



Oil & Gas
Authority

MER UK Forum Meeting

26th January 2018

Opening Remarks

Andy Samuel, Chief Executive Oil and Gas Authority

- Andy opened the meeting. He welcomed the Rt Hon Claire Perry, the new Minister for Energy and Clean Growth. He also welcomed new Forum members and guests.
- He gave apologies for Paul Wheelhouse, the Scottish Government's Minister for Business, Innovation and Energy who was unable to attend the meeting. Mr Wheelhouse is a strong supporter of the Forum and wanted the attendees to know that he is aware of the good work being done on the Sector Deal and the efforts that have gone into this. He wanted to reiterate that the Scottish Government would continue to engage constructively on this as it develops. He highlighted the importance of the oil and gas sector to the Scottish economy and therefore the Scottish Government would look for any ways it can to support the industry going forward.
- Lord Duncan also sent his apologies.
- From the OGA's perspective we are now three years into implementation of the Wood review recommendations - we have been working hard and collaboratively and a huge amount has been achieved – both in spite of and thanks to the low oil price.
- We have seen considerable improvement in cost and efficiency and highlighted significant potential of this sector through Vision 2035.
- Through this difficult period an additional 2 billion barrels has been added to our forecast.
- There has been major movement towards 'Right Assets Right Hands', some excellent stewardship and good examples of collaboration.
- However, the OGA are still seeing good opportunities being delayed due to poor company commercial behaviours and expect a good discussion on this today.

The Rt Hon Claire Perry MP

- The Minister thanked everyone for attending the meeting at short notice and advised that she was very aware of the importance of the oil and gas industry.
- The Minister's portfolio brings together energy and clean growth, mirroring what is happening in the world.
- This industry plays a vital part in the UK economy supporting around 300,000 jobs and producing over half our energy demand.
- The drive going forward will be to bring the Industrial Strategy to life, to create the conditions for productivity improvement, bring higher wages and better working conditions.
- The Minister recognised that this had been a tough period for the industry but found it reassuring that there had been a series of interventions from government and the treasury, the most recent being the transferability of tax history.
- The Minister had visited the OGTC earlier and had seen evidence that confidence was starting to return to the industry.
- The message from the UK Government is that everyone is completely aware of the vital impact that this industry has played in the UK economy, we now have a globally competitive fiscal regime, they will continue to invest in R&D.
- The Minister highlighted the history of productivity and innovation and the supply chain that has built up around this, one of the ambitions of the industrial strategy is to increase the on-shoring of the supply chain.
- The transition element is also very important, the government is committed to gas as part of the energy mix going forward and is also committed to fracking.
- Aware that there may have been some disappointment over the CCS competition, however the government wants to bring this technology forward, but only at the right price.
- £100 million has been set aside for the clean growth strategy, the CCUS council has been set up and will meet for the first-time next week.
- The government wants to reach their Paris aims and carbon budgets in a proportionate way that maximises the productivity and the value of the UK supply base. The oil and gas industry is in an ideal position to support this.
- The aims of maximising economic recovery in a sustainable way are achievable.

Industry Performance and Measurement – led by Deirdre Michie

- Deirdre set the context, highlighting that the industry was coming out of a difficult phase, but that there was now cautious optimism.
- A lot of progress has been made, but there is still a need to keep very focussed on the cost improvements made and sustain the efficiencies that

have been put in place. Emphasis has to be on managing within a volatile oil price.

- Unit operation costs have improved, production efficiency has increased and production has gone up.
- Company budgets are still tight and there is a need to translate the M&A activity into investment.
- It was highlighted how production efficiency was driven by asset integrity and the importance of proactively managing this. An example was given of using the downtime caused by the recent Forties pipeline shutdown to bring forward work scheduled for later in the year which avoids further shutdown.
- It was highlighted how industry is now sharing good practice and learning from each other.
- The efficiency task force is also involved in actively sharing good practice across industry both with operators and supply chain companies. They are also looking at the tendering process and commercial arrangements, moving to partnership arrangements giving a shared interest in success.
- Good practice still has to be embedded into companies and to aid this the efficiency task force will be running a series of road shows, they have also identified over 150 efficiency champions who will lead this in their companies.
- The OGA benchmark report is also an excellent tool to drive improvement.
- The question was asked if the industry had overreacted to the low oil price.
- It was felt that the response had been the correct one, the industry has to learn to manage the activity spikes.
- There has been a lot of M&A activity, with new companies entering the market.
- Transfers should be seen as positive however they do require good collaboration between the sellers and buyers and with the partners involved.
- If we do not keep the operating costs low we will not have an industry.
- Shell's Penguins Redevelopment was given as an example of a project that would not have been taken forward 2 years ago, the stability in the fiscal regime and inviting the supply chain to provide solutions made this project viable.
- Focus is being given to working with others and identifying technologies that will make small pools investable.
- It was highlighted that relationships were getting better but also that there was still room for improvement, tier 1 companies were highlighting solutions that are not being taken up. The question was asked how the group could help?
- It was felt that it was down to collaboration and the ways companies work together, the whole of an organisation needs to be brought into a culture of collaboration and this should be led from MD level.

