

EXECUTIVE COUNCIL

CONFIDENTIAL

Title: Final Consent to Drill – Noble Energy

Paper No: 51/15

Date: 08 April 2015

Report of: Director of Mineral Resources

1 Purpose

- 1.1 To confirm approval of various elements contained in the previous paper 216/14 and provide full and final consent for Noble Energy to commence drilling offshore exploration wells within its Production Licence acreage.

2 Recommendation

- 2.1 It is recommended that Honourable Members review the preceding papers to this meeting and, presuming approval of the recommendations contained in those papers, agree that all conditions are now satisfied in order to approve consent to drill as provided for under paper 216/14.
- 2.2 If recommendation 2.1 is approved, Honourable Members are requested to advise the Governor to action the Director of Mineral Resources to issue Noble with consent to locate the Eirik Raude drilling rig and spud their first exploration well on the Humpback-1 prospect.

Responsible Officer: *Director of Mineral Resources*

Due date: *Immediate upon approval*

3 Additional Budgetary Implications

None.

4 Background

- 4.1 Paper 216/14 sought approval from the Secretary of State of the terms on which Noble Energy Falklands Ltd (“Noble”) should be issued with consent to drill various exploration wells scheduled for the 2015 offshore oil exploration campaign. The paper set out eight critical approvals required by Noble for the company to secure consent to drill. Following consideration of that paper, the minute records a requirement to refer back financial details to Executive

Council in the event that there is any concern. This paper fulfils that action for the avoidance of doubt, and the recommendation assumes approval of the recommendations contained in each of the preceding papers 47/15, 48/15 and 49/15 at this meeting of Executive Council.

4.2 Following further consideration of the legislation, it was determined that in fact the approval of the Secretary of State is not required for drilling, and that the Governor's approval is final under the Offshore Petroleum (Licensing) Regulations 2000.

4.3 This paper therefore summarises the issues raised during various approvals, reviews the proposed activity against the approved FIG Hydrocarbons Policy Statements, concludes that all outstanding matters have now been resolved, and recommends that consent to drill is confirmed to permit Noble to locate the rig Eirik Raude at the Humpback-1 drilling location in PL012 on or about 26 April 2015 and spud the well shortly thereafter.

4.4 Executive Council considered and approved paper 158/13 in July 2013 and in doing so, set out eight key Hydrocarbons Development Policy Statements for hydrocarbons activity in the Falkland Islands:

1. *Hydrocarbons in Falkland Islands waters belong to the people of the Falkland Islands and their exploitation must be to the benefit of the people of the Falkland Islands, both those of today and future generations.*
2. *The Falkland Islands Government will maintain constant supervision and control over all hydrocarbon activities within the Falkland Islands Designated Area.*
3. *Petroleum discoveries must be efficiently managed and exploited to maximise economic recovery and to ensure the development of a long-term industry presence that will benefit the Islands for decades to come.*
4. *Development of the hydrocarbons industry must ensure the protection and conservation of the Falkland Island's environment and biodiversity.*
5. *Development of the hydrocarbons industry must take into consideration existing commercial activity and promote the development of local business capacity*
6. *The exploitation of finite natural resources will be used to develop lasting benefits to society across the whole of the Falkland Islands.*
7. *Transparency and accountability must be present throughout the hydrocarbon development process from all parties involved.*
8. *The Falkland Islands will only consider onshore hydrocarbon facilities if they are considered to be in the best interests of the Falkland Islands, and can be proven to satisfy all of the above policy goals.*

- 4.5 It is considered that the oil exploration activity proposed through 2015, including the activity that is the subject of this paper, is in accordance with the economic development and national benefit themes generally outlined through the approved policy statements. The relevance of specific policies to each individual approval is revisited in the relevant sections that follow, and the position is summarised at the end of the paper.
- 4.6 Recommendation 1 of paper 216/14 required the Financial Secretary to be satisfied that sufficient funds were available to all licence partners to meet anticipated operational liabilities before each well is commenced. The FIG Internal Audit department have carried out a detailed review in conjunction with DMR and the final report is attached to this paper, though it should be noted that there will never be complete certainty in this area this indicates that the level of risk with providing consent is low. This process is to ensure that companies are appropriately funded prior to commencing offshore activity which is in accordance with Hydrocarbon Development Policy 2 of ensuring constant supervision and control.
- 4.7 <REDACTED>
- 4.8 <REDACTED>
- 4.9 Recommendation 2 of paper 216/14 concerned the approval of well planning documents. Noble have now submitted a PON4 Application for Consent to Drill together with the required Basis of Design document (well design) and Geological Evaluation Plan (logging and evaluation programme). Basis of Design documents are being reviewed by the Health and Safety Executive, and geological evaluation plans have been reviewed by BGS and are awaiting review by DECC, but at the time of preparing this paper, neither review had been completed. The latest position will be reported to the meeting. For the avoidance of doubt, no consent to spud a well will be given until both the reviews have completed, and it is a requirement that HSE indicate no objection to the well design, and that DECC are satisfied with the geological evaluation plan. Executive Council may be assured that the Director of Mineral Resources acts only after full consultation with advisors at both HSE and DECC. This is in accordance with Hydrocarbon Development Policies 2 (constant supervision and control), and 4 (protection of the environment, by ensuring robust offshore safety).
- 4.10 HSE review of the Basis of Design is underway with the nominated HSE wells inspector. At the time of writing it appeared that all issues had been resolved and only the final documentary submission was awaited, reflecting clarifications requested by the well inspector. It is therefore anticipated that final completion of this process can be reported orally to Executive Council at this meeting.
- 4.11 DECC review of the Geological Evaluation Plan has unfortunately been delayed by the prolonged absence of a key DECC staff member for medical reasons. At the time of writing, it is hoped that DECC review can be secured prior to the issue becoming critical to the point that drilling could be delayed,

