



North Sea  
Transition  
Authority

# Supply Chain Report 2021

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Delivering success in challenging times

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Published by the North Sea Transition Authority

# Executive Summary

We are currently experiencing one of the most turbulent periods for the oil and gas sector. Even before Russia's invasion of Ukraine, there were significant impacts on the energy sector as the world battled with the COVID-19 pandemic and resulting economic downturn. Following the record low commodity prices of 2020, operators re-evaluated their plans with substantial reductions in both capital expenditure and operating expenditure – resulting in significant challenges for the supply chain.

2021, consistent with the latter parts of 2020, showcased the best and worst examples of industry behaviours. The North Sea Transition Authority (NSTA), previously the Oil and Gas Authority, continued to see innovation, collaboration and pragmatism in ensuring that there was no serious disruption to the nation's energy production despite vast logistical challenges posed by COVID-19. The industry came together in areas including logistics, emergency response and resource sharing. However, we also continued to see instances where collaborative behaviours were absent and an unreasonable burden was placed on the supply chain.

The ground-breaking North Sea Transition Deal (NSTD) was agreed last year between industry and government, setting out concrete steps for the energy transition, including the vital role of the supply chain. The deal provides an outstanding template of how the industry can seize energy transition opportunities, maintain security of supply and build long-term value for the UK.

We are working closely with all stakeholders to ensure a successful implementation of the deal, including its 50% commitment to local UK content.

Last year was a significant period for the NSTA, with the launch of our updated Energy Pathfinder portal, the publication of Stewardship Expectation 12 (SE-12), and the introduction of supply chain Stewardship Reviews. Our overarching aim was to drive a culture of value and collaborative relationships between operators and suppliers.

This report highlights areas of delivery and opportunities for continued improvement, including priority areas for the supply chain, such as faster payment terms – where we are pleased to note that 71% of invoices were paid by operators within 30 days last year.

# Introduction

The NSTA is working with government and industry to provide energy security options with lower carbon emissions, accelerate the transition to net zero and ensure the delivery of the NSTD.

This report builds on previous publications to explain how we are using regulatory tools, data, influence and collaboration in support of building a capable and competitive supply chain to deliver success for the whole UK Continental Shelf (UKCS).

## How we support the supply chain



We have developed the following four tools to effectively engage, regulate, monitor and influence operator procurement and contracting behaviours:

### Stewardship Expectation 12

- Standard payment terms
- Visibility of upcoming work
- Reducing burden and adding value
- Collaboration with supply chain
- Alignment with cross-industry initiatives

### Stewardship Reviews

- **Tier two reviews** – corporate principles and strategies
- **SE-12 alignment**

### Supply Chain Action Plans

Supporting evidence of:

- Value-adding contracting
- Innovative solutions
- Early supply chain engagement
- Mid and end of project reviews
- Local content voluntary commitments

### Enhanced Energy Pathfinder

Providing early visibility of:









- Field developments
- Decommissioning projects
- Energy transition projects
- Opportunities for collaboration/campaigns
- Key project contacts
- Indicative timings

The tools are by their nature integrated. We meet regularly with operators in **Stewardship Review** meetings to discuss their supply chain practices, and to facilitate these discussions we refer to the key elements of the supply chain **Stewardship Expectations**, their **Supply Chain Action Plans (SCAPs)** and engage on the use and benefit of **Energy Pathfinder**.

We draw on information provided in the annual stewardship survey, SCAPs and Energy Pathfinder.

The following sections of this report summarise the lessons, actions and insights gained through our engagement with industry, using these four tools.