- The industry is aware that the Global Energy Transition is happening and is likely to get faster.
- Renewables is growing and will need to continue to grow.
- It is recognised that hydrocarbons will play an important part in the energy mix for some time to come. However, the industry is not complacent and realises it has to earn its place by being cost competitive.
- We have started by reducing emissions, only 3% of total emissions come from upstream production.
- Shell's CEO has given his company an objective to reduce its carbon footprint by 20% by 2035 and half it by 2055.
- Shell is now starting to shift its portfolio towards a balance of new energies. They are also investing in clean fuels, they opened a hydro station last year in London with more to follow and have put in a number of charging points in a number of their UK sites.
- The Minister reiterated that the government is committed to meeting the Paris targets.
- It was recognised that this industry has the skills needed to take this forward.

Sector Deal – Trevor Garlick

- The industry welcomed the Industrial Strategy and were pleased that the oil and gas industry was recognised. However, there was disappointment that the opportunity to develop an energy strategy wasn't taken. It would have been useful to pull it all together so the business gets clarity and investors understand that government understands the role of this industry.
- For this industry, an area of strong interest to come out of the Industrial Strategy are Sector Deals.
- The work in progress report was shared earlier in the week, there has been huge engagement across the industry involving hundreds of companies to get to this stage.
- The report has been distilled down to a one page summary.
- An analysis of the strengths and weakness of the industry was carried out and this identified a need to do something specific around the supply chain.
- Three main themes have been identified:
 - Transformational Technology
 - Underwater Engineering
 - Decommissioning
- The idea is to create virtual industrial centres of excellence for these three themes.
- Four other priority areas have also been identified
 - Culture and behaviours
 - Carbon capture usage and storage
 - People and skills

- International and export growth
- Developing centres of excellence for the three main themes will help towards the recovery target and improve the competitive advantage of the supply chain.
- For technology and underwater engineering this is about looking further ahead rather than at near term needs and looking to see how we can diversify into other areas such as renewables.
- For decommissioning it is vital that we are at the forefront and it will focus on ways to be safer, more environmentally sensitive and particularly focus on the cost burden.
- The Minister advised that there had been over 50 sectors expressing interest in Sector Deals and shared the high-level expectations of a proposal and areas where more thought should be given e.g. may want to look a bit more at people and skills, identify what transformational skills will be needed going forward to create a supply chain of talent, focussing on home grown talent.
- The Minister thanked everyone that had been involved in the Sector Deal and offered to meet with the team to work through the proposal.

Brexit – Deirdre Michie

- Oil & Gas UK have identified what the industry is looking for out of Brexit: to ensure that there is still access to markets, to ensure we still have a strong voice in market, protect energy trading both the infrastructure and the energy market.
- Analysis showed that if we moved into a WTO environment it would mean an additional cost to this industry of £500 million, this would be cost on an industry that is already under strain.
- 5% of the workforce are from the EU, these are mainly very highly skilled, easy access to this workforce is essential as is access to goods and services.
- The current uncertainty is a concern, as it is impacting on business as some companies are being excluded from contracts if they do not have a European base.
- The Minister advised if there were specific examples that these be passed to her office.

Close

- Andy highlighted the unique nature of the tripartite working relationship, he thanked the Minister for her support and the attendees for their contributions.
- The Minister thanked everyone and advised that she was impressed with the response to the low oil price and the degree of collaboration across the industry. She was pleased to see that everyone was aware of the transformation and investing in this.