with the ambition of keeping the basin competitive and potentially recovering 3-4 billion more barrels of oil than would otherwise have been produced.

- Scottish independence risks undermining the very features of the oil and gas regime that have brought it such success.
- An independent Scottish state, with its smaller economy, would have to support the industry in the long-term as reservoirs become more challenging to extract and reserves begin to deplete.
- UK Government analysis concludes that an independent Scottish state would have to invest around £3800 per head – over ten times more than when costs are spread across the UK – to match the £20 billion the UK Government has committed towards decommissioning in the North Sea.
- Since devolution, offshore oil and gas receipts amounted to around 1.5 per cent of total UK receipts. For Scotland, North Sea revenues would have been almost 14 per cent of the total.
- It is uncertain how an independent Scottish state, with a smaller economy and tax base, would manage the challenge of a narrower and more volatile revenue base.
- The Scottish Government has stated that in the event of a vote for independence, they would establish an oil fund.
- Even if an independent Scottish state were able to radically adjust fiscal policy and implement an oil fund, this would not smooth all volatility in Scotland's public finances.
- It may take considerable time to build up a fund of adequate size to manage volatility in the public finances.

As part of the UK, Scotland achieves many of the benefits of an oil fund. The UK's integrated fiscal model provides a very stable flow of Scottish expenditure, without the need for Scotland to run the onshore fiscal position required for an oil fund.

# Church House Conference Centre Ltd

Dean's Yard, London SW1P 3NZ

Tel: 020 7390 1590 Fax: 020 7390 1591 sales@churchhouseconf.co.uk www.churchhouseconf.co.uk

## INVOICE

DECC-Department for Energy & Climate Change  
3rd Floor  
Atholl House  
86-88 Guild Street  
Aberdeen  
Scotland  
AB11 6AR  
Tel:

*Meeting*

*PO*

Event :	PILOT Dinner and Meeting	Vat No:	[REDACTED]
Company :	DECC-Department for Energy & Climate Change	Date :	27/06/2014
Invoice No :	[REDACTED]	Booking Ref :	[REDACTED]
Account No :	[REDACTED]	Event Dates :	18/06/2014 to 19/06/2014
P.O :		Term :	14 Days

Date	Reference	Room	Net	Vat	Gross
19/06/2014	1 x Convocation Hall @ 650.00	Convocation Hall	650.00	130.00	780.00
19/06/2014	36 x Selection of mini Danish pastries @ 2.15	Convocation Hall	77.40	15.48	92.88
19/06/2014	36 x Fair-trade tea and coffee @ 3.10	Convocation Hall	111.60	22.32	133.92
19/06/2014	1 x Screen - Halls @ 50.00	Convocation Hall	50.00	10.00	60.00
19/06/2014	1 x Delegate microphone system (10 units) @ 210.00	Convocation Hall	210.00	42.00	252.00
19/06/2014	1 x Technician - Hourly @ 45.00	Convocation Hall	135.00	27.00	162.00
19/06/2014	3 x Microphone - Cabled @ 21.00	Convocation Hall	63.00	12.60	75.60
19/06/2014	1 x LCD Projector - Half Day Hire for Halls @ 200.00	Convocation Hall	200.00	40.00	240.00
19/06/2014	1 x Remote clicker @ 35.00	Convocation Hall	35.00	7.00	42.00
19/06/2014	1 x Laptops / PC @ 95.00	Convocation Hall	95.00	19.00	114.00
19/06/2014	1 x Microphone - Radio Hand Held @ 57.00	Convocation Hall	57.00	11.40	68.40

**Totals:** 1684.00 336.80 2020.80

**Balance Due:** 2020.80

VAT Analysis	Code	Rate	Description	Net	VAT	Gross
	1	20.00	VAT 20%	1,684.00	336.80	2,020.80
<b>Totals</b>				<b>1,684.00</b>	<b>336.80</b>	<b>2,020.80</b>

-----Detach Here-----

### REMITTANCE ADVICE - Please enclose with your payment.

Client Name: DECC-Department for Energy & Climate Change

Account No: [REDACTED]  
Total due: 2,020.80

Date: 27/06/2014  
Invoice No: [REDACTED]

For BACS payment, please quote the following to your bank. Church House Conference Centre Ltd.  
Bank Sort Code: 18-00-02 Bank Account Number 01406051