



Canada - Nova Scotia
Offshore Petroleum Board

DIANA DALTON, Chair, CNSOPB
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Responsive to Change

I'd like you to consider something. It's a quote. A few words written many, many years ago. It sounds like something from Charles Darwin but in fact its author is unknown. It goes like this: "It is not the strongest of species that survive nor the most intelligent but the one most responsive to change."

And I want you to think about these words. Because if my talk to you today has a theme it is change.

Change in the sense of taking stock. Change in the sense of responding to the issues before us. Change in the sense of improving the way we do things so Nova Scotia and Canada can make the most of a natural resource we are blessed to hold beneath our offshore waters.

And I want to talk about change because the oil and gas industry is changing.

Changing at breakneck speed.

The technological advances have been staggering.

More has changed in the past 20 years than in the entire century before. And it isn't just technology.

The rules and regulations that affect the industry change to meet new demands and pressures.

Political and social trends play a role.

But despite the changing climate - as opposed to Climate Change - and maybe in part because of it, it's an extremely exciting industry to work in.

And if understood and well-managed it's an industry that we all know can help an economy grow like no other sector.

Nova Scotia's offshore petroleum royalties are budgeted to reach \$420 million in 2007-2008. Not to be sniffed at.

Now before I tell you about some of the exciting changes we are making let me tell you a little about the board I serve.

We at the Canada-Nova Scotia Offshore Petroleum Board are proud of the key role we play in Canada and Nova Scotia's offshore industry.

As strange as it seems sometimes to us at the board not everyone knows precisely what it is we do.

And as you're a captive audience I'll take this opportunity to bring you up to speed.

The CNSOPB is not as some wise-guy once suggested the result of an explosion at the alphabet factory.

We are a joint agency of the Governments of Canada and Nova Scotia.

We are the regulator of petroleum activities in the offshore of Nova Scotia.

De Facto that means we manage the resource.

In its simplest form: the board makes operational decisions and the two governments approve things – sometimes.

The board's responsibilities are broken down into:

- Health and Safety for offshore workers.
- Protection of the Environment.
- Management and Conservation of offshore petroleum resources.
- Ensuring compliance with the Accord Act's provisions that deal with employment and industrial benefits.

But that's not all.

We also oversee:

- The Issuance of Licenses for exploration and development.
- We carry out Resource Evaluation.
- Data collection.
- Curation – that's the storage and management of data like a library ... and
- Distribution of that data.

So it's not for the faint-hearted.

And it's a job we take very seriously. The top professionals we employ deserve our admiration for the important, often unsung work they do.

Each of the board's responsibilities demands the highest level of expertise and commitment.

No where, more than in Health and Safety.

Of all the things we do ensuring that offshore work is conducted safely is paramount.

Health and safety is part of every decision made about resources in the offshore of Nova Scotia.

Reviews by our Chief Safety Officer are comprehensive. They cover the structures, facilities, equipment, operating procedures and personnel involved in every offshore activity.

We have been very active in developing and implementing industry best practices in training and qualification for offshore personnel.

As a result the safety record for Nova Scotia's offshore surpasses the provincial safety record for other industries and compares well with the UK and Norway.

So we're very proud of what we're achieving in this area.

But there are some other important things I want to tell you about today. Some things that we are going to do a little differently from now on. Things we think respond to and help address the challenges we face in a fast-changing, highly competitive global oil and gas industry.

A couple of these things aren't exactly sexy.

They're internal changes.

But they are changes to board governance that will help make us more efficient and effective in the way we manage ourselves.

But we are also changing direction in some key areas that we hope will have a more striking effect.

I would go as far as to say they are part of a new strategic direction for the board. Changes that will help deal with concerns about a downturn in offshore exploration.

Let me give you a synopsis of Nova Scotia's place in the exploration world.

We are largely unexplored.

Yet we already have one project underway and another on the way.

But there's no doubt that the Nova Scotia Offshore is experiencing a downturn in exploration.

But rather than seeing this from a doom and gloom vantage point we need to recognize the cyclical nature of the industry.

We at the board are confident in our geological assessments which point to excellent hydrocarbon potential in several areas.

As energy prices continue to climb we believe Nova Scotia will move into an increasingly favorable position.

Just this week, The Globe and Mail carried a piece about a global rush for new sources of hydrocarbons fuelled by higher prices.

The story focuses on a big surge in activity at companies like Schlumberger Ltd. and Petroleum Geo-Services ASA.

These companies perform high-tech seismic surveys for oil companies. And business is booming.

The chairman of Schlumberger Andrew Gold said recently: "The age of easy oil is over."

This bodes well for Nova Scotia. And we must recognize that when it comes to exploration in the global oil and gas industry Nova Scotia is truly a new frontier.

I've said in the past exploring an offshore frontier like Nova Scotia is akin to putting together a puzzle without knowing what the picture looks like.

Now when petroleum companies try to figure out their bit of the puzzle they start with 3 fundamentals.

One centers on the country or province's fiscal regime.

Can we work there and make money? Internationally, Nova Scotia scores well here.

Two: is there political risk? Answer in Nova Scotia's case: none. Tick that box.

But the third and possibly most important consideration is geological prospectivity. This is the primary concern for any exploration company. Is there a potential resource? Because of our complicated geology this is our biggest hurdle.

And this is why we believe we must provide more geological information for exploration companies.

Let me give you some perspective.

Since 1967, 200 wells have been drilled in the waters off Nova Scotia.