## Developing the tools

2016	2018	2020	2021
 <p><b>Lessons Learned project identified that:</b></p> <ul style="list-style-type: none"> <li>• UKCS project delivery was frequently late and over budget</li> <li>• Promoting a competitive and collaborative supply chain seen as key to future success</li> </ul>	 <p><b>SCAPs developed in response to Lessons Learned</b></p>	 <p><b>Primary legislation and Energy White Paper target net zero by 2050</b></p>	 <p><b>NSTD voluntary commitment from industry to:</b></p> <ul style="list-style-type: none"> <li>• £16 billion investment in new energy technology</li> <li>• Achieving 50% local UK content by 2030</li> <li>• Supporting Prompt Payment Code</li> </ul>
		 <p><b>Our Strategy revised to incorporate net zero</b></p>	 <p><b>SE-12 developed in response to revised Strategy</b></p>
		 <p><b>NSTA working closely with operators to resolve immediate supply chain challenges</b></p>	 <p><b>Energy Pathfinder enhanced</b></p>

# Stewardship Expectation 12

## The Expectation

The NSTA expects collaboration and co-operation with the supply chain to support the delivery of activities on time and on budget.

This comprises:

- **Payment terms**, including supporting 30-day payment
- Visibility of upcoming work, including use of the **Energy Pathfinder** system
- **Reducing burden and adding value**, including fit-for-purpose tendering processes and use of industry-standard contracts where possible
- **Collaboration with the supply chain**, moving away from adversarial practices and introducing mutually beneficial approaches and ensuring correct use of SCAPs for all projects
- **Alignment with cross-industry initiatives**, including the Offshore Energies UK Supply Chain Principles and the NSTD.

Used coherently, these expectations are there to ensure parties are acting reasonably and fairly in their engagement with the supply chain and pursue value-adding contracting strategies, including the promotion of these expectations to the wider supply chain.

## The results – so far

Using the NSTA's 2021 Stewardship Survey responses, we can report the following data relating to invoice payment terms:



More than **475,000 invoices received** by operators



**71%** of operator invoices **paid within 30 days**



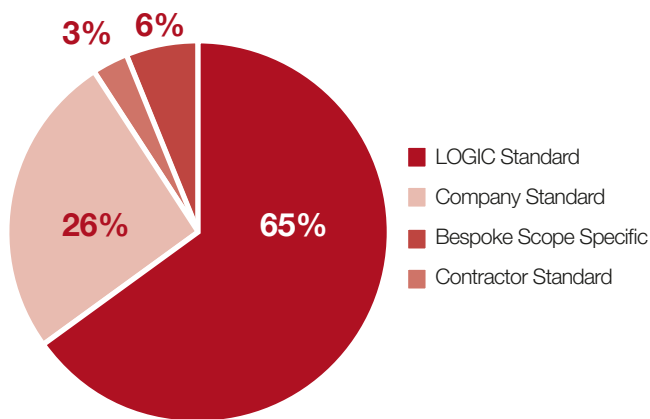
**Over 98%** of invoices paid without dispute by operators

While it is encouraging that so many invoices are being processed without dispute, the fact that 29% of invoices submitted to operators are not paid within 30 days indicates that contracts are still being placed with extended payment terms, and are subject to unnecessary delay.

## Use of industry-standard contracts

The 2021 Stewardship Survey provides valuable insight into the use of industry-standard contracts as a means of reducing contracting burden:

### Contract model utilisation

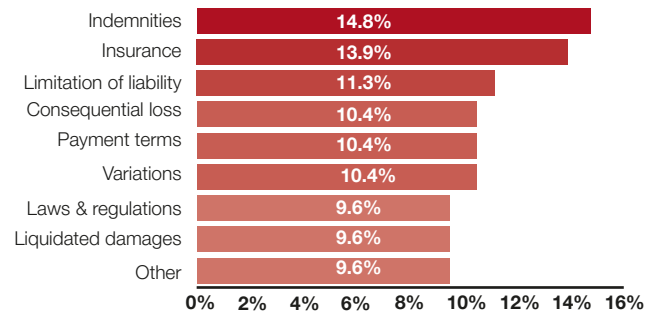


In early 2021, we conducted an agile project with a panel of industry experts to explore ways of reducing burden in tendering. The main finding was that greater use of Leading Oil & Gas Industry Competitiveness (LOGIC) terms and conditions with minimum material deviations would reduce time and costs associated with tendering.

