

Maximizing Potential of Fallow Oil and Gas Fields

Regulatory Regime and Land Management

The current regulatory framework for the management of offshore oil and gas development in Newfoundland and Labrador falls short in insuring that companies have incentives for the development of these oil and gas fields. Current Federal legislation provides no timeline for development, meaning any company holding a Significant Development License (SDL), can retain the right to develop indefinitely and without consequence. Globally, oil and gas jurisdictions renew and amend their regimes to create/maintain incentives for exploration and development on an ongoing basis.

Amendments to this regulatory regime, that provide incentives for oil and gas development as well as making considerations to the acceleration of development of significant oil and gas opportunities, would prove beneficial to both industry and government.

Regulatory Regime

Currently, offshore petroleum resources are jointly managed by the federal and provincial governments through the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB). The C-NLOPB manages the regulatory regime established by the Atlantic Accord in 1985 and the subsequent implementation legislation. Since 1985, regulatory complexity and overlap has increased significantly, complicating the administration of resources in the offshore area. Updates to the current regulatory framework must be made to ensure that it is efficient and effective for the future. The modernization of this regime would benefit both provincial and federal governments and promote the accelerated development of offshore resources for future development along both the east and west coasts of Canada and the northern passages of the Territories.

Land Management

Land management refers to the process followed whereby governments provide the opportunity to oil companies to explore and develop lands on which oil and gas potential exists. Effective land management is crucial for the accelerated development of oil and gas opportunities.

There are three critical stages to consider when designing a land management system: the exploration phase, the discovery/development phase, and the production phase. Under the current land management framework, when a company successfully bids for exploration rights and are awarded an Exploration License, they have 5 years (extendable to nine if an acceptable plan is agreed to) within which to expend their bid amount. If the bid amount is not expended, or if no significant discovery is made, the company must relinquish the exploration rights and forfeit 25 per cent of the unexpended commitment. The proposed improvement to this phase would require companies to outline detailed plans and timelines for execution of exploration activity as well as a reporting and monitoring program which can ensure that exploration activity is being pursued as planned.

If exploration yields a significant discovery the company then enters the discovery/development phase and can apply for a Significant Development License (SDL). SDLs have no expiry date under the existing Atlantic Accord regulatory regime, leaving companies free to develop at their leisure and discretion. Such a framework prevents other companies from gaining access to the offshore resources and therefore stifles the potential for accelerated development. Measures need to be put in place to

ensure that companies have incentives for development. Such measures could include fixed terms, rapidly escalating rentals, or a combination of both so that development takes place in a timely fashion. Since companies with an SDL can delay development indefinitely under the current regulatory framework, leaving potential petroleum and gas fields “stagnant”, it is imperative that such disincentives be eliminated so that the benefits of these resources can be reaped by the resources ultimate owners: the people.

Recommendation

That the federal government:

1. Review the current offshore regulatory structure to ensure efficiency, effectiveness, and modernity, leading to the promotion of accelerated development of offshore resources.
2. Ensure companies outline detailed plans and timelines for execution for exploration activity and to establish a reporting and monitoring program which will ensure the exploration activity is being pursued as planned.
3. Amend legislation regarding offshore oil and gas development regulations to include a timeframe within which companies holding new or existing Significant Development Licenses must develop or risk the loss of their development claim.