Husky Energy - Development Plan Amendment Application

White Rose Extension Project

Public Review

Noia’s Submission

September 10, 2014
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Noia is seeking a sustainable industry with growing capacity and recognizes the positive impact Husky Energy (Husky) has had and is making, on progress toward these objectives. Noia believes that the opportunities identified in Husky’s WREP Benefits Plan Amendment, coupled with Husky’s beliefs and guiding principles for local participation will make a further and significant contribution. Noia members will work collaboratively with Husky on this project and in the future, for the continued improvement of industry capability, competitiveness and increased opportunities for the local supply and service community.

We strongly believe that contracting strategies and tender evaluation criteria can and should be formulated in a manner for effective technology transfer, supplier development, skills development and increased local content and are part of any operator’s social license. We applaud Husky in its recognition of the importance of this and its application in Husky’s tender evaluation. Lastly, Noia is strongly supportive of the project and our members are looking forward to the opportunity to help make the project a success.
1. **Husky White Rose Extension Project (WREP) Public Review**

1.1. **Background**

Husky has submitted the White Rose Development Plan (DPA) Amendment application on behalf of its co-venturers, Suncor Energy and Nalcor Energy, to develop the West White Rose Pool and other potential petroleum resources using a Wellhead Platform. The DPA application consists of a summary, a development plan, a benefits plan amendment, socio-economic impact statement and a concept safety analysis. The Canada Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) staff analyse the application and provide recommendations to the Board. The Board’s decision is informed by the staff analysis and the public review and then is subject to approval by the Federal and Provincial Ministers of Natural Resources.

The Wellhead Platform will be a concrete gravity structure with topsides consisting of drilling facilities, wellheads and support services. Construction activities will take place at Argentia, Placentia Bay and installation will take place at the White Rose Field. Husky is estimating that, pending regulatory, corporate and partner approvals, petroleum production will begin in late 2017. The project consists of a wellhead platform and associated subsea infrastructure. The platform is comprised of a concrete gravity structure (CGS) with topsides consisting of drilling facilities, wellheads, utilities, a flare boom, a helideck and support services including an accommodations unit for up to 144 persons. The CGS will be constructed in a purpose-built graving dock in Argentia, NL. The integrated topsides unit will be constructed in an international yard (location to be determined), however certain topsides components (accommodations modules, helideck, flare boom, lifeboat stations) will be fabricated in Newfoundland & Labrador.

On June 12th 2014, the C-NLOPB announced that Memorial University’s Leslie Harris Centre of Regional Policy and Development (the Harris Centre) will conduct a public review of the DPA amendment application – White Rose Extension Project (WREP). The objective of the public review process was to ensure Husky’s White Rose DPA Amendment is as comprehensive as possible by allowing the public to provide feedback on the application. Part of the approval process included a 90-day public review of the application ending September 10th 2014.
1.2. Noia’s Interest and objectives

Founded in 1977, the Newfoundland & Labrador Oil & Gas Industries Association (Noia) is Canada's largest offshore oil & gas industries association. With more than 600 members in Newfoundland & Labrador, Canada and around the world, Noia represents the supply and service sector in the province’s oil & gas industry. Noia members employ thousands of people, pay taxes to the Province of Newfoundland & Labrador and its municipalities, and buy goods and services from other local businesses. Noia members have a stake in the sustainable development of the province’s petroleum resources and in the responsible development of the White Rose fields. NOIA believes each offshore petroleum project has laid the groundwork for the next project and each new project on our shores should expand upon the province’s expertise and capacity to develop oil & gas fields and the WREP should be no exception. Newfoundland & Labrador companies operating in the province are a testament to the growth in local capabilities. They can and do provide expertise in offshore engineering, fabrication, safety and operations in a harsh environment.

We are seeking a sustainable industry with growing capacity. The oil & gas industry has provided great opportunities in the province’s quest for prosperity, and we continue to seek a thriving petroleum industry that provides even greater reason for our young people to stay, work and live here. In many countries today, developing local economies, stimulating industrial development, increasing local capability, building a skilled and technically competent workforce, and assisting in the creation of a competitive supplier base are in some cases minimum requirements for doing business in the offshore. Sustainable economic development from the oil & gas sector is a long-term proposition and local participation represents the most strategic contribution a company can make to secure its social license to operate and leave a positive legacy.