and DMR's aspiration is to be able to report a final position to the meeting of Executive Council on 8th April.

- 4.12 Recommendation 3 of paper 216/14 required a Safety Case for the drilling rig *Eirik Raude* to be approved by Executive Council. This process was completed in January 2015 and the safety case approved at that time is valid for all drilling areas in the Falkland Islands. An offshore inspection by HSE inspectors is planned to commence in late April 2015. This also accords with Hydrocarbon Development Policies 2 and 4.
- 4.13 Recommendation 4 of paper 216/14 required an Environmental Impact Statement (EIS) to be approved by Executive Council. This is the subject of an earlier paper to this meeting. It should be noted for the avoidance of doubt that the EIS document summarises various environmental risks, rather than stating that there are none. Extensive discussion with various FIG advisers and stakeholders on the issues have focused on the response and remediation measures associated with the potential for oil spills of varying magnitude and the potential for impact on oiled wildlife.
- 4.14 In summary, the view of DMR is that the EIS, and objections raised to it, indicate that there is inevitably some environmental risk attached to drilling operations within the Falkland Islands. The question is whether that environmental risk is acceptable or unacceptable set against the wider benefits. This paper explores that discussion.
- 4.15 The most likely event is a small scale operational spill e.g. of diesel or lubricating oil, and this is of a comparative scale to the type of spill that can and undoubtedly does happen within other maritime industries in the Falkland Islands, but in other industries operating in Falkland Islands waters probably remains unreported on many occasions and disperses naturally with little or no measurable impact. Mitigating procedures are in place for oil industry activity, including restricting the locations at which fuel bunkering will take place so, for example, no fuel bunkering will take place in Port William. The high standards and strict procedures imposed by the oil industry substantially reduce the probability of this type of small scale operational spill and on balance it is DMR's view, supported by the Marine Officer, that the additional risk imposed by oil industry activity does not measurably increase the risk of such operational spills above that already posed by existing industries. In fact, the presence of oil industry assets can be considered to be mitigation against the wider risk of harbour diesel and oil spills. Platform supply vessels maintain Tier 1 spill response equipment at a high state of readiness, and at the time of writing the oil industry tug, *Afon Alaw*, had already been deployed to rescue a beached fishing vessel in Stanley Harbour, a vessel which would otherwise have potentially remained aground in high winds for a prolonged period and thereby presented a greater risk of uncontrolled oil or fuel release into the environment. It is therefore the view of DMR that oil industry activity does not increase, and in fact arguably reduces, the overall national potential for operational-level oil spills that might impact the environment.

- 4.16 However, the primary concern arising from oil industry activity is a major Tier 3 offshore oil spill caused by a loss of well control and a resulting uncontrolled well blowout leading to a release of a substantial quantity of reservoir hydrocarbons into the environment. This possibility cannot be ignored, but is reduced to ALARP (as low as reasonably practicable) by the high standard of safety regulation that FIG applies to the offshore industry, and the robust and thoroughly rehearsed procedures that are applied by highly trained oil industry personnel. It is mitigated by the fact that no wells in the Falkland Islands are expected to be high temperature or high pressure wells, nor are they expected to pose particularly challenging drilling conditions. The Macondo well in the Gulf of Mexico, by comparison, was both high temperature and high pressure, and such wells are both technically far more challenging to drill, and environmentally much more significant in the event of an incident due to significantly higher discharge rates from a high pressure reservoir.
- 4.17 Objections to the effectiveness of initial small scale oiled wildlife response have been presented, and are noted, but on balance it is the view of DMR that the overall effectiveness of the full-scale Tier 3 response is the critically important element in determining the overall environmental impact of a worst case incident leading to a substantial loss of well control. As noted in previous papers considered at this meeting, Noble Energy and other operators drilling during 2015 are substantial and well-resourced companies, and DMR review has demonstrated that the joint venture partners for the Humpback-1 well have put in place substantial financial resource to support the international oil spill response. The available resource is significantly greater than that available for any previous drilling activity, and appropriate contractual arrangements are in place with international oil spill responders. The provision in place is therefore believed to be in accordance with Hydrocarbon Policy Statement 4 (protection of the environment).
- 4.18 Any decision to award consent to drill must be a balanced decision reached after careful consideration of all the facts including the potential economic benefit, the probability of this benefit occurring, and whether it is in the wider national interest, while balancing potential benefits against the risk of conducting such operations, the negative effect of the potential worst case outcome, and the probability of this negative event occurring.
- 4.19 The economic benefits of drilling activity to the Falkland Islands were proven from 2010-12, and the robust offshore safety regime proved effective. The long term aspiration of the Islands is to diversify its economy and attain long term economic self-sufficiency, an objective also supported by developing oil and gas activity. Activity of the type proposed for exploratory drilling in 2015 is therefore believed to be consistent with the economic and national interest objectives of the approved Hydrocarbon Development Policy Statements.
- 4.20 Set against this, the worst case scenario of a major hydrocarbon release carries with it the potential to cause damage to the natural environment and the existing economy (via financial loss e.g. to fisheries and tourism). The

