THE OIL AND GAS AUTHORITY’S WRITTEN EVIDENCE TO THE SCOTTISH AFFAIRS COMMITTEE INQUIRY INTO THE FUTURE OF THE OIL AND GAS INDUSTRY

EXECUTIVE SUMMARY

- The Oil and Gas Authority (OGA) regulates the exploration for, and development and production of, the UK’s offshore oil and gas resources. As such, this submission is highly relevant to the Committee’s Inquiry but is not specific to Scotland.

- The OGA has a “central obligation” to maximise the economic recovery of oil and gas in the UK Continental Shelf (UKCS) (MER UK).

- The OGA not only regulates the sector but also influences behavioural change. The focus of the OGA is to embed the regulatory regime and grow our authority to drive improved commercial, operational and technological performance across the UKCS.

- The OGA works closely with industry and government, including the Department for Business, Energy and Industrial Strategy (BEIS), HM Treasury and other government departments, providing expertise and evidence where appropriate. In addition, the OGA works with the Scottish Government to influence positively the industry’s future opportunities.

- The OGA is helping to create the right conditions and act as a catalyst to help industry succeed amid what have been difficult market conditions. Oil and gas production over the period 2016–2050 is now projected to total 11.7 billion barrels of oil equivalent (boe). Since the creation of the OGA, 3.7 billion boe have been added to the central production forecast out to 2050.

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1. It also regulates England’s onshore oil and gas resources and the UK’s offshore carbon storage and gas storage and offloading activities.
In the latest (30th) offshore licensing round in May 2018, the OGA offered for award 123 licences over 229 blocks or part-blocks covering 26,659 km² to 61 companies, opening up potentially 320 million boe of resource in undeveloped discoveries.

Working closely with government and industry, the OGA is also helping to deliver significant performance achievements

- UK oil and gas production has increased from 1.4 million boe per day (boepd) in 2014 to 1.6 million boepd in 2017
- Unit operating costs have fallen from £19 per barrel in 2014 to £12 per barrel in 2017
- Production efficiency on the UKCS has risen for a fifth consecutive year, increasing to 74% in 2017

The OGA has published a number of Strategy Documents identifying its key priorities and setting out the strategic direction of how the OGA and industry will work together to maximise MER UK. These are:

- Revitalising exploration
- Improving asset stewardship
- Driving regional development and protecting critical infrastructure
- Improving supply chain efficiency
- Leveraging technology and data
- Creating the right conditions

Looking forward, it is important that the industry holds onto the efficiency gains made in recent years and builds on improving commercial behaviours, cultural change, supply chain partnering and uptake of technology. These behaviours are vital to achieve MER UK.
INTRODUCTION

1. Significant hydrocarbon resources and economic value remain to be realised from the UKCS – some 10 to 20 billion boe of resources are estimated to remain compared with the 44 billion boe that has been recovered so far.

2. The OGA estimates UK reserves are approximately 5.7 billion boe (probable) with significant opportunity to add to reserves by maturing the UK’s considerable contingent resources: the OGA estimates there are 7.4 billion boe of discovered undeveloped resources. It is important that the sector has the right long-term plans to capture this value. To this end, the OGA is supporting operators to bring forward the next generation of high quality field developments. So far in 2018, the OGA has approved four field development plans with around 50 others at various stages of discussion.

THE ROLE OF THE OGA

3. Created in April 2015 as one of the key recommendations of Sir Ian Wood’s 2014 Maximising Recovery Review\(^2\) the OGA became a government company on 1 October 2016. The OGA’s role is to regulate, influence and promote the UK oil and gas industry to maximise the economic recovery of the UK’s oil and gas resources (MER UK).

4. The OGA has a critical role to influence and encourage a culture of greater collaboration on the UKCS, improve commercial behaviours and help enable a more efficient industry. We also promote investment in the UKCS, create value in the UK through exports and develop the prosperity of the industry including wider supply chains.