Noia’s objectives in the WREP Public Review process are to:

- Promote the growth of the Newfoundland & Labrador industry and the sustainability of the local supply and service sector;
- Support the positive impact of the offshore oil & gas industry on the province;
- Support the White Rose Extension Project;
- Support responsible development of the oilfield;
- Advance local content in the project;
- Encourage improvements to the benefits plan amendment;
- Encourage more local content/local involvement in WREP and future offshore oil & gas projects;
- Identify potential opportunities for the WREP to create a lasting legacy; and
- Identify/review plans for technology/knowledge transfer.
2. The Atlantic Accord


The Atlantic Accord recognizes ‘the right of Newfoundland and Labrador to be the principal beneficiary of the oil and gas resources off its shores.’ In recognition of this right the objective is ‘to ensure that the offshore area was managed in a manner which would promote economic growth and development in order to optimize benefits accruing to Newfoundland in particular and to Canada as a whole’ The legislation implementing the Accord provides that ‘before the start of any work program for exploration or field development, a plan must be submitted, satisfactory to the Board for the employment of Canadians and, in particular, members of the provincial labour force and for providing manufacturers, consultants, contractors and service companies in Newfoundland and other parts of Canada with a full and fair opportunity to participate in the supply of goods and services used in that work or activity’. In addition, project benefits plans are to ensure that ‘first consideration is given to services provided from within Newfoundland, and to goods manufactured in Newfoundland, where such goods and services are competitive in terms of fair market price, quality, and delivery’ (competitive access). The C-NLOPB Benefits Plan Guidelines state that ‘the intent of the benefits provisions of the legislation is that the exploration for, and the development and production of the petroleum resources in the Newfoundland and Labrador Offshore area make a lasting contribution to the sustainable development of the Province’s economy’ and that ‘this was the vision or intent of the legislators at the time of writing the legislation’.

2.2. Benefits Plan Guidance

The expected outcome from these objectives and provisions, as stated in the Benefits Plan Guidelines, will be an ‘increasingly positive trend of continuous improvement as the industry and the local supply community continues to evolve and mature’. The benefits plan guidelines also require ‘that any slippage or deterioration in these measurements from benchmarks and achievements established by previous projects of similar scope, or similar concepts and technologies will require significant explanatory documentation.’ The guidelines further state that ‘The petroleum resource is finite and exhaustible, and it was the intent of the benefits provisions of the legislation, that exploitation of these resources creates a lasting economic legacy’.

“It is the objective of both governments to ensure that the offshore area is managed in a manner which will promote economic growth and development in order to optimize benefits accruing to Newfoundland in particular and to Canada as a whole”
The guidelines also require that the preparation of bid specifications and packages ensure that they do not unfairly prevent Newfoundland and Labrador and other Canadian suppliers from participating in the bid process. The proponent’s commitment to the Atlantic Accord statutory requirements is required to be reflected in its policies and procedures for planning and executing projects. This includes, as stated in the guidance:

- The expectation for the development of reliable domestic sources of goods and services including management, technical and engineering support;
- The proponent is expected to identify constraints and new supply opportunities;
- The proponent is expected to promote supply opportunities for Newfoundland and Labrador;
- The proponent is expected to have programs, policies or procedures to enable Newfoundland and Labrador and other Canadian suppliers to participate in the proponent’s national and international activities;
- The proponent is expected have plans for transfer of technology and “know-how” to Newfoundland and Labrador and other Canadian suppliers and contractors;
- The proponent is expected to have aspects of its contracting strategy designed to facilitate local participation;
- Contracting outcomes cannot be determined solely on the basis of lowest price;
- Proponents must demonstrate all reasonable efforts have been taken to ensure that local suppliers have been afforded an opportunity;
- Reports should include an assessment by the proponent with respect to identified goals and objectives;
- Domestic supplier development should be positively affected by the proponent’s procurement and contracting policies; and
- The Board encourages offshore proponents to undertake initiatives that will assist business firms in the province to become internationally competitive in the offshore oil & gas industry.
3. The WREP Benefits Plan Amendment