Operators were asked the following questions in the Stewardship Survey:

- i) who still uses LOGIC?
- ii) of those using LOGIC, in which areas do you deviate from the original wording?

## Amended sections in LOGIC



The data gathered through the Stewardship Survey clearly displays that the majority of operators still use LOGIC standard contracts, and that the main areas of change are in indemnities, insurance and the limitation of liability. Excessive changes to LOGIC standards may lead to an increase in tendering burden and costs, misalignment of risk and the breakdown of relationships between seller and buyer. Further surveys, tier reviews and SCAPs will be used to gather more data regarding the reasons behind these deviations and any potential solutions will be discussed with stakeholders.

# Supply Chain Action Plans

SCAPs were introduced in 2018 to provide evidence that operators are deriving maximum value from UKCS project activity and are well positioned to deliver on their Field Development Plan and/or Decommissioning Programme commitments. SCAPs enable operators to highlight how they intend to contribute towards total value add through fair and open engagement with their supply chain and provide evidence of robust invitation to tender assessment processes.

As SCAPs have evolved over the last four years, we have moved to a more proactive and collaborative relationship with operators' supply chain teams. We are using SCAPs, together with our other tools, to influence performance, behaviours and relationships that operators have with their supply chain. Lessons learned and expected behaviours are discussed further in the Stewardship Reviews section of this report. In one encouraging instance, an operator requested that subcontracts awarded by the tier one service company carried the same 30-day payment terms. This was achieved through SCAPs, promoting SE-12 and the willingness and understanding of the operator to make a positive change.

One of the first SCAPs the NSTA approved related to CNOOC International's Buzzard Phase II project, which provided an excellent example of engagement, trust and innovation. CNOOC formed an integrated project team with its 'alliance' of five supply chain partners, working on-site at its Aberdeen office, and using an incentivised commercial model. The team achieved first oil within the sanctioned budget and ahead of the revised schedule, which was impacted by COVID-19.

This demonstrates that closer collaboration with the supply chain greatly improves the likelihood of a successful project. More information about this positive example can be found in Appendix 1.

## SCAPs received in 2021 financial year



**13 SCAPs with a total project value of £1.4 billion**



**9 SCAPs with a total project value of £3.6 billion**

With a combined £5 billion of activity already committed in the next five years, the outlook for the supply chain is positive. Additionally, carbon capture and storage, platform electrification and hydrogen projects will present considerable future opportunities for the supply chain, with up to £16 billion of investment pledged by 2030 through the NSTD.



## SCAPs – lessons learned

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- Early engagement with the supply chain is key
- Earlier engagement allows the supply chain to offer innovation in design
- Defined project deliverables should be clearly outlined in tender packages
- Reduce the number of interfaces and empower the supply chain to deliver requirements
- Supply chain led projects can result in time and cost benefits
- Suppliers themselves will often have mature supply chains where goods and/or services can be called upon quickly
- A manageable tender list is crucial to ensuring a timely outcome

# Stewardship Reviews

We conducted 12 Stewardship Reviews last year. The purpose was for operators to provide lessons learned and feedback at functional contracts, procurement and operational project levels. These reviews are an important vehicle for monitoring compliance with SE-12 and provide operators with an opportunity to raise any issues with us.

## **Industry resilience and collaboration**

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The unprecedented challenges of COVID-19 and market uncertainty did not prevent fantastic examples of collaboration between operators and the supply chain emerging. Many existing practices did not provide practical solutions to protect both parties from being disproportionately impacted by the pandemic. To address this, companies showed flexibility and collaboration in contracting, including:

- Faster payments
- Waiving of penalty clauses
- Additional standby payments and reduced standby rates
- Expedited contract extensions
- Rate revisions in line with material costs and inflation
- Flexible delivery and completion dates
- Collaborative processes aiding project delivery

## **Stewardship Review lessons learned**

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Early supply chain engagement can unlock:

- Efficient tendering
- Access to creative and innovative technology
- Investment in research and development
- Confidence in alternative contract models

Feedback from operators suggests that the need for strong, collaborative relationships with contractors is crucial to project success, while onshore and offshore teams must be empowered to make decisions without being stifled during execution by contractual differences.

