

Press Release

Sir Ian Wood publishes Final Report from UKCS Maximising Recovery Review

Commissioned by the Rt Hon Edward Davey MP, Secretary of State for Energy and Climate Change, to conduct an independently led review of UK offshore oil and gas recovery and its regulation, Sir Ian Wood today, 24 February 2014, publishes his Final Report which provides more details of the new strategy for Maximising the Economic Recovery from the UK Continental Shelf (MER UK) as well as six key sector strategies focused on achieving this.

Sir Ian said: "I see this as a watershed opportunity to ultimately reshape the regulatory environment, extend the life of the UKCS and bring at least £200bn additional value to the economy over the next 30 years. We need to step up our game to maximise the recovery of our hydrocarbon reserves and attract more investment.

"My Interim Report highlighted the challenges now facing the UKCS: the number of fields has increased to over 300; new discoveries are much smaller; many fields are marginal and very interdependent; and there is strong competition for ageing infrastructure. In short, the UKCS is now a patchwork of interconnected and interdependent operations. There is also growing competition from many international offshore regions. At the same time, the present Regulatory function in the Department of Energy and Climate Change (DECC) has halved in size over the last 20 years and now lacks the broader capability and resources to perform the much more demanding stewardship role that is required."

In November, the Interim Report issued four core recommendations for consultation:

1. Government (HM Treasury and the new Regulator) and Industry must adopt a cohesive tripartite approach to maximise the huge economic value and energy security opportunities that still lie off the UK shores. The Final Report sets out the key principles of MER UK and the role each party will be required to play.
2. The creation of a new arm's length regulatory body in charge of effective stewardship and regulation of UKCS hydrocarbons. With broader skills and capabilities, the new Regulator should play a vital role in promoting collaboration and removing barriers to encourage more efficient recovery of UKCS hydrocarbons.
3. The new regulatory body to be given additional powers to facilitate implementation of MER UK and to encourage and influence collaboration in industry.
4. The Regulator, working with Industry, should develop and implement strategies to under-pin delivery of MER UK.

A prerequisite for the Review was that Industry should also give a clear commitment to collaborate and demonstrably work to the MER UK strategy.

These recommendations received overwhelming support from Industry in written feedback and at various meetings, as well as positive engagement and encouragement from DECC, HM Treasury and senior Government Ministers.

Sir Ian's Final Report takes this feedback into account and provides more information on how he sees MER UK working. It also outlines six sector strategies for the Regulator and Industry to take

forward to help achieve the MER UK outcome. These cover exploration, asset stewardship, regional development, infrastructure, technology and decommissioning and are summarised in the Notes to Editors.

Sir Ian said: “The proposals and limited new powers are much more about stronger and better stewardship, establishing standards and procedures for collaboration and dispute resolution, as opposed to more regulation. I am clear that the development of the UKCS must continue to be led by the operators, who provide the significant investment of funds, expertise and experience. The new Regulator’s role will be licensing, supervision and stewardship. It must be low in bureaucracy, high in skills and experience, and strong and pragmatic. It must be the catalyst for maximising the economic recovery by facilitating, co-ordinating, mediating and promoting collaboration, removing barriers, and encouraging more efficient exploration, development and production. In this way, the new Regulator will influence and guide investment decisions towards achieving the MER UK strategy.

“Recovering more oil and gas resources from the UKCS, and ensuring a fair return to investors for their commercial risk, will attract more players and investment, and will be to the benefit of all parties.”

“Of key importance will be the knowledgeable and better informed Regulator, working closely with HM Treasury, providing advice to inform fiscal decisions to meet the new challenges arising from maturity, and the opportunities from frontier areas and new plays,” he continues.

Sir Ian paid tribute to the industry and to Edward Davey. “The UK offshore oil and gas industry has made an immeasurable and vastly under-estimated contribution to the UK economy over the past 50 years,” he said. “This Review provides the opportunity for it to face its next 30 years and beyond, supported by a better resourced, more focused Regulator working with HM Treasury and Industry in greater collaboration to take us closer to the 24bn boe prize potentially to come. I am grateful to the Secretary of State, Edward Davey, for giving me this opportunity to pull together the views expressed by many fine people from DECC and other Government departments, as well as Industry and the wider UKCS stakeholders. The key to success of our industry is now in their hands.”

“I am delighted that Government is accepting all the principal recommendations in the Report and is moving ahead on a fast track basis. I believe this is essential. More importantly, it’s what industry wants and believes is right for the UKCS. Ultimately, this will place the UKCS in a much stronger position to recover more of the 24bn boe estimate that is the maximum still to be recovered.”

The Secretary of State, Edward Davey, has asked Sir Ian to chair an Interim Advisory Panel which will advise DECC on various policy, technical and operational issues in setting up the new Regulator. On the basis of Government’s fast track undertaking, he has agreed to do this.