Husky Oil Operations Limited (Husky Energy), submitted a Benefits Plan for the White Rose Development to the C-NLOPB in January 2001. The C-NLOPB approved the White Rose Benefits Plan in December 2001. The current benefits plan amendment document provides a description of the White Rose Extension Project (WREP), which will use a wellhead platform (WHP) for further development of the White Rose field. After re-examining the original White Rose Benefits Plan, Husky determined that the basic principles and philosophy that applied in the base development also apply to the WREP and submitted this White Rose Canada-Newfoundland and Labrador Benefits Plan Amendment as part of the overall Development Application for the WREP. This document describes the benefits aspects of the WREP and identifies potential areas where Newfoundland and Labrador companies and residents could participate in this project. The estimated capital cost of the WREP is $2.35 billion (CDN). Development drilling costs are estimated to be $1.608 billion (CDN), with an anticipated annual incremental operating cost of approximately $20 million (CDN). It is estimated that over 5 million person hours of employment will take place during the engineering and construction phases of the WREP. During operations, it is estimated that over 18 million person hours will be expended through WHP and SeaRose FPSO operations.

4. Review

4.1. Expectations in Benefits Plan Guidance

Noia’s review of this benefits plan amendment and the recommendations contained in this document is based primarily on the relevant expectations as contained the benefits plan guidance and the extent to which these are addressed in the benefits plan amendment:

1. **Expectation**
   The expected outcome will be ‘increasingly positive trend of continuous improvement as the industry and the local supply community continues to evolve and mature’ and ‘that any slippage or deterioration in these measurements from benchmarks and achievements established by previous projects of similar scope, or similar concepts and technologies will require significant explanatory documentation.’

   **WREP Benefits Plan Amendment**
   This expectation is not explicitly addressed in the document. Since this is an amendment to the original approved White Rose Benefits Plan, this expectation should be addressed, highlighting the expected improvement in Husky’s overall performance and
progress on local participation and benefits since the approval of the original benefits plan.

2. **Expectation**
The proponent is expected to identify constraints and new supply opportunities

**WREP Benefits Plan Amendment**
The benefits plan amendment provides adequate information on supply opportunities in both the construction and operations phases of the project, but does not fully address constraints.

3. **Expectation**
The proponent is expected to have programs, policies or procedures to enable Newfoundland and Labrador and other Canadian suppliers to participate in the proponent’s national and international activities.

**WREP Benefits Plan Amendment**
The plan does not specifically address this expectation. Australia, similar to Newfoundland and Labrador, relies on a Full and Fair and Reasonable Opportunity policy but in some instances requires approval of Industry Participation Plans (IPP) which takes into account, among other things, plans for integration of Australian companies in global supply chains.

4. **Expectation**
The proponent is expected have plans for transfer of technology and “know-how” to Newfoundland and Labrador and other Canadian suppliers and contractors.

**WREP Benefits Plan Amendment**
In the plan Husky states that it ‘continues to be committed to the transfer of technologies to the local oil and gas community. Through its contracting activity and the efforts of its major contractors, Husky will continue to identify and capitalize on technology transfer opportunities that will yield long-term benefits to the community’. Husky restates, in its Canada-Newfoundland and Labrador Benefits Schedule, its belief that ‘The training of local personnel and the transfer of technology to local and more broadly based Canadian companies reduce long term operating costs and provide cost effective support services for current programs and future projects. The earlier these activities are conducted with maximum opportunity for participation by Canadian companies, the greater the long term return for all stakeholders’. In the Canada-
Newfoundland and Labrador Benefits Schedule contained in the benefits plan amendment, contractors are required to ‘where applicable, detail policies and initiatives to promote technology transfer to the Canadian-Newfoundland and Labrador participants within the Contractor’s Company, Partnership or Joint Venture and/or to proposed Canadian-Newfoundland and Labrador contractors; including: a description of the intended technology transfer and the strategy and methods which will be employed to achieve this transfer, particularly the arrangements for the transfer of technology from non-Canadian participants to Newfoundland and Labrador and Canadian led, owned or controlled participants and, the nature of the arrangements amongst the participants, including the respective shares of equity and the long-term intentions for their business entity and, the share and nature of the work to be carried out by each of the participants and Newfoundland and Labrador suppliers.’ Husky identifies technology transfer as one of the eight benefits evaluation criteria and states that ‘thus bidder’s will be rewarded for responses detailing innovative initiatives, strategies and methods for transfer of technology, especially from non-Canadian participants to Canadian, and particularly Newfoundland and Labrador, led participants and suppliers.’ This reward is presumably the attainment of a higher score for technology transfer in the overall assessment of Canada-Newfoundland and Labrador Benefits (5% weight) aspect of bid evaluations.