## Tendering practices

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Bundled bidding, which involves including multiple worksopes in one tender, is a successful way of engaging with diverse supply chains and accessing novel technology.

We are informed, both through SCAPs and anecdotally, that isolated examples of poor behaviour remains, including unpaid design competitions or front-end engineering and design (FEED) studies. However, we are encouraged to find that those assessed via our Stewardship Reviews are all fully funded.

Disappointingly, “lowest cost technically feasible” is still the primary factor in the contractor selection process. Industry needs to shift at pace to value-adding contracting, which delivers superior results. This approach also encourages UK supply chain companies to invest in the technologies needed to achieve UK net zero targets.

## Remuneration and contract models

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Fixed-price and lump-sum contracting provides cost certainty and, for that reason, remain popular. However, earlier and more meaningful engagement with the supply chain can cultivate alternative models, such as ‘gainshare’, which equates a supplier’s earnings with improved vendor profitability resulting from the services provided – and is a win-win for all parties.

At a time when activity levels were low, there was an example of an operator and a contractor agreeing an innovative deal, which helped kick-start a North Sea oil and gas project. The operator agreed to cover the contractor’s costs, while profits were linked to the resulting production volumes. This ensured behaviours, cultures and targets were completely aligned for the duration of the project and resulted in success.

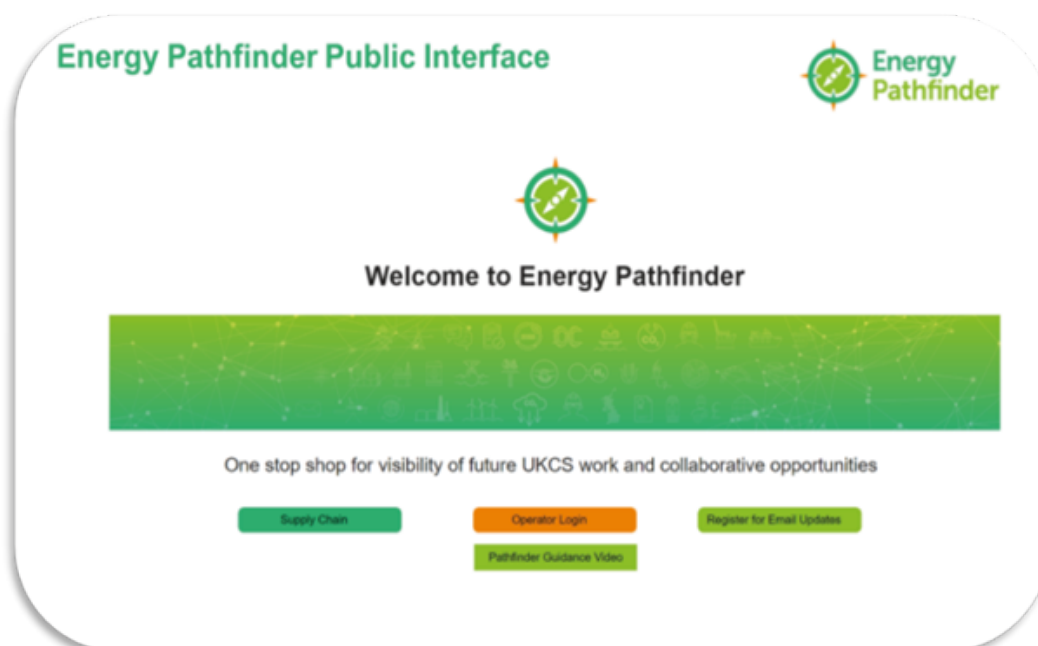
# Energy Pathfinder – a breakthrough in project visibility

Energy Pathfinder was revamped in 2021 to provide industry with a unique and free service. Pathfinder helps supply chain companies pinpoint and target upcoming project opportunities and contracts.