5. Further information about the role of the OGA is available at: https://www.ogauthority.co.uk/.

Use of regulatory powers

6. To aid in the delivery of its objectives, the OGA has a range of powers at its disposal. These powers are:

- **Licence model clauses** – setting out the terms and conditions of an oil and gas licence
- **Information and samples** – requirements for the retention and disclosure of information and samples

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Meetings – the OGA has the right to attend meetings between companies operating in the UKCS

Non-binding dispute resolution – powers to consider disputes formally and make a non-binding recommendation

Third party access – powers to impose binding terms for access to upstream petroleum infrastructure

Sanctions – the OGA has the power to impose sanctions where a person has failed to comply with a ‘petroleum-related requirement’. These sanctions include Enforcement Notices, financial penalty notices up to £1 million, licence revocation and operator removal

7. Most issues are addressed and resolved through the stewardship process. Occasionally, MER UK needs more active facilitation and these issues are recorded on the OGA’s case register. When an issue begins to threaten MER UK, the level of facilitation increases.

8. Should enhanced facilitation fail to resolve the issue and the OGA considers that its resolution warrants the resources needed to do so, there is a further escalation to formal intervention. In some cases, formal intervention will lead to the use of one of the OGA’s powers. In each such case, the OGA decides which of its powers is most likely to secure MER UK.

IDENTIFYING PRIORITIES AND DELIVERING SUCCESS

9. The OGA has published a number of Strategy Documents identifying its key priorities and setting out the strategic direction of how the OGA and industry will work together to maximise MER UK. The OGA is doing all it can to help deliver real value to the oil and gas sector. With continued support from the industry and government, real progress has been made.

Revitalising exploration

- The OGA is working to maximise the economic recovery of hydrocarbons from the UKCS by creating an environment that stimulates exploration activity leading to the discovery of new oil and gas reserves.

- The OGA has made available unprecedented amounts of exploration data, including new and reprocessed government-funded seismic data plus data on wells, prospects, geological mapping and lessons learned. This has helped generate new interest in UKCS oil and gas acreage. In 2017, the OGA announced the results of the 29th Offshore Licensing Round, focusing on frontier areas and making use of government-funded seismic data. The OGA offered for award 25 licences for 111 blocks or part-blocks to 17 companies.

- In May 2018, as part of the 30th Offshore Licensing Round, the OGA offered for award 123 licences over 229 blocks or part-blocks to 61 companies. This round, which focused on mature areas and undeveloped discoveries, was one of the most significant in recent decades, offering 26,659 km² for award, fully introducing the
OGA’s new flexible ‘Innovate’ Licence and opening up potentially 320 million boe of resource in undeveloped discoveries. It is being followed in summer 2018 by the 31st Offshore Licencing Round which will again focus on less-explored areas of the UKCS and is supported with new openly available government funded seismic data, released to industry in November 2017.

**Improving asset stewardship**

- Asset stewardship is crucial to maximising economic recovery from the UKCS and to delivering greater value overall. Effective stewardship means that asset owners consistently do the right things to identify and then exploit opportunities and that assets are in the hands of those with the right behaviours and capabilities to achieve MER UK.

- In 2016, the OGA published its Asset Stewardship Strategy. The new asset stewardship regime is proving highly effective by using benchmarking to help raise performance across areas including production efficiency, recovery factor, cost efficiency and decommissioning costs. The introduction of proactive, structured and prioritised tiered reviews with operators has allowed the evaluation and improvement of asset stewardship.

**Driving regional development and protecting critical infrastructure**

- The OGA has worked closely with operators, licence holders and other interested parties to develop Area Plans across the oil and gas life cycle that integrate exploration, development, production, operations and decommissioning to maximise economic recovery – for example, through the optimum use of infrastructure to extend the life of hubs. Area Plans are a shared view amongst industry participants of the optimal way to achieve MER UK in a specific set of circumstances. They cover a number of strategically important areas that potentially contain up to c.4 billion boe of resource. Industry will lead on developing and delivering the plans.

