ANNEX B

Chrysaor

Date and Time of Engagement	Tuesday 14 March 2017 15:00 – 15:45
Where	T4.02, Parliament
Key Message	**The Scottish Government is committed to a sustainable future for the oil and gas sector in Scotland and to working in partnership to secure the total value added for the economy and the industry.**
Who	**Phil Kirk, Chief Executive Officer** **Andrew Vickers, Communications Director**
What	Meeting with Chrysaor
Why	[REDACT]
When	**15:00 – 15:45, Tuesday 14 March 2017**
Supporting Official	**David Ritchie, Deputy Director Energy Industries Division,** [REDACT] [REDACT] **Head of Offshore Oil and Gas,** [REDACT]
Media Handling	This is a private meeting.
Dress code	**Business attire**
Greeting Party and specific meeting point on arrival (if at a non SE Building)	**N/A**
Specific entrance car/parking arrangements	N/A
Briefing Contents	**Annex A – Summary** **Annex B – Biography's and Background** **Annex C - Oil and Gas FMQ**

ANNEX A

PURPOSE: Briefing – Chrysaor

[REDACT]

<u>Chrysaor - Background</u>

- Chrysaor is an exploration and production company formed in 2007 by the team who managed the operations and growth of CH4 Energy Limited between 2002 and 2006, when it was sold to Venture Production plc.

[REDACT]

<u>On 30 January 2017 Shell announced the sale of $3 billion North Sea Assets to Chrysaor.</u>

- Chrysaor - a North Sea-focused oil company backed by private equity fund EIG Partners - acquired from Shell a mix of older fields, new developments and infrastructure, **making Chrysaor the largest independent operator in the North Sea.**
- The deal with Shell is made up an initial consideration of £2.4billion and a payment of up to £480million between 2018 and 2021 (subject to commodity prices) - a further £145million could also be due if additional discoveries are made on the acreage purchased from Shell.
- The sale included assets that account for just over **100,000 boepd of production** – equivalent to around **half of Shell's annual UKCS production in 2015**
- **This will be the first time Chryasor will be responsible for UKCS production.** OGA have sanctioned Chrysaor to act as an operator of several fields with the deal including 'an "innovative" structure to tackle the expensive and complex decommissioning of platforms and infrastructure once production in fields is ended.'
- Chrysaor will also assume responsibility for the (estimated 400) affected workers currently working on the Shell and former BG platforms.

<u>Stakeholder comment on the transaction:</u>

- **<u>Deirdre Michie</u>, OGUK**: *"**Maintaining a diversity of operators in the region is crucial** …and we welcome the arrival of new companies like Chrysaor…. and **welcome*** **Chrysaor's intent to explore and invest in its new portfolio; this sends positive signals about the opportunities the UK's offshore oil and gas basin has to offer".**

- **<u>Phil Kirk</u>, Chysoar**: *"We are acquiring a high quality package of assets which combine low cost production, a substantial reserves and resources base with strong cash flows and a highly competent and skilled workforce"*.

- **<u>Spokesperson for OGA</u>**: *"We welcome this significant vote of confidence in the UKCS and the substantial investment it promises. **It is a further demonstration that the North Sea is open for business**. We look forward to considering the details of the proposed transaction."*

<u>The Shell / Chrysaor deal has presented industry with a way over decommissioning costs and created a model for further transactions in the basin.</u>

- Shell's agreement with Chrysaor included the condition that **Shell covers the $1 billion in decommissioning costs**, **leaving Chrysaor with an estimated $2.9 billion of liabilities**.
- WoodMac commented *"The trend recently has been for oil majors to sell their assets in the North Sea and the decommissioning costs have often been a real challenge for deals to go through. Innovation in deal structures and sharing of decommissioning costs between buyer and seller" is likely to be the model for further transactions"*

Chrysaor's Outlook:

- Chrysaor have publicly stated that they have a medium-term plan to build operatorships closer to 50%.
- Since the asset sale Chrysaor have earmarked 6-8 new wells likely to be approved for investment.
- Chrysaor also plans to withdraw an application for cessation of production at the Armada hub of gas fields and to invest in extending production
- Their philosophy is in terms of reducing costs is to increase the volumes of hydrocarbons processed