5. **Expectation**
   The proponent is expected to have aspects of its contracting strategy designed to facilitate local participation.

**WREP Benefits Plan Amendment**
Husky intends to ensure bid specifications and packages are released to the business community on a timely basis and structured in a manner that will enable broad participation and identified a series of initiatives to encourage participation including training and technology transfer. Additionally Husky has developed principles to guide the approach to indentify and provide opportunities.

6. **Expectation**
   Contracting outcomes cannot be determined solely on the basis of lowest price.

**WREP Benefits Plan Amendment**
Husky has addressed this expectation. Husky’s Canada-Newfoundland and Labrador Benefits Reporting and Procedures Manual, Sample Bid Evaluation (Appendix 2), states: ‘Individual contracts will adopt the actual evaluation criteria and associated weightings
appropriate to the nature of the tender at the discretion of the Canada-Newfoundland Benefits Manager’ (Section 1); ‘In line with the Husky policy of maximizing Canada-Newfoundland Benefits while achieving “Best Value,” Canada-Newfoundland Benefits will be a factor in awarding all contracts’; and ‘a detailed evaluation will be carried out, including evaluations of bidder’s responses to issues of supplier development, research and development (R & D), and technology transfer.’ Section 2 further states that ‘the weight for Canada-Newfoundland Benefits for any contract will be 5%’.

7. Expectation
The Board encourages offshore proponents to undertake initiatives that will assist business firms in the province to become internationally competitive in the offshore oil and gas industry.

WREP Benefits Plan Amendment
This is not specifically addressed in the benefits plan amendment, however, in the Canada-Newfoundland and Labrador Benefits Reporting and Procedure Manual, Husky states that it ‘considers supplier identification and development crucial to the development of the Newfoundland offshore. In line with this belief, Husky provides support and assistance to bidders through early notification of program requirements and specification and encouragement of Newfoundland and Labrador suppliers to become globally competitive – including the provision of technical assistance and advice where necessary.’

4.2. Opportunities

4.2.1. White Rose Expansion Project Framework Amending Agreement
In section 3.0 of the Benefits Plan Amendment, Husky states that ‘This Benefits Plan Amendment also takes into consideration the 2013 White Rose Expansion Project Framework Amending Agreement with the Government of Newfoundland and Labrador. During execution of the WREP, Husky will fulfill all commitments made in this agreement.’ The Amending Agreement in Section 5, Exhibit K states that ‘it is agreed that in respect of the Wellhead Platform Project that all the work that can be done in Newfoundland and Labrador will be done in Newfoundland and Labrador’. The following is a review of the specific commitments in this agreement against the information contained in Benefits Plan Amendment.
4.2.1.1. CGS Mechanical Fabrication & Outfitting

The Amending Agreement in Section 5 Exhibit K states the work that can be done in Newfoundland and Labrador includes, but is not limited to ‘the CGS (as conceptually represented in Schedule "A") work including: civil construction; and fabrication; and mechanical fabrication; and mechanical outfitting work; and assembly; and installation; and commissioning; and fabrication related to hook up (mating) and integration with the Integrated Drilling and Utilities Module; and hook up and commissioning of CGS and Integrated Drilling and Utilities Module; and the infrastructure and temporary works to support such work and the detailed engineering; and construction engineering; and project and construction management.

