



Oil & Gas
Authority

PROTECTIVE MARKING
(as appropriate)

Oil and Gas Authority – A follow up on the “Call To Action”

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27 May 2015

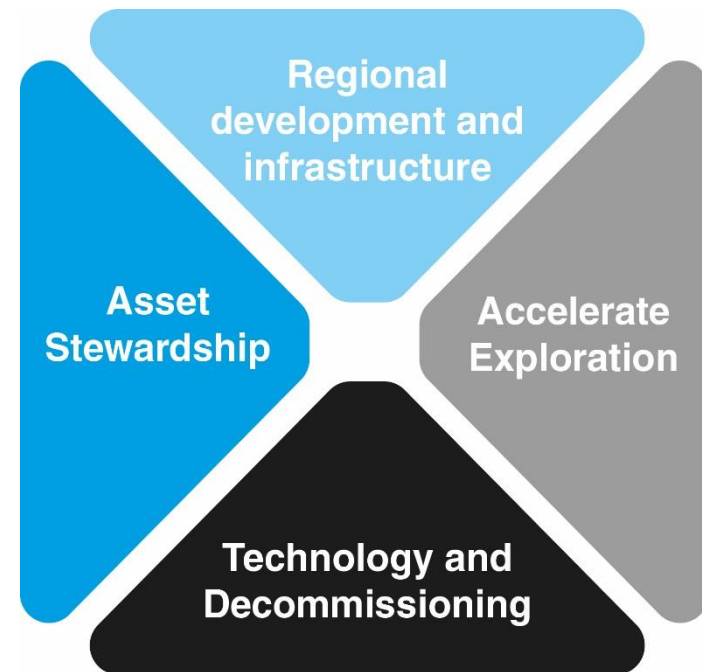


2014 Wood Review – MER UK

Key recommendations

- **Strong tripartite response** – Industry, Regulator, Treasury
- Urgent need for **enhanced stewardship** – assets, regions
- Commitment from **industry to collaborate**
- **New independent regulator** with additional powers and resources
- **Fiscal regime** to best suit the maturity of the basin

Sector strategies



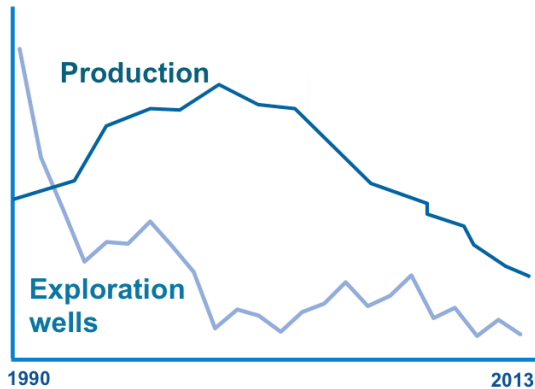
Prize of additional 3-4 billion boe

375,000 industry jobs to protect



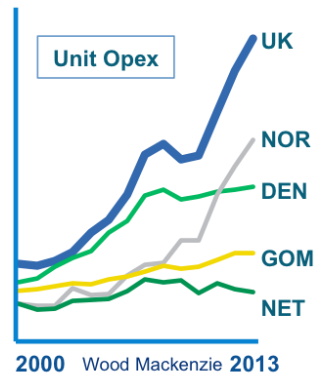
UKCS Challenges

Exploration & production decline



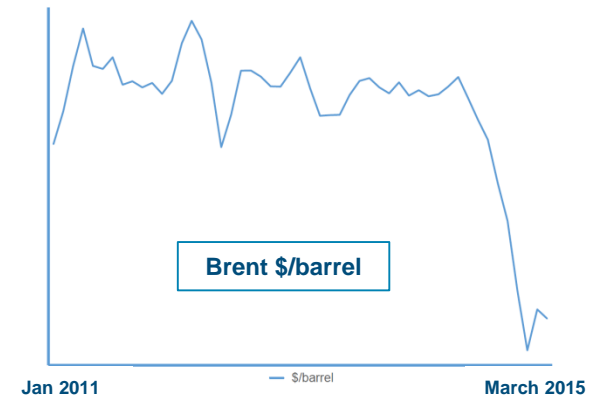
An all-time low for exploration and appraisal activity in 2014