On 3 March, the Cabinet Secretary for Finance and Constitution wrote to the UK Chancellor to outline priority measures, which should be introduced at the 2017 March Budget on 8 March. The key economic levers remain with the UK Government, and further support is required

- Finally, the Chancellor has listened to calls the Scottish Government and the industry have been repeatedly making for some time to ensure that "the right assets are in the right hands", it is crucial this turns into actions swiftly rather than another talking shop.
- The UK Government first committed to reforming decommissioning tax relief in December 2014 in their Driving Investment plan.
- The Scottish Government has previously recommended proposals focused around increasing activity in late-life assets to ensure their full potential is realised, protecting critical pieces of infrastructure, and driving forward much needed new investment in the North Sea.
- It is clear that without greater investment and activity we risk losing vital capacity and skills that will support production and ensure we maximise economic recovery from the North Sea.
  - **Action is required to improve access to decommissioning tax relief**, ensuring that the right assets are in the right hands, and **deliver the UK commitment to provide loan guarantees,** which are of vital importance to both the supply chain and ensuring critical infrastructure remains operational.
  - With around £17.6 billion expected to be spent in the North Sea over the next decade on decommissioning, the **UK should join Scotland in funding projects to help secure work and cut costs in this emerging field.**

Oil & Gas UK's (OGUK) Business Outlook 2017 - published on 7 March 2017.

- **Slowly improving confidence in the sector**, with improvements in costs and productivity over the past two years leaving the industry in a better place to attract new investment to the basin.

- **Challenging messages** around total capital investment, supply chain revenues, accelerating decommissioning, and record low levels of exploration and investment.
- **There will be further pressures on the supply chain as it may be some time before there is a material upturn in investment in exploration and new developments**.
    - Oil and gas production continues to rise (increased by 5% in 2016)
    - Unit costs are improving (fallen by half over the last two years).
    - Exploration remains at record lows
    - Industry forecast total spend of just over £17 billion this year, around 20% lower than last year.
    - Supply chain companies have seen an average 30% fall in revenues over the last two years.

The Scottish Energy Strategy and Climate Change Plan

- The draft Energy Strategy, published for consultation on the 24th January, sets out the SGs energy vision to 2050.
- The SG published the draft Climate Change Plan, on the 19th January setting out how we intend to meet the emission reduction targets in the period 2017-2032.
- Our draft Energy Strategy conveys a clear message to the oil and gas industry – the recovery of North Sea oil and gas as a highly regulated source of hydrocarbon fuels will continue to be a priority for this government for decades to come.

ANNEX B – Biography's and Background

	**Phil Kirk, Chief Executive,** Phil qualified as a chartered accountant with Ernst & Young in 1991 before joining Hess in 1996. He served in a variety of roles including Head of Finance, North West Europe. He left Hess in 2002 to co-found CH4 Energy with two other ex-Hess colleagues. Phil was joint MD of CH4 which, with financial backing from 3i plc and Trust Company of the West (''TCW'') (an EIG predecessor firm), acquired and operated the Markham field and associated satellites on the UK/Dutch median line. Since February 2013 Phil has been a member of the Board of Oil and Gas UK, the leading representative body for the UK offshore oil and gas industry. Phil is currently Co-Chair of OGA UK Exploration Board, and a member of the overarching industry body, the MER UK Forum.
	**Andrew Vickers, Communication Director** Andrew has 28 years of experience in the oil and gas sector with senior Communication leadership positions in Europe, Latin America and the Middle East. He has led Shell's European Upstream External Affairs team (UK, Netherlands, Norway, Ireland, et al) and co-led significant employee engagement programmes. Most recently he was part of Shell's global External Relations leadership team with global accountability for civil society stakeholders.

Chrysaor - Background

- Chrysaor is an exploration and production company formed in 2007 by the team who managed the operations and growth of CH4 Energy Limited between 2002 and 2006, when it was sold to Venture Production plc.

- Chrysaor is focused on the development and commercialisation of dormant oil and gas discoveries and incremental reserves. They seek to acquire opportunities where they will have control over reserve development. The team will then endeavour to bring those incremental and dormant hydrocarbon reserves to market quickly and safely.

