The UK's oil and gas industry is of national importance as it makes a substantial contribution to the UK's energy security, economy and employment. Some 42 billion barrels of oil equivalent (boe) have already been produced from the UK Continental Shelf (UKCS) and some sources estimate that a further 12 to 24 billion boe could be produced. As one of the world's most mature offshore basins with a diverse mix of mature fields, frontier areas and new plays, however, investors in the UKCS now face new challenges as discoveries are generally smaller and more expensive to exploit. Although UKCS investment reached a record high of £14 billion in 2013, industry experts expect investments to reduce by at least 50% by the second half of the decade. Further, production has fallen by 38% between 2010 and 2013 and there has been a sharp decline in exploration, leading to less than 150 million boe being discovered in the last two years.

In order to protect the UK oil and gas industry and make the most of the opportunities that the UKCS presents, on 10 June 2013 Edward Davey MP, Secretary of State for Energy and Climate Change, requested Sir Ian Wood to conduct and lead an independent review on how to maximise oil and gas recovery from the UKCS.

Sir Ian Wood conducted the review of the UKCS and published his final report on 24 February 2014 (Wood Review). As part of the review process, he consulted with, and took evidence from: licensees and other industry players from the supply chain; government figures such as DECC, HM Treasury and senior government ministers; international regulators from the USA, Canada, Norway, the Netherlands and Australia; and other UKCS stakeholders.

The government published its response to the Wood Review in July 2014 whereupon it accepted all of the recommendations proposed by the Wood Review and provided further details on its commitment to fully implement such recommendations.

**Wood Review – Key Issues**

The Wood Review identifies a number of key issues facing the UKCS. Firstly, there is a lack of focus on maximising economic recovery for the UK as a whole – operators generally pursue individual commercial objectives in isolation of any shared commitment to maximise economic recovery across fields or within regions of the UKCS. This is inefficient in a number of ways including with respect to the use of new infrastructure specifically designed to develop a particular field - which generally results in higher operating costs and poorer field recovery compared to the use of existing infrastructure or new infrastructure designed to develop a number of fields or a region. Connected to this is the lack of collaboration and overzealous legal and commercial behaviour between operators – for example, to agree terms for access to processing and transport infrastructure – which has led to increased costs, delays, poorer recovery and, in some cases, stranded assets.

Fiscal instability is also a significant factor in basin under-performance – although the introduction of certain fiscal allowances and certainty over decommissioning tax relief have been well received by industry.

Further, the "light touch" stewardship model adopted by the government, whilst suitable for the early days of
large fields and large operators, does not adequately meet the challenges presented by the UKCS today – i.e., the evolution of smaller new discoveries and increasing inter-dependency of exploration, development and production operations between fields. Meanwhile, the rapid fall in production efficiency indicates poor asset stewardship by industry which the existing regulator, as a result of lack of resources, is unable to adequately address. Whilst ageing assets is a factor for the decline in production efficiency, the underinvestment in enhanced oil recovery techniques is also a contributing factor.

Finally, whilst the Wood Review recognises the high quality strategic thinking by PILOT (a joint programme involving the government and industry which aims to secure the long term future of the UKCS and ensure full economic recovery of the UK’s hydrocarbon resources), it considers the implementation of PILOT to be poor on issues such as exploration, infrastructure and decommissioning and suggests the need for integrated planning and collaboration to ensure the most efficient approach is adopted across the UKCS.

**Wood Review – Recommendations**

**Recommendation 1**

The Wood Review recommends that the government (HM Treasury and the regulator) and industry must adopt a cohesive tripartite approach to develop and commit to a new strategy for maximising economic recovery from the UKCS (MER UK).

The key principles of MER UK include:

- a revitalised exploration strategy which would ensure economic recovery of hydrocarbon resources from the UKCS as a whole. This would be facilitated by efficient access to well and seismic data through appropriate data sharing within regional developments. Further, the UKCS exploration opportunities should be promoted internationally;

- an asset stewardship strategy whereby operators must be held accountable for proper stewardship of their assets and infrastructure consistent with maximising economic recovery from not only their fields but adjacent fields. The operator’s strategy should be shared with the regulator and the regulator should provide clear expectations with respect to production efficiency and recovery efficiency;

- a regional development strategy ensuring that the UKCS will be developed on a regional rather than individual field basis to maximise economic recovery of the UKCS. Operators should therefore cooperate with the regulator and other licence holders in the wider adjacent area with respect to all operations – from exploration through to decommissioning – for example, by making their infrastructure and process facilities available to other license holders at fair and economic commercial terms and rates;

- an infrastructure strategy to ensure that existing infrastructure is prolonged, and investment is made in new infrastructure, to facilitate the processing, transport and export of the UKCS resources on a regional basis in order to service both MER UK and the commercial imperatives of individual licence holders;

- a technological strategy to fully deploy existing technologies and invest in, or utilise, new technologies to maximise economic recovery of the UKCS. Taking full advantage of technology will also help promote the UK as experts in mature basin operations; and

- a decommissioning strategy to achieve the maximum economic field life of assets and avoiding premature decommissioning of such assets, meanwhile ensuring that decommissioning is safe, environmentally sound and cost effective.