probability of such an event is extremely low, and the overall response to such an event is believed to be both appropriate and effective.

- 4.21 Hydrocarbon Development Policy 4 is relevant to this matter, and states in the subtext to the main policy:

One of the Falkland Islands' greatest assets is its environment and biodiversity. Damage to, or loss of, this feature would be a tragedy for the Islands, which if serious enough could lead to a loss of identity as a result of the key role of the natural environment in the lives of Falkland Islanders. Any detriment to this feature could have significant adverse effects on the Islands' traditional industries (agriculture, fisheries and tourism) and this must be avoided.

- 4.22 The high standard of offshore regulation in the Falkland Islands, together with the significant resource applied to oil spill response, is believed to align closely with the environmental protection objective of policy 4 of the Hydrocarbons Development Policy Statement.
- 4.23 Recommendation 5 of of paper 216/14 concerned an addendum to the EIS document. This is not required for the Humpback-1 well, as all matters have been addressed in the final revision of the main EIS document (rev 08). Should Noble opt to drill a second well in another area, then, as identified in the EIS paper, an addendum covering that area would be required.
- 4.24 Recommendation 6 of paper 216/14 required approval of a Waste Management Plan by the Mineral Resources Committee. This plan was approved at the meeting of the Mineral Resources Committee held on 17 March 2015, and this condition has therefore been met.
- 4.25 Recommendation 7 of paper 216/14 required an Oil Spill Contingency Plan to be approved by Executive Council. This is the subject of an earlier paper to this meeting, and the provision in place is considered to be in accordance with Hydrocarbon Development Policy 4.
- 4.26 Recommendation 8 of paper 216/14 required Noble to demonstrate adequate financial responsibility/liability insurance to meet the legislated minimum and the requirements imposed by their oil spill contingency plan. Following DECC guidelines, the Financial Responsibility assessment was integrated with the Oil Spill Contingency Plan and the two assessed jointly. Both matters are the subject of an earlier paper to this meeting of Executive Council. Approval of the OSCP can be taken to include improvement of the associated financial support mechanism.
- 4.27 Assuming approval of the preceding papers considered at this meeting of Executive Council, it is considered that all required approvals are now in place and that Noble Energy Falklands Ltd should be granted consent to commence drilling operations at the Humpback-1 well on completion of the previously approved wells in Premier production licence acreage.

- 4.28 Balancing all the facts set out in this paper, it is considered that there is a very high probability of generating a substantial national benefit, but a very low probability of a major hydrocarbon release, reduced by high standards of safety regulation and mitigated by the considerable resource available to deploy to respond to that incident in the unlikely event it occurs. Both of those elements are considered to be in accordance with the fundamental principles set out in the Hydrocarbon Development Policy Statements. On balance, it is therefore considered that the environmental risk associated with offshore drilling activity is acceptable for the purposes of awarding consent to drill, and that awarding Noble Energy with consent to drill would be in accordance with the objectives stated in the Hydrocarbon Development Policy.
- 4.29 Honourable Members are therefore recommended to approve the recommendations of this paper, and advise the Governor to action the Director of Mineral Resources to grant consent to locate the rig at the Humpback-1 and spud the planned exploration well at the appointed time. Commencement is expected to be in late April or early May 2015, and the anticipated well duration is approximately 65 days.

5 Financial Implications

- 5.1 None for the purposes of this paper.

6 Legal Implications

- 6.1 <REDACTED>
- 6.2 <REDACTED>
- 6.3 <REDACTED>

7 Human Resources Implications

- 7.1 None.

Appendices

Appendix 1: Premier Oil / Noble Energy Financial Review <REDACTED>