  [REDACT]

On 30 January Shell announced a Sale and Purchase Agreement (SPA) for a number of their North Sea assets to Chrysaor. These assets included:

- **Three operated assets**: Greater Armada Cluster (Norwegian North Sea), Everest, and the late life Lomond field.
- Six non-operated assets: Buzzard, Beryl, Bresay, Elgin-Franklin, J-Block, Erskine.
- An interest in BP's Schiehallion field, which is yet to reach first production.

ANNEX C – OIL AND GAS FMQ

Issue:

- **On 13 March – Wood Group to combine with AmecFW in a £2.2 bn deal - which is expected to save $134m per annum, and will be completed in the second half of 2017.**
- **On 8 March – 2017 March Budget announced the publication of a discussion paper and the establishment of a panel of industry experts to investigate the use of tax incentives to assist sales of oil and gas fields, helping to keep fields productive for longer.**
- **On 7 March, Oil & Gas UK (OGUK) published their Business Outlook 2017:**

  * Oil and gas production continues to rise (increased by 5% in 2016)
  * Unit costs are improving (fallen by half over the last two years).
  * Exploration remains at record lows
  * Industry forecast total spend of just over £17 billion this year, around 20% lower than last year.
  * Supply chain companies have seen an average 30% fall in revenues over the last two years.
- **On 8 February, the First Minister launched a £5 million Decommissioning Challenge Fund (DCF)** to provide opportunities for the Scottish supply chain to benefit from oil and gas decommissioning. GMB have criticised DCF money as a "drop in the ocean" on GMS (9 Feb); and argue (20 Feb) that Scotland is a "decade behind" in preparing for decommissioning.
- **A Labour Conference Motion: called on UK & Scottish Governments to agree a co-investment plan** to support the industry by taking a public stake to protect vital offshore infrastructure, 25 Feb 17.

Top Lines

- The **North Sea still holds significant potential with up to 20 billion boe remaining,** but the industry highlights that further action is needed to encourage investment.
- There are still many opportunities in the North Sea but maximising them will require a concerted effort from everyone – industry, governments and the new regulator.
- We will continue to stand alongside Scotland's oil and gas industry, doing all that we can to improve collaboration, cooperation and innovation – creating a more competitive sector as well as further developing its status as a global centre of oil and gas expertise.
- However, we are under no illusions about the challenges facing the sector, but welcome the fact that **production is increasing and operating costs are falling** – reflecting the significant investment in recent years and the efforts by industry to reduce costs and increase efficiency.
- **The £5m Decommissioning Challenge Fund recognises that decommissioning is an emerging, but growing, activity in the North Sea**, with £17.6bn expected to be spent over the next decade.
- **The key economic and fiscal levers remain with the UK Government**. The Scottish Government remains committed to the oil and gas industry during these challenging times.

- The **Energy Jobs Taskforce (EJTF) is supporting Scotland's oil and gas sector** - bringing together key partners to maximise employment opportunities for those in the industry.

<u>The key economic levers remain with the UK Government, and further support is urgently required</u>

- Finally, the Chancellor has listened to calls the Scottish Government and industry have been repeatedly making for some time to ensure that "the right assets are in the right hands", it is crucial this turns into actions swiftly rather than another talking shop.
- The UKG first committed to reforming decommissiong tax relief in Dec 2014 in their *Driving Investment* plan, and their 2016 March Budget made similar proposals.
- The OGUK Business Outlook highlights the urgent need for fresh capital investment to stimulate activity and maximise economic recovery. Steps must be taken now to incentivise investment and exploration, which would be of particular help to the supply chain, facing the greatest pressures.
- On 3 March, the Cabinet Secretary for Finance & Constitution wrote to the Chancellor outlining priority measures which should be introduced at the 2017 March Budget. We have previously recommended proposals focused around increasing activity in late-life assets to ensure their full potential is realised, protecting critical pieces of infrastructure, and driving forward new investment in the North Sea.
- It is clear that without greater investment and activity we risk losing vital capacity and skills that will support production and ensure we maximise economic recovery from the North Sea.
  - **Action is required to improve access to decommissioning tax relief**, ensuring that the right assets are in the right hands, and **deliver the UK commitment to provide loan guarantees -** of vital importance to both the supply chain and ensuring critical infrastructure remains operational.
  - With around £17.6 billion expected to be spent in the North Sea over the next decade on decommissioning, the **UK should join Scotland in funding projects to help secure work and cut costs in this emerging field.**

