



MER UK Forum Meeting, 19th May 2016

Opening Remarks Andy Samuel,

- Andy Samuel opened the meeting and thanked everyone for their attendance.
- He noted it was particularly welcome again to have such strong Ministerial involvement which highlighted the importance of the sector.
- He was grateful for everyone's input at the dinner and hoped that the meeting discussions would be as open.
- He highlighted his concerns about the industry's outlook and particularly the issues affecting the service sector – hence the MER UK Forum was again timely with important items on the agenda.

Anna Soubry, Minister for Small Business and Enterprise

- Anna Soubry thanked everyone in the industry for their work.
- The oil and gas Industry was definitely seen a high priority in her department.
- The inter-ministerial group were meeting regularly and a workforce plan would be published shortly.

OGA Update – Andy Samuel

- Since the last meeting in December the industry has seen strong government support with involvement from both the PM and the First Minister.
- The UK now has a globally competitive fiscal regime.
- The inter-ministerial group had been established to support the industry during these challenging times.
- The OGA has achieved a great deal by listening and working with industry, examples include:
 - a more flexible licensing regime is being introduced
 - 2015 seismic data has been released, seismic competition awards made, and a new seismic programme for 2016 is under way with tenders already being received.
- The MER UK strategy was introduced in January 2016, the terms of which are legally binding. He thanked the industry for their constructive dialogue during this process.

- It was recognised that attracting investment is a key element and there is a need to work cooperatively and collaboratively. OGA have been undertaking a lot of constructive dialogue with banks and investors.
- There was still considerable room for improvement around behaviours by companies in the commercial arena.
- There is still work to be done before OGA would be able to use their powers, including becoming a GovCo, secondary regulations being laid and approved, consultations and then workshops with the industry. Conversations would be welcome where industry representatives felt the need for further discussions with the OGA. The OGA were also looking into holding a workshop in Autumn to share guidance and thinking on how different regulatory powers will work and inter-relate along with sessions on the various new sector strategies.
- The excellent progress on operating costs was recognised, production efficiency has improved from around 60% to 70%, although the target of 80% by end 2016 looked challenging. Industry are keen that together we kept still higher aspirational targets, bench-marking against the best in others basins.
- There were still barriers to asset transfers although some of these had been solved in the last budget.

Asset Stewardship – Gunther Newcombe, OGA and Ray Riddoch, Nexen

- Gunther Newcombe reported that the group had a diverse board, including operators and contractors and was very clear on the focus areas and project optimisation.
- It was highlighted that cost and schedule over-runs in projects were a significant issue and OGA are undertaking a review on what the reasons for these over-runs were.
- The need to learn from other industries was stressed.
- Production last year was up by 10% (or 300k boe), which was down to production efficiency improving by 10% and production from new fields coming on-line.
- Lifting costs had remained challenging but improvement had been seen, with some fields achieving lifting costs of between \$6 and \$9 per barrel.
- Ray Riddoch brought up an example of a company's travel department saving £1.4m by challenging costs – resulting in a saving of 1.7 cents per barrel.
- Overall the feeling amongst industry was that the OGA was genuinely listening to industry's problems.
- Industry are grateful for the government funded seismic campaign, but nothing major such as drilling would be seen from this for a few years and the real issue was the low level of activity this year and next.
- OGA estimated that there are likely to be half the number of E+A wells this year compared to 2015, itself a record low figure.
- Operators were now beginning to change their behaviours, with a real improvement seen in sharing of information, but it was stressed that these improved practices would need to be maintained when the oil price increased.
- Take up from the government funded seismic had been large with 1000's of downloads. The 2016 tenders had closed that week (for West of Britain and East of Orkney) and take-up had been very good.

Amber Rudd, Secretary of State for Energy

- Highlighted the support provided by Government to the industry and in particular the PM's visit to Aberdeen and the Aberdeen City Region Deal.
- Delighted that the seismic campaign had been so successful.
- OGA working extremely well under the leadership of Andy Samuel.
- Stressed that the government is committed to supporting the industry and welcomed suggestions on how this could be done.
- She had visited Shetland the previous week for the opening of Total's Shetland gas plant which was a very positive experience as it demonstrated a commitment to the UK sector.