Increasing costs



Lowest production revenue for nearly 2 decades

Sharp decline in oil price



Significant falls in investment predicted over the next three years

Economic challenges intensified since the Wood Review



OGA's "Call To Action" – Feb 2015

UKCS Immediate Priorities

NEAR TERM CHALLENGE

The risk that the profitability of producing fields will be insufficient to attract continued investment, leading to premature decommissioning of assets

PRIZE 1-2 bn boe RISK MITIGATION

Priority actions:

- Protect critical infrastructure
- Significantly improve production efficiency
- Create a competitive cost base

LONGER TERM CHALLENGE

The risk that confidence in the future potential of the UKCS will continue to decline, resulting in the failure to secure critical long-term investment

PRIZE 3-4 bn boe UPSIDE

Priority actions:

- Revitalise exploration
- Improve collaboration on decommissioning
- Drive investment
- Support the supply chain
- Develop people and retain skills

Risks and mitigating actions clearly defined



OGA's progress since launch

- OGA established as **Executive Agency** on April 1st 2015
- Full **Leadership Team** recruited, announced on May 12th

Progress against the “Call To Action” priorities

- Facilitating important **infrastructure agreements**
- Stepped up challenge on **asset stewardship**

- Advancing the 21st Century **Exploration Roadmap**
- Launching **Government-funded seismic** (frontier) in record time (summer 2015)

- Proactive role on Technology Leadership Board, Industry forums
- Dialogue with individual companies
- Informed **HMT fiscal decisions** (2015 Budget, and future Budgets)

OGA is in place and starting to play an effective stewardship role



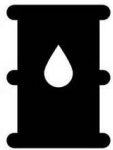
HMT – Driving investment



Decommissioning tax relief
and Relief Deeds (2013)



2015: Supplementary tax
reduced from 30% to 20%



Petroleum revenue tax
reduced from 50% to 35%



Confirmation of new basin-
wide investment allowance



£20m Government-funded
seismic – frontier areas

Future fiscal priorities

- OGA, HMT and Industry continue working in close collaboration per Driving Investment Plan
 - overall tax burden fall
 - wider benefits considered
 - global competitiveness
- Further work on options to incentivise exploration
- Decommissioning cost efficiencies

2015: £1.3 billion package of measures introduced



Decommissioning – Regulators' role

- **DECC**

- Offshore Decommissioning Unit (ODU)

- Decommissioning funding and security
 - Decommissioning programme – approach, regulatory compliance
 - Environmental risks and mitigations

- **OGA**

- Area Management Teams (NNS, CNS, SNS)

- Cessation of Production submission and approval
 - Logical and efficient decommissioning of key infrastructure
 - MER UK

- Decommissioning Team

- Technology, costs, and efficiencies
 - Industry learning and collaboration
 - Optimal business models

