

MINISTER FOR BUSINESS, INNOVATION AND ENERGY

EAST COAST OIL AND GAS MEETING - FRIDAY 31 FEBRUARY 2017

Key Message	Delighted to meet with an innovative, forward looking company within the Scottish oil and gas supply chain.
Who	Richard Knox (Managing Director), Robert Cowman (Engineering Director) and Heather Sharkey (Commercial Director)
What	Meeting at EC-OG's main headquarters in Aberdeen [REDACT]
Why	The company is developing an innovative subsea power generator system, Subsea Power Hub (SPH). [REDACT] EC-OG recently won the 'Best Small Company' category at the Subsea UK Awards event in Aberdeen. [REDACT]
Where	East Coast Oil & Gas (EC-OG) Suite A9 Davidson House, Aberdeen Innovation Park, Balgownie Road, Aberdeen AB22 8GT
When	31st March 2017 10:15-11:00
Supporting Officials	[REDACT] , Office of the Chief Economist, [REDACT] [REDACT] , Policy Officer, Oil and Gas Unit, [REDACT] [REDACT] , Account Manager, Scottish Enterprise
Annexes	Annex A: Programme and Key Points Annex B: Company Brief Annex C: Oil and Gas Core Brief Annex D: Biographies

Programme

10:15 Minister arrives

[REDACT]

10:40 Brief introduction to the team at EC-OG

10:45 Minister leaves

Key Points

[REDACT]

The industry body for subsea – Subsea UK and their research arm National Subsea Research Initiative (NSRI) are based in Scotland and the subsea supply chain in Scotland is recognised globally as a centre of engineering excellence.

In January, The Scottish Government released our Subsea Engineering Action. This Action plan has been designed to build on Scotland's existing strengths in subsea engineering, helping our oil and gas companies find new opportunities at home and abroad and to utilise their engineering solutions in basins in other oil and gas regions across the world.

Scotland's Oil & Gas industry has developed a cluster of companies with expertise in subsea engineering which is among the strongest in the world. Approximately half of the subsea installations in the world today are in the North Sea.

A key driver of future success in technology development will be the recently opened Oil & Gas Technology Centre in Aberdeen, the company are working closely with the OGTC in terms of a collaborative study towards field study work and are close to finalising contract details on this.

EC-OG were founded in 2013 with the strategic aim of building a business around a Subsea Power Hub (SPH) for the Oil & Gas sector. In the interim the company have developed a ground breaking solution to subsea power supply that uses ocean currents to provide autonomous electrical power to continuously recharge batteries.

Power is provided in subsea conditions using a unique turbine process and as a result it is easy to install, reliable, cost effective and suitable for remote environments. The company have self-funded a substantial element of this innovation through provision of bespoke engineering services to the Oil & Gas industry.

[REDACT]

EC-OG have been highly pro-active in the energy community as a whole and are frequent speakers at various SE events and in Universities throughout the country in particular within the product innovation space. EC-OG are looking to launch their product at Offshore Europe in September 2017 and will have a focal point on the SE's 'Scotland Pavilion' at the Aberdeen event.

[REDACT]

EC-OG recently won the 'Best Small Company' category at the Subsea UK Awards event in Aberdeen.

- **BP have begun talks with Ineos AG to sell the Forties pipeline, one of the most important pieces of oil infrastructure in the UK North Sea.** On March 17 the Scottish Government issued a statement: “We are following developments closely, but commercial discussions about the sale of the Forties Pipeline System are a matter for BP and Ineos” ... “With up to 20 billion barrels of oil and gas remaining in the North Sea, extending the life of critical infrastructure such as the Forties Pipeline System should be a key priority”
- **On 27 March first oil has been confirmed from the Maersk Oil-operated Flyndre field – production is expected to peak at around 10,000 bopd - this development will allow Flyndre to achieve MER from the Clyde field whose field life will be extended into at least 2023.**
- **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).

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 £17.6 billion expected to be spent in the North Sea 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.

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

- 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 decommissioning 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.
- 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.**

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

- 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.

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

- The fund, now in operation for a year, will **operate for three years**. Latest figures show **more than 1,800 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 13 times**, most recently the 22 March.
- 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. A 5th event took place on 29 March.**
- 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 and 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.

Richard Knox CEng MIMechE - Managing Director

Richard is the Founder and Managing Director of EC-OG. He has provided the technology focus, customer service and value-based ethos which have served as the cornerstone to EC-OG's achievements. Prior to setting up his own business, Richard had a successful career at GE Oil & Gas where he was responsible for the concept and implementation of award-winning subsea systems as well as a short spell providing subsea consultancy for critical well assemblies.

Following 15 years in industry Richard identified a market opportunity to utilise marine renewable energy in an economic format namely powering Oil & Gas infrastructure as technology stepping stone for marine energy into mainstream power generation.

As Managing Director, Richard leads the commercial team and is responsible for the market and financial strategy.

1.1 Robert Cowman BEng - Engineering Director

Rob brings a wealth of experience to the company. Joining in summer 2013 as a Senior Engineering Technical Advisor, Rob assumed the role of Engineering Director to bolster the management team in the December. With over 15 years in the Oil & Gas industry and a varied selection of patents to his name, Rob has shown his diversity and ingenuity within the industry. He has worked with small independents, growing enterprises and large multinationals. With a technology knowledge span from the drill bit to the export pipeline, Rob has a firm grasp of the industry and its demands.

As Engineering Director, Rob leads the engineering team and supports the management team in business and technical strategy.

1.2 Heather Sharkey BA (Hons) - Commercial Director

With 24 years of multi-industry experience, Heather is an experienced senior manager and is the Commercial Director at EC-OG. Her background is in contract negotiation, value engineering and commercial matters for the retail and construction services sectors. At EC-OG, she is responsible for all commercial matters and the management of finances for the Subsea Power Hub project and the engineering services side of the business.