Deirdre Michie, Chief Executive, Oil and Gas UK

- Industry appreciates the support provided to by government.
- Even when oil had been a \$100 per barrel it had been recognised that there was a need to change and initiatives had been set up to address some of the challenges affecting the UK sector.
- There was concern about morale and safety and Oil and Gas UK are working closely with unions and HSE to address these.
- The real challenge for the industry was short term activity, industry are focused on 'staying the course'.
- Real concern for the supply chain due to a lack of orders.
- The question was what more could be done in the short term to stimulate activity.

Cost Efficiency – John Pearson, AMEC and Stephen Marcos-Jones, Oil and Gas UK

- Industry had done some "amazing" work by achieving 30% cost savings so far, but this had nearly bottomed out (and further large scale attempts could result in collateral damage) and the focus would need to be on efficiency rather than cost reduction from here on.
- We are now at the stage where the focus is now on 'less easily do-able' solutions.
- The board's approach was to focus on a small number of issues to completion – practical solutions required.
- Under the rationalisation project about 200k items of equipment had been exchanged between companies in the industry, which was seen as good progress, some wanted the project expanded to achieve a large warehouse that would serve the industries operating in the North Sea.
- A cross industry workshop had been held, this involved 30 companies identifying efficiencies, and looking at adopting a simplified approach and standardisation with a possible saving of up to 30%.

- Highlights from the board included:
 - Procurement – need to quantify wastage and remove it from the tendering process.
 - Logistics – seek to understand how collaboration can reduce costs, participants have been identified to progress the optimisation plan.
 - Workforce engagement – need to involve employees at all levels across companies and the industry.
 - Maintenance – regimes need to be simplified, the first draft of the maintenance optimisation guidelines has been completed.
- In order to deliver the behavioural change this sector needs to compete in a lower oil price world there needs to be a further step change in the culture.
- Workforce engagement in this process seen as critical – the workforce understand a lot of the processes better than anyone and have much to offer.
- It was noted that legal and commercial issues can be a barrier to progress – it was suggested this should be an area of focus at the next dinner.
- It was recognised that ultimately efficiency should be as embedded in companies as much as safety currently is.

Technology Leadership Board, Angela Seeney, Paul White, Sir Ian Wood

- The Technology Leadership Board is the most mature of the Boards, made up of experts in the field who are actively involved, many of them on a discretionary basis.
- Technology could be a key enabler for economic recovery, there was a need to adopt and adapt new technology. Big potential exports prize on offer.
- It was highlighted that there was a fear factor about new technology not working that needed to be overcome. Pilots and demonstration projects could play a key role in helping to reduce the perception of risk.
- A fundamental problem was funding, It was noted however that investment had recently been secured and collaboration is already paying dividends
- The industry is looking to improve the time it takes to deploy new technology as this can be significant. Companies could assist with this, the TLB are holding an industry event to enhance collaboration and route to deployment.
- There is currently not enough linkage to the commercial context of technology, so future discussions would lead on this and it was recognised that technology must be competitive and successful to win orders.
- There was a range of high quality centres of excellence across the UK who would be involved in key projects although there were concerns over loss of smaller technology companies.
- Strong progress had been made and the TLB were working on 4 key themes:
 - Small pools
 - Well cost reduction
 - Asset Integrity
 - Decommissioning

- Sir Ian Wood highlighted that the Oil and Gas Technology Centre was taking shape, the board had been elected and management appointments were
- under way. Four initial solution centres were being established with a target of Q4 2016
- £180m of government funding over 10 years should be matched by the private sector, however there was a strong case for a lesser contribution from the private sector in the next 3 years. There may have to be some form of dispensation from government, as currently the money was not there for investment. The possibility of industry providing match funding 'in kind' was discussed.
- Lessons could be learnt from other sectors such as aerospace and automotive.

Andy Samuel closed the meeting and thanked everyone for their participation.