Over the same period 10-thousand have been drilled in the North Sea. More than 50-thousand in the Gulf of Mexico.

So we asked ourselves: What can we do as a board to address what we call this geological risk? How can we help connect explorers with the information they need? And

how can we help ensure that when they get an exploration license they do what it says on the box? EXPLORE.

Data is to exploration companies what wind is to a sailboat. Without it, nothing happens.

So we are creating a world-class digital data management facility. The first of its kind in Canada.

And this really is an exciting development.

Our new Data Management System will revolutionize information access. Anyone anywhere in the world will be able to get hold of and evaluate any non-confidential information from the massive store of data we have already gathered and are adding to all the time.

This will include digital data on wells and seismic information.

Everything in one place available 24-7 and all available on the worldwide web.

The database will be an invaluable tool for any company undertaking geoscientific assessments in the offshore of Nova Scotia.

The facility will be up and running in Dartmouth by early October of this year.

In time it could be linked to other regulatory agencies and government departments. They could over time form the basis for a Canadian National Data Centre for petroleum information.

This alone will help exploration companies get the data they need to make informed decisions.

So better access to data.

But we need to do more.

And to that end we have been watching and listening.

Watching how others do things in the oil and gas industry.

Listening and learning from others who have been in the Oil and Gas game a lot longer than the 40 years we've been at it.

One of the things we've done is commission consultants Martillac Limited to review our Rights Issuance System and compare how it stands up next to others.

These others included Alberta, other frontier areas of Canada, as well as offshore petroleum jurisdictions around the world – the USA-Gulf of Mexico, the United Kingdom, Norway, Australia, New Zealand and Greenland.

And here I'd like to thank Rollie Martin and our rights and resources staff for the exceptional work done with the report.

What we found – with Rollie's help – was that we are virtually the only jurisdiction in the world where a company can sit on exploration and development rights indefinitely.

From this point on any new and I stress NEW Exploration License will contain certain provisions. These provisions will mean that future Significant Discovery Licences will include terms and conditions intended to encourage exploration companies to get on with it AND to discourage land-banking. An example would be escalating rentals.

There's more.

Up to now the board has relied exclusively on industry for the nomination of land parcels before issuing Calls for Bids twice a year in June and December.

In future the board will also package and issue its own Calls for Bids at regular intervals.

It's very simple. We will appraise and evaluate the data we have on areas we believe have real potential for oil and gas. We will package this information and announce that the area is open for exploration through a competitive call for bids process.

We thought why wait for industry to come to us. Let's go to them.

But we'll need to do more.

As I've said based on our broad consultations and consideration of best practices worldwide we are introducing new terms and conditions for NEW Exploration Licenses.

In future we will work more closely with individual companies. And we will take a more flexible approach when applying terms and conditions for Exploration Licenses or ELs.

We will start with an EL with a term of 2 or 3 years. There will be a minimal cost to obtain this EL and it won't necessarily be based on drilling commitments.

If the holder of this license decides they are interested in further work after the 2 or 3 year period (for instance they want to drill a well) the license can be extended up to the maximum 9 years as set out in the Accord Act.

If they decide NOT to move forward others will be free to take it up. The license will revert to the crown and we - that is the board - will be able to hold copies of all of the data for public disclosure.

The analysis of this data will of course help us understand the geology of the site it comes from. But it will also give us valuable clues to surrounding areas and help us fill in bits of the geological puzzle that are missing.

And there's more.

As it stands companies are required to pay up-front deposits that can reach millions of dollars.

In future it's conceivable they could get in and out of the preliminary exploration phase for as little as \$100-thousand dollars.

We believe this change will get explorers exploring at minimal cost and provide valuable geoscience information on the offshore.

And we aren't stopping there.

We will be prepared to extend the normal Exploration License Period 1 to 6 years or beyond. In each case we will take into account rig availability and water depth - because exploration is more difficult in deep water and we need to recognize this.

We will also take into account the time required to complete pre-drilling mitigation measures related to environmental fisheries and other matters.

And we are considering allowing new technology for exploration. Technology such as slim-hole drilling which will substantially reduce costs for explorers. This might require regulatory changes. We're looking into that now.

Flexible. Flexible. Flexible.

We will also vary terms and conditions depending on how deep or shallow the water is. Or to take account of the exploration maturity of the basin.

We will include a 5 per cent R&D allowable expenditure.

And we will also bring the way we calculate Allowable Expenditure into line with best practices worldwide. From now on Allowable Expenditures will be based on ANNUAL actual costs as confirmed by a third party audit.

Likewise the cost of drilling deposits and rentals will be more consistent with other jurisdictions.

All of this we believe will make the offshore of Nova Scotia more attractive for exploration with easier access to the right information and all at lower costs.

We are involved in a global industry. Others have more experience and we feel as though we've been on the sidelines.

But this is changing.

During the past year the board has visited the Norwegian Petroleum Directorate and they will visit us in June. And we met regulators in the UK, Australia and New Zealand where they too are trying to attract more exploration.

We know we can learn from them.

From now on when the industry is talking about change we want to be involved.

We want the offshore of Nova Scotia to be regarded as a part of the global industry. Not apart from it.

And if we are going to be a part of the global industry we must be competitive with other jurisdictions which are also competing for global exploration dollars.

To do this we will be more flexible and responsive with our terms and conditions than ever before.

And we will be vigilant.

We will ensure on a day-to-day basis that changes made by other regulators around the world are considered for our own offshore.

I started out talking about change.

And I'll end with the biggest change.

From now on we are thinking globally.

Thank you.