Table 5.1 in the Benefits Plan Amendment, outlines the topsides fabrication commitments as contained in the amending agreement, but does not clearly outline the commitment (packages) for mechanical fabrication and mechanical outfitting in Newfoundland and Labrador as described in Appendix C. As well, other aspects of the commitments (infrastructure and temporary works, detailed and construction engineering etc.), are not detailed in the document other than for engineering, construction and project management person-hours.

4.2.1.2. Graving Dock, CGS, Topsides and Sub-Sea

The Amending Agreement in Section 5 Exhibit K states the work that can be done in Newfoundland and Labrador includes:

- The graving dock with gates including civil construction, fabrication and assembly, installation and commissioning the infrastructure and temporary works to support the work, detailed engineering and project and construction management;
- The Concrete Gravity Structure (CGS) including civil construction and fabrication, mechanical fabrication and mechanical outfitting, assembly, installation, and hook-up and commissioning the infrastructure and temporary works to support the work, detailed engineering and project and construction management;
- The accommodation modules including fabrication, and mechanical completion and pre-commissioning, the infrastructure and temporary works to support the work and not less than 75% of detailed engineering;
- The flare boom, heli-deck, and lifeboat stations including fabrication; and assembly; and pre-commissioning; and the infrastructure and temporary
works to support such work; and construction engineering; and project and construction management; and

- The fabrication, assembly, installation, commissioning, and detailed engineering associated with sub-sea, marine activities and the FPSO required by the Wellhead Platform.

In reference to the graving dock, Husky states that it ‘can be used for future construction of jackets and gravity based structures for offshore oil and gas, wind and marine energy sectors as well as ship/vessel building, repair and maintenance (including mobile offshore drilling units(MODUs) and jack-ups) and decommissioning and dismantling of offshore and marine facilities. Future management of the facility may be done by Husky or by the Argentia Management Authority. Husky also has the ability to lease the facility to a third party. In the future, also from a R&D perspective, the facility can act as a stepping stone between smaller-scale model testing and more complex and expensive offshore field technology trials. Investigations could include glacial ice interactions, marine soils and geotechnical investigations, marine growth and marine corrosion mechanisms and mitigations and wet testing of prototype subsea processing technologies’.

4.2.2. Industrial Benefits (Atlantic Accord) Opportunities

In Section 3.0, Management of Industrial Benefits, Husky states that it ‘recognizes that the Atlantic Accord Implementation Acts provide the legislative basis for the development of the oil and gas resources offshore Newfoundland to benefit Canada as a whole and, in particular, the Province of Newfoundland and Labrador. The Atlantic Accord Implementation Acts also recognize the right of the province to be the principal beneficiary of the oil and gas resources off its shores...’ Husky also states that ‘The policies and procedures outlined in the original White Rose Benefits Plan are still relevant and will remain unchanged as the company pursues other opportunities in the Newfoundland offshore area.’ Noia’s review of the original policies and procedures are contained in Section 4.1 of this document.
5. **Recommendations**

As stated previously, Noia is seeking a sustainable industry with growing capacity and we believe that local content represents the most strategic contribution a company can make to secure its social license to operate and leave a positive legacy. With this in mind we make the following recommendations to the public review:

1. The expectation for ‘increasingly positive trend of continuous improvement’ contained in the benefits plan guidance is fundamental to the Atlantic Accord objective for optimizing benefits accruing to Newfoundland. In the original White Rose Benefits Plan Husky stated that it would develop strategies to achieve its objectives for technology transfer and research and development. Noia recommends that the C-NLOPB, require Husky to provide information on these strategies including the objectives, progress, measurement metrics employed and how this commitment has addressed the expectation for continuous improvement.

2. The benefits plan amendment provides adequate information on supply opportunities in both the construction and operations phases of the project, but does not fully address constraints. Noia recommends the C-NLOPB, require Husky to provide further information on supply constraints.