**Improving supply chain efficiency**

- Revitalising exploration and maximising economic recovery of the UKCS is dependent on having a competitive and competent supply chain. The OGA encourages and supports operators working appropriately with the supply chain via Supply Chain Action Plans (SCAPs). Operators will be required to develop action plans in respect of all new projects including decommissioning activities. The purpose of the SCAPs are to help operators demonstrate their contract strategies and concepts are comprehensive and will deliver ‘best value’ in accordance with their Field Development Plan or Decommissioning Programme.

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3. [https://www.ogauthority.co.uk/media/2836/asset_stewardship_strategy_2016.pdf](https://www.ogauthority.co.uk/media/2836/asset_stewardship_strategy_2016.pdf)
4. [https://www.ogauthority.co.uk/exploration-production/area-plans/](https://www.ogauthority.co.uk/exploration-production/area-plans/)
5. [https://www.ogauthority.co.uk/media/4516/scap-guidance-december-2017.pdf](https://www.ogauthority.co.uk/media/4516/scap-guidance-december-2017.pdf)
Leveraging technology and data

- The adoption, adaption and development of technology has the potential to transform field development, production performance and cost effectiveness in the UKCS. Working with the Technology Leadership Board (TLB) and the industry, the OGA has defined a Technology Delivery Programme aiming at making the UKCS once again globally competitive. The Technology Delivery Programme describes how and when key activities will be delivered through the joint work of the OGA and other stakeholders including the TLB and the Oil and Gas Technology Centre (OGTC) in their work in providing demand-led industry priorities and facilitating engagement with industry, academia and government.

- Data, information management systems and their exploitation can help improve commercial, operational and technical performance. Working with industry, government, and the research community, the OGA is committed to overcome current constraints on technology innovation and commercialisation. The OGA introduced the annual UKCS Stewardship Survey which replaced nine earlier surveys and reduced complexity, time, effort and burden on operators and the OGA. Data from our Stewardship Survey has enabled the publication of reports covering Production Efficiency, Reserves and Resources, Decommissioning Cost Estimates, and Unit Operating Costs which set benchmarks and inform industry and stakeholders.

- A newly designed Open Data Centre is now available and the establishment of the UK’s first National Data Repository in early 2019, supported by new regulations on petroleum-related information and samples, will enhance industry collaboration, preserve data and help create the conditions to drive investment and new technologies.

Creating the right conditions

- The OGA is working with government and industry to embed cultural change via the asset stewardship expectations, promoting the UKCS to attract new and diverse sources of long-term capital funding and protect existing investment and working with investors to identify barriers to investment and ways to mitigate them.

- The OGA is working in partnership with industry to develop a compelling ‘Sector Deal’ for oil and gas that will support greater action towards achieving the Vision 2035 goals.

WORKING WITH INDUSTRY & STAKEHOLDERS

10. The OGA works closely with industry and government, including BEIS, HM Treasury and other key government departments, providing expertise and evidence where appropriate. The OGA works with a range of stakeholders including the Scottish Government to influence positively the industry’s future opportunities.
**MER UK Forum**

11. Significant collaboration with industry takes place via the MER UK Forum and related Task Forces. The MER UK Forum brings together government, industry and the OGA and gives strategic direction, oversight and support, helping to create alignment, accountability and collective action on key priorities. UK and Scottish Government ministers, industry leaders and representatives of the OGA attend the meetings which take place twice a year.

**MER UK Steering Group**

12. The Steering Group has oversight and co-ordinates the work for the six MER UK Task Forces, discusses and reviews strategic matters and ensures that key topics are discussed at the MER UK Forum.