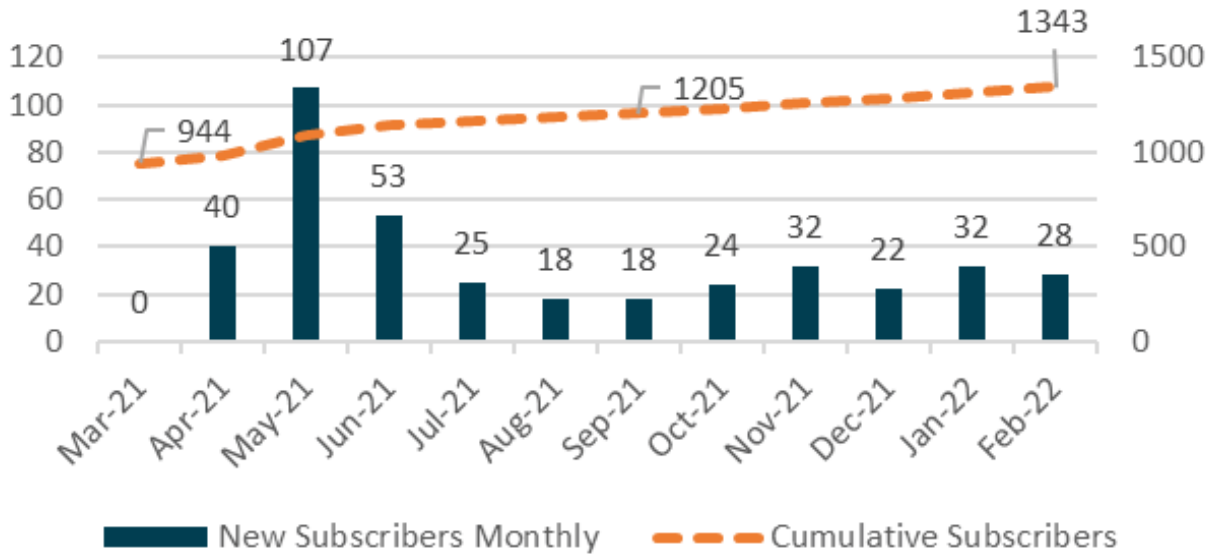
The system provides a real-time, in-depth overview of more than 140 current and future projects, covering full-cycle oil and gas and energy transition developments, including carbon capture and storage, hydrogen and offshore power generation. This wealth of information helps to drive valuable supply chain investment in skills and technologies.

Following extensive development work, the resource now boasts:

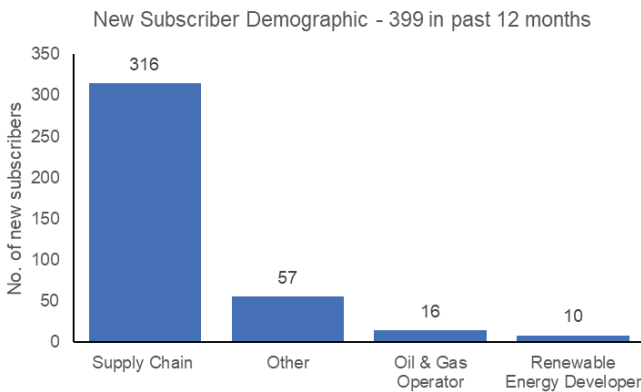
- Information about possible well plug and abandonment campaign opportunities
  - A new interactive Energy Pathfinder interface on our website which hosts all the information
- More detailed information on projects, including wells to be decommissioned
  - Forward work plans, which provide details of upcoming tenders for operations and maintenance contracts



## Developing the tools



### New subscribers



### Service sector company – AqualisBraemar LOC Group

“It has been so difficult in the last couple of years to get access to opportunities. We can’t meet people and go to events. It is so difficult to get business like that. A platform like this is potentially crucial.”