3. The proponent is expected to have programs, policies or procedures to enable Newfoundland and Labrador and other Canadian suppliers to participate in the proponent’s national and international activities. This is an important issue for Noia and one that is central to the creation of a lasting legacy. The amendment does not specifically address this expectation and Noia recommends that the C-NLOPB require it to be specifically addressed within a program with clearly defined objectives.

4. The benefits plan guidance states that ‘contracting outcomes cannot be determined solely on the basis of lowest price’ and in alignment with that guidance, Husky states Canada-Newfoundland Benefits will be a factor in awarding all contracts. Noia strongly supports Husky’s use of the evaluation criteria (*supplier development, research and development (R & D), and technology transfer, NL content and person-hours, ownership and training*) for Canada-NL benefits and is interested in how the evaluation has influenced results.

The proponent is also expected to have plans for transfer of technology and “know-how” to Newfoundland and Labrador and other Canadian suppliers and contractors.
Husky has clearly expressed its belief in the value of technology transfer and has outlined the requirement for contractors and that bidders will be rewarded for proposals that detail innovative initiatives, strategies and methods for transfer of technology. Noia is supportive of Husky in this and believes that effective technology transfer can produce positive results.

Noia recommends the C-NLOPB require that Husky demonstrate how the evaluation criterion has contributed to achieving positive and measurable results for Canada-NL Benefits.

5. The Board encourages offshore proponents to undertake initiatives that will assist business firms in the province to become internationally competitive in the offshore oil and gas industry. Husky states that it ‘provides support and assistance to bidders through early notification of program requirements and specification and encouragement of Newfoundland and Labrador suppliers to become globally competitive – including the provision of technical assistance and advice where necessary’. Noia supports and encourages Husky to continue with this initiative and recommends that the C-NLOPB require Husky to describe how encouragement, technical assistance and advice will be provided for the WREP.

6. In section 3.0 of the Benefits Plan Amendment, Husky states that ‘This Benefits Plan Amendment also takes into consideration the 2013 White Rose Expansion Project Framework Amending Agreement with the Government of Newfoundland and Labrador’ but does not detail the commitment (packages) for mechanical fabrication and mechanical outfitting in Newfoundland and Labrador or other aspects of the commitments such as for the additional sub-sea facilities, infrastructure and temporary works and detailed and construction engineering. Noia recommends that the C-NLOPB require Husky to provide detail on all the NL commitments in the 2013 Amending Agreement in Table 5.1 and that these be identified for NL only.

7. Information on the Integrated Drilling and Utilities Module, (bid internationally as per the Amending Agreement) is absent from Table 5.1 and Noia recommends that the C-NLOPB require Husky to include this information.

8. Noia is concerned about the use of global frame agreements and the potential impact on local supply, in particular during the operations phase. In this regard Noia recommends that the C-NLOPB require Husky to identify their plans for the control of this type of agreement and encourage Husky to not use frame agreements that would negatively impact local suppliers.
9. Husky believes that an effective employment and business diversity strategy is important to the successful development of the Newfoundland and Labrador offshore oil & gas industry. Noia is supportive of this belief and commends Husky on its Diversity Plan and goals for the access of designated groups to employment and training on the Project. Noia is also supportive of supplier diversity and recommends that the C-NLOPB require Husky to include special measures to facilitate the increased and measurable participation of under-represented groups in procurement for the project in both the development and operational phases.

10. In reference to the graving dock, Husky states that the ‘future management of the facility may be done by Husky or by the Argentia Management Authority. Husky also has the ability to lease the facility to a third party.’ Husky also comments on the future of the facility from a R&D perspective and that ‘the facility can act as a stepping stone between smaller-scale model testing and more complex and expensive offshore field technology trials.’

Noia believes that this new facility is a critical piece of infrastructure that can and should play an important and diverse role in the future. In this regard, Noia recommends that the C-NLOPB ask Husky to provide detail on what will remain at the site after construction of the CGS is complete. As well, Noia is concerned about the uncertainty regarding the future management and maintenance of the facility and recommends that the C-NLOPB ask Husky to provide greater definition on its future management and maintenance.