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For further information, contact: Fiona Leese on 01224 619842 or fiona.leese@jwholdings.co.uk

Notes to Editors

1. **Evidence Base** – a large body of oral and written evidence was gathered during the course of the Review. The team conducted an initial 80 interviews with companies whose interests in the UKCS account for more than 95% of its production and investment, companies in the UKCS supply chain, key figures in DECC, HM Treasury, BIS, the Scotland Office and the Scottish Government and international regulators from the USA, Canada, Norway, the Netherlands and Australia. Around 75 written responses were provided in total by

companies with a licence interest, the supply chain, trade associations, oil and gas consultants and interested individuals. Presentations were also given at stakeholder forums, including PILOT, Oil & Gas UK's 2013 AGM, the Society of Petroleum Engineers, the British Offshore Oil and Gas Industry All Party Parliamentary Group and the Westminster Energy Forum.

2. The number of UKCS fields has increased from 90 to 300 in the last 20 years with 90% of current fields producing less than 15,000 barrels per day. The average discovery is now less than 25 million barrels.
3. As Britain's largest industrial investor, the success of its oil and gas sector is crucial for the UK. In 2012-13, the industry paid £6.5 billion in corporate taxes on production, over 15 per cent of all corporate taxes in the UK. In addition, it supports the employment of 450,000 people across the UK.
4. Since the earliest days of offshore exploration and production, the industry has invested £317 billion in the UK, and contributed more than £300 billion to the Exchequer.
5. Sector Strategies

In addition to the formation of the new independent Regulator, the tripartite approach between HM Treasury, Regulator and Industry and Industry's commitment to much better collaboration, the Regulator must work with Industry to evolve six key sector strategies focused on achieving MER UK. These are summarised below and set out in further detail in Section 4 of the Report.

- Exploration strategy – to revitalise exploration, thereby ensuring that the totality of the economically recoverable oil and gas resources on the UKCS both in existing and new plays are fully explored, appraised and exploited in a timely manner consistent with existing and potential new infrastructure. This should be facilitated by efficient access to well and seismic data, an appropriately tailored licensing regime, and encouraging appropriate data sharing within the regional development plans. Measures should also be taken to promote UKCS exploration opportunities internationally.
- Asset stewardship strategy – to ensure Operators are held to account for the proper stewardship of their assets and infrastructure consistent with their obligations to maximise economic recovery from the fields under their licences and with consideration to adjacent resources. In particular, Operators should be expected to develop, maintain and operate their assets and infrastructure at all times in an efficient and effective manner and should share their asset stewardship strategy with the regulator. The Regulator should set clear expectations on critical stewardship factors such as production efficiency¹ and recovery efficiency² and work with each joint venture partnership to ensure they are met.
- Regional Development strategy - to ensure the development of UKCS resources on a regional, rather than solely a field basis. Operators should be required, where appropriate, to co-operate with the regulator and with other licence holders in the wider adjacent area on all aspects of field and cluster development, from exploration through to decommissioning, with the overarching aim of maximising economic recovery from clusters of fields as well as from individual fields. This offers opportunities to jointly enhance value to both HM Treasury and to licensees to deliver the best economic outcome. Consistent with this and the increasing need to tie back smaller and more marginal discoveries into existing – and often ageing - infrastructure, licence holders should make their infrastructure and process facilities available, subject to their own capacity requirements and technical compatibility, at fair and economic commercial terms and rates to potential third party users.
- Infrastructure strategy – to ensure that the life of the existing infrastructure is prolonged to facilitate the processing, transport and export of the UK's offshore oil and gas resources, and investment in new key infrastructure is achieved. This strategy should be developed on a regional basis by the

¹ Actual production compared to the optimum achievable at any point in time

² Assessing recovery, focussing on progressing hydrocarbon resources through the maturation cycle through to reserves development and production

regulator and industry, to serve both MER UK as well as the commercial imperatives of individual licence holders.

- Technology strategy - to ensure existing technologies are deployed to their full effect and relevant new technologies developed to maximise recovery from the UKCS. There is an urgent need for Industry to focus in depth on the five of six most critical technology challenges. Doing so will encourage the UK to build further on its position as a global centre of expertise for offshore hydrocarbon basin exploitation.
- Decommissioning strategy – to achieve the maximum economic extension of field life and to ensure key assets are not decommissioned prematurely to the detriment of production hubs and infrastructure. To ensure that decommissioning is executed in a safe, environmentally sound and cost effective manner (consistent with the UK's international legal obligations) with sufficient early planning and co-ordination, and that as decommissioning progresses, the UK gains a competitive industrial capability. (This strategy does not consider the environmental permitting aspects of decommissioning, which are outside the Terms of Reference of this Review).

In implementing these strategies, operators will avoid unnecessary costs, delays and technical, legal and commercial complexity in their dealings with one another and with the Regulator. The development and implementation of these sector strategies should be a collaborative process between Industry, the Regulator and where appropriate HM Treasury, with Industry making available suitably qualified and experienced senior personnel to contribute to the task.