<u>First Minister launched a £5 million Decommissioning Challenge Fund (DCF) to provide opportunities for the Scottish supply chain to benefit from oil and gas decommissioning</u>

- The DCF will support infrastructure upgrades and innovation in salvage and transport methods at Scotland's ports and harbours. [Funding is available in Financial Year 2017/18]
- The DCF will also encourage engineering scoping work at key sites to build business cases that will attract further private investment.
- The DCF will deliver a key Programme for Government commitment to ensuring that decommissioning is executed in a safe, environmentally sound and cost effective manner and supports the ambitions outlined in our draft Energy Strategy and Scottish Enterprise's Decommissioning Action Plan.
- The Scottish Government will make further funds available in future years once business cases have been developed to support larger scale projects.

<u>We launched a £12 million Transition Training Fund (TTF) to support individuals and help the sector retain talent on 1 February 2016</u>.

- The fund, now in operation for over a year, will **operate for three years**. Latest figures show **more than 1,700 people have had applications approved from the fund**.
- Training programmes procured by the TTF will also **create around 340 employment opportunities across Scotland**, with **the latest tranche supporting 425 opportunities**.
- The TTF augments the work of the Energy Jobs Taskforce - already providing support through **PACE** and other measures such as the **Adopt an Apprentice initiative**.
- It is important that the TTF continues to address tangible economic opportunities, rather than simply offering speculative training - on this basis, the funding has already surpassed its initial aim of supporting over 1,000 participants each year.

The Energy Jobs Taskforce (EJTF) remains focused on supporting those affected today but, at the same time, is looking to the future to lay foundations for a vibrant industry for decades to come

- **The taskforce has met 12 times,** with the most recent meeting taking place on 8 December.
- The PACE programme has focused significant efforts in the North East **– 4 PACE job events aimed at the oil and gas industry have been attended by 3,500 people to date.**
- The Elevator Fresh Start programme has supported **the creation of 64 new businesses in the north** east of Scotland, originating from original contact at PACE events.
- From March 2015 to April 2016**, Scottish Enterprise has engaged directly with over 800 oil and gas companies via 36 events**. These include workshops, programmes and 4 industry networking events

We have also provided a further £12.5 million to support innovation and business resilience

- This included £10 million of SE funding to **help firms reduce risks associated with carrying out research & development. To date** around 78 innovation projects with a total project value of around £16 million having benefitted from **around £7 million** of Scottish Government support so far.
- £2.5 million was set aside for **business resilience reviews,** providing targeted support from industry experts, **with over £2.5 million committed investment so far**.
- SE & HIE are providing practical assistance to the supply chain and have run **6 Resilience in Oil and Gas Events**, welcoming 217 delegates from 144 companies, to hear from experts on strategy, operations, finance and market resilience

Our draft Energy Strategy conveys a clear message to the oil and gas industry – the recovery of North Sea oil and gas as a highly regulated source of hydrocarbon fuels will continue to be a priority for this government for decades to come.

- We remain committed to maintaining domestic oil and gas exploration and production, and **Maximising Economic Recovery**. For the first time, our Energy Strategy clearly articulates this within the context of our climate change objectives.

- Over the past five decades**, North Sea production** has established an industry that has generated over £330 billion in tax revenue and currently supports around 124,500 jobs in Scotland.
- The sector provides high-value employment, the engineering and technical bedrock for our transition from fossil fuels, and stable supply of our energy demands for decades to come.
- Around **three quarters of total energy consumption in Scotland is supplied by oil and gas**.
- As a result of advances in technology, many developing here in Scotland, new and innovative ways of using hydrocarbons are emerging. This will be a continuing opportunity for decades to come with new energy sources and technologies such as Hydrogen and CCS having the potential to substantially reduce the cost of decarbonisation.