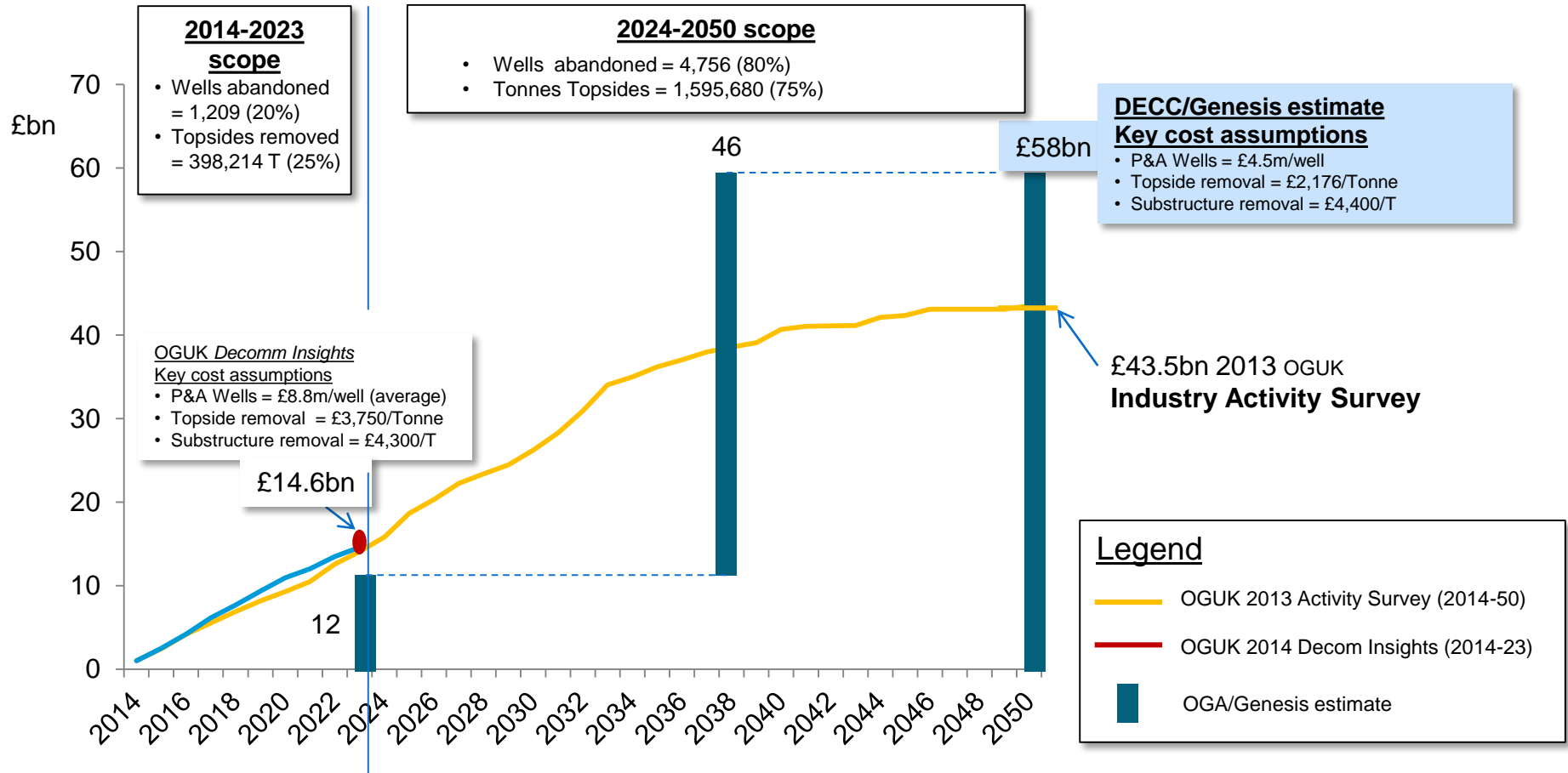


Decommissioning – Huge value at stake

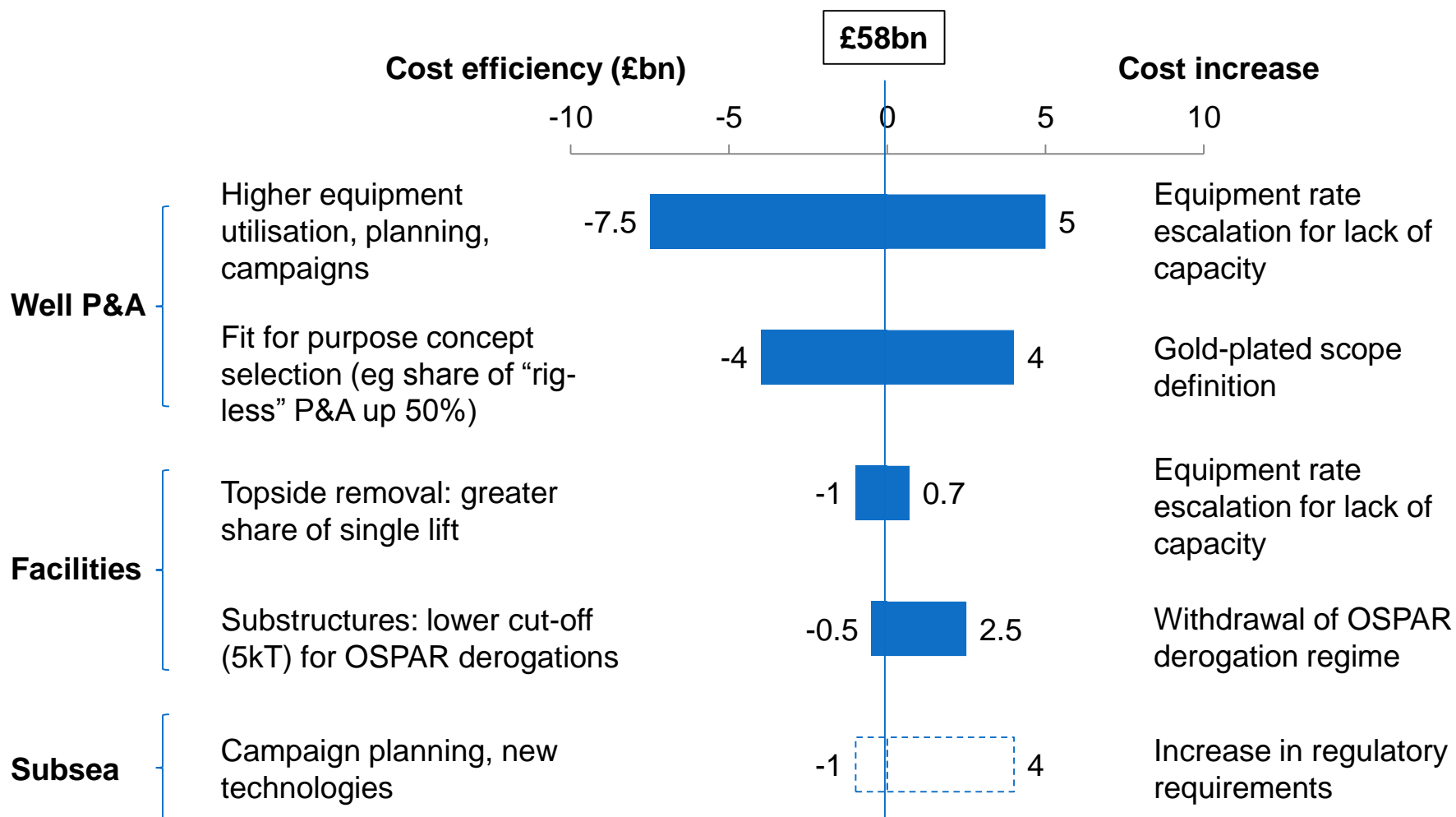
- **Small number of decommissioning programmes completed to date**
 - 5-10% of overall scope, ~15 large projects
 - Safe execution, but mixed results in terms of schedule and costs
 - Significant learning ahead (approach, technology, cost estimation)
- **In the next 5 to 10 years, activity to ramp up significantly**
 - OGUK projects spend to growth to circa £2bn p.a. over 5 years
 - 1000 wells, 100 installations or 25% of overall scope in the next decade
 - Risk of inefficiencies if approaches, technology and industry capacity (operators, supply chain) are not ramped up accordingly
- **Eventually, 5000+ wells, 400 installations – Industry estimates a total spend as of £43bn, 60% of which paid by the Government**

Estimates uncertainty – risk of cost escalation

UKCS CUMULATIVE DECOMMISSIONING SPEND (£bn, 2013 money)



Decom cost challenges & efficiency opportunities



Sources: Genesis, OGA

Estimate range £44bn to over £70bn

Efficiency sources – thoughts from recent industry discussions

Management of asset late life -- Pre-invest in decommissioning readiness; upfront planning

Assets in the right hands -- Mitigate obstacles to M&A; liability transfer; risk management

Early engagement with Regulators – efficient execution of regulatory requirements, lessons learned from previous programmes, proving/applying new technologies

Industry collaboration -- benefits from scale and scope, joint industry campaigns

Accumulate & share learning -- By companies, industry bodies, regulators, and with other basins

Standardisation -- to facilitate equipment sharing, learning transfer, efficiencies, reduce risks

Supply chain strategies -- capacity planning, fit for purpose equipment, risk allocation, incentives -- Programme management

Technology -- P&A, topsides preparation and removal, pipeline inspections/conditioning

Thank you for your attention

Questions?