**MER UK Task Forces**

13. There are six MER UK Task Forces, each led by an industry representative with support from the OGA and Oil & Gas UK. The task forces are important vehicles for driving innovation and improvements in support of MER UK. The six Task Forces are:

- Asset Stewardship Task Force
- Decommissioning Task Force
- Efficiency Task Force
- Exploration Task Force
- Supply Chain and Exports Task Force
- Technology Leadership Board

**Industry Cultural Change Champion**

14. Early in 2017, Steve Phimister, VP and Director, Shell UK, was appointed Industry Cultural Change Champion. The requirement for cultural change across the UKCS was identified in the Wood Review and while the OGA has seen some excellent examples of collaboration there are still some instances of poor behaviours which may act as a barrier to MER UK.

15. The role of the Industry Cultural Change Champion, alongside the task forces leaders, is to act as a catalyst for behavioural change to embed, sustain and accelerate the cultural change of the industry through the integration, prioritisation and sponsorship of change activities.

**Technology Leadership Board (TLB)**

16. The TLB gives a single voice on technology for the industry, defining the technology vision and strategy for the oil and gas industry to achieve MER UK and increase exports. The TLB is co-chaired by the OGA and industry and collaborates with the other MER UK
Boards to agree synergies and alignment to maximise benefits and avoid the duplication of effort.

**Scottish Government Oil and Gas Industry Leadership Group (OGILG) and Scottish Government Energy Jobs Task Force (EJTF)**

17. The OGA sits on the Scottish Government’s oil and gas industry leadership group and actively feeds into the development of initiatives to support the industry and supply chain in Scotland. The OGA actively supported the work of the Scottish Government’s EJTF in looking at ways of reducing job losses in the industry and mitigating the negative effects which arose from the recent economic challenges facing the industry.

**VISION 2035**

18. The OGA has worked with the industry, government and other relevant stakeholders to develop a single, compelling vision for the UK oil and gas industry.

![Graph showing revenue and turnover projections for 2014 to 2035.](image)

**KEY AREAS FOR FURTHER ENGAGEMENT**

19. Looking forward, it is important that the industry holds on to the efficiency gains made in recent years and builds on improving commercial behaviours, supply chain partnering and uptake of technology.

**Commercial Behaviours**

20. The OGA has reaffirmed its focus on the importance of collaboration and urged industry to increase the pace at which licensees develop a culture of collaboration internally and externally within existing joint venture (JV) partnerships and beyond.

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21. Further to the recommendations of Sir Ian Wood’s 2014 Maximising Recovery Review, collaboration was incorporated in the Petroleum Act 1998 as a key part of delivering the principal objective of maximising economic recovery of petroleum in the UK (MER UK). Through the MER UK Strategy, collaboration was elevated from being a matter of general practice to a statutory obligation.

22. The OGA’s Asset Stewardship Collaboration Implementation Guide details how an organisation can show it is meeting the OGA’s requirements for this stewardship expectation, including the use of a recognised collaborative behavioural assessment tool within their JV and acting by voluntary codes of practice and charters.

23. The OGA has published its Collaborative Behaviour Quantification Tool (CBQT) with supporting guidance. Developed with industry to give an assessment of collaborative behaviours, it covers areas such as negotiations, ability to learn and share experiences and constructive and flexible attitudes to change. Following a successful pilot with Chevron North Sea Limited in Q4 2016, CBQT is now undertaken by operators and the OGA every two years. Since 2017, the OGA has actively used CBQT in partnership with industry to successfully catalyse positive behavioural change and improve collaboration.

24. Over the last two years, we have seen many positive examples of collaboration between companies leading to solutions to long-running issues. However, there is still more to do if we are to maximise value from the UK’s considerable remaining hydrocarbon resources.

Leverage technology

25. The MER UK Strategy requires licence holders to ensure that optimal technologies are used for MER UK. As part of its Asset Stewardship Strategy, the OGA expects that licence operators have technology plans which identify actions and timelines to access and/or develop the critical technologies needed for their assets.

26. A recent OGA study of over 60 UKCS operators’ technology plans revealed that many existing technologies could be more widely adopted and that more collaboration among operators on developing novel technologies of common interest is possible. The results of this study will allow the OGA to engage operators effectively, as part of the Asset Stewardship process, on opportunities to deploy the best technologies for MER UK.

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