**Recommendation 2**

The Wood Review recommends that, central to the implementation of MER UK, is the creation of a new arm’s length independent regulatory body charged with effective stewardship and regulation of the UKCS consistent with MER UK. Given the evolution of the UKCS landscape which now includes over 300 fields, an increasing inter-dependence between fields and the large volume of disputes and disagreements between operators over new field developments and access to infrastructure, the 50 or so personnel currently dedicated to the stewardship of the UKCS is proving inadequate. The UKCS needs a stronger operator with the
following responsibilities and key features:

- operational regulation of the UKCS, including licensing and stewarding of exploration, development and production activities in a manner consistent with MER UK;

- ensuring that government and industry collaborate to deliver MER UK in the next 30 years;

- an arm's length independent body;

- ability to attract top quality personnel with relevant skills and experience to effectively liaise with all parties to deliver MER UK – including with respect to leadership, commercial, legal, engineering, economic, etc.;

- sufficient operational freedom and led by an individual with significant industry experience who will work closely with the Energy Minister and other policy officials (currently DECC);

- for transparency purposes, the new regulator should publish its objectives and success criteria on which it should report on an annual basis;

- where competition law may prevent companies from working effectively to promote MER UK, the new regulator should act as an independent external party to facilitate coordination and interpretation of data; and

- funded by industry and with sufficient resources and delegated freedom to recruit high quality personnel in a competitive market.

**Recommendation 3**

The Wood Review recommends that the new regulator should have additional powers to facilitate the implementation of MER UK, including:

- powers to ensure that licence holders operate in a manner consistent with MER UK;

- powers to resolve disputes and disagreements between operators within an agreed timeline and structure and with the power to make non-binding recommendations, the failure to comply of which would result in certain sanctions if inconsistent with MER UK;

- rights to attend operational and technical meetings in order to fully understand challenges faced by the industry – in practice, a targeted approach would be adopted (i.e., attendance where there are key concerns) in order to best utilise the regulator's resources; and

- power to require access to data from operators in a timely manner together with certain publishing rights in order to effectively monitor UKCS assets (e.g., publishing of production efficiency and recovery efficiency).

**Recommendation 4**

The Wood Review recommends that the new regulator should work with industry to develop and implement the strategies of MER UK, which builds upon the work already undertaken under PILOT (for details, see Recommendation 1).

**Wood Review – Government's Response and Implementation**

In July 2014 the government published its response to the Wood Review whereupon it accepted all of the recommendations set out in the Wood Review, together with setting details on its commitment to fully implement such recommendations.

In order to demonstrate its commitment to the implementation of the Wood Review, DECC has established the Wood Review Implementation Team (WRIT), headed by Stefanie Murphy. The government's approach to implementation is two-fold: (1) establishing the new regulator in law as the successor to DECC with the appropriate objectives, duties, powers and functions; and (2) taking practical steps to get the new regulator up
and running as quickly as possible.

The latest implementation developments include:

- the regulatory body will be a government company called the Oil and Gas Authority (OGA) and headquartered in Aberdeen with a significant presence in London. The OGA will be established as an Executive Agency in the spring of 2015 and will transition into a government company by the summer of 2016;

- an Interim Advisory Panel (chaired by Sir Ian Wood and attended by DECC, HM Treasury, competition and market authorities and industry) has been set up to advise on the implementation of the Wood Review;

- Dr. Andy Samuel, managing director of BG Group's Exploration and Production in Europe, has been appointed as the chief executive of the OGA;

- DECC is currently seeking to appoint the OGA's first chair;

- In terms of putting the OGA on a legal footing, the Infrastructure Bill includes provision permitting the Secretary of State to publish a strategy for the achievement of MER UK and to raise a levy to provide stable funding for the OGA. The Infrastructure Bill was passed with royal assent on 16 February 2015 and the OGA will receive short-term funding of £3 million per year for five years from 2016-17 onwards (it is expected that industry will fund the OGA in the long-term);

- DECC is currently working on a bill to complete the establishment of the OGA as a fully arm's length regulator, which involves developing and defining the objectives, duties, powers and functions that the OGA will need in line with the Wood Review; and

- in preparation of establishing the OGA as an Executive Agency, DECC is actively recruiting specialist staff to build the technical capacity of the OGA.

Conclusion

Against the backdrop of the Wood Review and the government's steps to implement the recommendations set out in such review is the significant decline in global oil prices today. In response to Edward Davey MP's urgent commission of January this year to assess the impact of falling oil prices on the UK oil and gas industry, Dr. Andy Samuel published on 25 February 2015 his initial findings and issued an urgent call to action for industry, government and the regulator.

Dr. Andy Samuel's report identifies two immediate risks facing companies in the UKCS:

- the profitability of current oil and gas fields will be insufficient to attract continued investment. This could potentially lead to premature decommissioning of critical North Sea assets and result in valuable hydrocarbons being left in the ground. Further, the domino effect could lead to a negative impact on all areas of the industry, including employment, supply chain development and technological innovation; and

- a loss of confidence in the future potential of the UKCS could result in the UK failing to secure the critical long-term investment necessary to implement MER UK.

In addition, the report highlights certain urgent actions industry, government and the regulator must take in order to protect the UK’s oil and gas sector and sustain energy security, employment and economic benefits that the industry delivers for the UK. Dr. Andy Samuel said that: "[s]ignificant hydrocarbon resources and economic value are yet to be delivered from the UK North Sea but to unlock this potential we must create a more competitive and efficient operating environment, where costs are effectively managed and companies have confidence to invest today and tomorrow."
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