### Operator – Perenco

“We had exhausted the local labour resource pool and were unable to resource our projects, which if not resolved would have directly led to a first gas delay. After discussions with the NSTA we created a new entry within the Pathfinder system, highlighting our urgent needs. A bespoke notification was subsequently created by the NSTA to all supply chain subscribers within the Pathfinder network. The notification prompted considerable dialogue with suppliers who Perenco would not usually engage with. Those parties were able to support our labour requirements, which allowed us to maintain our schedules. Pathfinder allowed us to access suppliers and service companies that would have usually been unknown to us and ultimately supported our execution plans.”

# Conclusion

A strong and competitive supply chain has been fundamental to the success of the UK oil and gas industry over the last 50 years. Well-established relationships between operators and suppliers enable the offshore sector to continue to deliver value through the most challenging times this industry has faced since first oil was produced in the 1960s.

The supply chain can and will continue to adapt with UK expertise increasingly at the forefront of new and exciting energy transition projects, helping our indigenous industries deliver net zero targets at pace.

Outdated industry practices and behaviours, for example unpaid FEED studies, impact value creation and place unnecessary burden on the supply chain.

We recognise the vital role the supply chain plays in efficient project delivery and continue to engage extensively with industry, listening

to concerns and proactively developing tools aimed at creating a fair and equitable contracting environment. The NSTA has provided greater transparency of upcoming project opportunities to the supply chain with the introduction of SCAPs. We use SCAPs to monitor how much work is being placed with UK companies and are assisting industry to define what constitutes local content. The SCAPs process will enable us to track activity, in line with the NSTD, and set clear expectations with a robust process to monitor compliance.

These measures are a crucial element to ensure our industry retains its prominence as a global leader in offshore project delivery.

# Appendix 1: BPll alliance delivering value through collaboration

*CNOOC International engaged early and collaboratively with the supply chain to develop competitive alliance offers to deliver the Buzzard Phase II Project. The chosen alliance: AGR, Baker Hughes/GE, COSL, Subsea 7 and Worley was selected as it offered an integrated, collaborative and outcome-focused approach to delivering the project.*

*As an integrated team, CNOOC and its alliance partners were jointly focused on the safe and efficient delivery of first oil and water injection in 2020. However, schedule commitments made at sanction could no longer be met due to the COVID-19 pandemic and the deferral of the Forties Pipeline System (FPS) shutdown into 2021. The final shutdown dependent hook up activities associated with the project were aligned to the FPS outage. These external impacts were pro-actively managed by the alliance and a revised schedule was developed targeting first oil in the fourth quarter of 2021, which was successfully achieved. The alliance and asset teams also executed the project without contributing to a single lost/deferred barrel of Buzzard production.*

*The alliance worked collaboratively to minimise schedule and cost impacts and drive the attainment of the revised first oil and water injection dates. The final project cost included the extensions of time, COVID-19 costs and other cost inefficiencies related to the external impact of COVID-19. Inclusive of these impacts, the project was successfully*

*delivered under the sanctioned project value.*

*The Engineering Construction Industry Training Board collaboration toolkit was used as a model to benchmark alliance culture and behaviours throughout the project. There was particular emphasis on early project workshops, team connections, creation of a project charter and focus on establishing a shared outcome-focused vision by the alliance parties. CNOOC and the alliance management regularly and critically examined behaviours through the project's execution.*

*The integrated project team worked collaboratively to deliver the pre-determined, outcome-focused goals. A high level of integration, trust, collaboration and effective outcome-focused incentivisation reduced risk and drove value throughout the project.*

*The project will be the focus of a post-execute review held by CNOOC and its partners on the Buzzard field. It is expected this will provide valuable lessons for the application of collaborative supply chain models for future projects.*

**Steve Cooper, project manager, Buzzard Phase II, CNOOC International**

