



**Submission to the Hebron Public Review Commission**

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**November, 2011**



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### Hebron Public Review

The proponent of the Hebron project submitted a development plan application to the Canada Newfoundland and Labrador Offshore Petroleum Board (CNLOPB) in April 2011 for the province's fourth offshore oil installation on the Grand Banks. The Hebron benefits plan was submitted to the CNLOPB the following month. The Hebron oilfield will be developed using a gravity base structure (GBS) at a capital cost of approximately \$6.5 billion (not including drilling costs of about \$1.9 billion).<sup>1</sup> A potential subsea tieback to further develop a portion of the oilfield, known as Pool 3, is estimated at an additional cost of approximately \$3.5 billion.<sup>2</sup>

The CNLOPB appointed the Hebron Public Review Commission in July to conduct an independent assessment of the project's development plan and benefits plan, and to make recommendations to the offshore regulator. During the first stage of the review process, Commissioner Miller Ayre compiled requests for additional information from experts and a number of interested groups, including NOIA, which were submitted to the Hebron proponent by the end of September 2011. The commissioner publicly released the proponent's response to all requests for additional information on Oct. 20. The Hebron Public Review Commission starts 12 days of hearings on Nov. 21.

### NOIA's interest and objectives

Founded in 1977, the Newfoundland & Labrador Oil & Gas Industries Association (NOIA) is Canada's largest offshore oil and gas industries association. With more than 560 members in Newfoundland & Labrador, Canada and around the world, NOIA represents the supply and service sector in the province's oil and 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 a fourth oilfield off our shores. NOIA

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<sup>1</sup> Hebron Development Plan, Section 13, pg. 13-6.

<sup>2</sup> Hebron Development Plan, Section 13, pg. 13-7.

supports the development of the Hebron oilfield, and our members are enthusiastic to see it move ahead.

NOIA's objectives in the Hebron Public Review process are to:

- Promote the growth of the Newfoundland & Labrador industry and the local supply and service sector;
- Support the positive impact of the offshore oil and gas industry on the province;
- Support the Hebron project;
- Support responsible development of the Hebron oilfield;
- Advance local content in the Hebron project;
- Encourage improvements to the current Hebron development and benefits plans;
- Encourage more consistent local content/local involvement in the Hebron project and future offshore oil and gas projects.

### **Oil industry's positive impact on economy**

The Hebron project will continue the oil industry's positive impact on the province and its economic fortunes.

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 and gas fields. Hebron 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 petroleum engineering, fabrication, safety and operations in a harsh environment.

We are seeking a continuous, long-lasting industry that grows capacity. The oil and 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.

Our oil and gas industry directly employs more than 4,000 people onshore and at the offshore production installations for the Hibernia, Terra Nova and White Rose oilfields (including the North Amethyst satellite).

That number increases to about 17,000 jobs when spin-off employment is included, according to a recent report by the Canadian Energy Research Institute (CERI).<sup>3</sup>

CERI defines these spinoff jobs as those directly providing goods and services to the offshore petroleum industry, such as consulting and engineering firms, insurance, finance and transportation. As well, it includes jobs created in other industries, such as wholesale and retail trade, education and medical services, as a result of the economic activity generated by the petroleum industry.

The positive impact of that economic activity can be seen in more business for restaurants, art galleries, retail stores, taxi stands, car dealerships and hotels; industrial parks that surround St. John's, Mount Pearl and Paradise to service the petroleum industry; and in the construction of much-needed office space and parking facilities in a vibrant downtown St. John's.

In a recent report, the Atlantic Provinces Economic Council (APEC) stated oil royalties have transformed Newfoundland & Labrador into a "have" province; oil and mining activity have also bumped up personal incomes; and oil production is fuelling the province's GDP growth.<sup>4</sup>

Oil royalties are the biggest source of revenue for the provincial government – accounting for 30 cents of every dollar in revenue in 2010.

Personal income is up 35 per cent and overall employment growth is also up almost 16 per cent since 1997, the year Hibernia pumped first oil.

APEC also pointed out Newfoundland & Labrador faces challenges as its economy continues to grow, but they are the kind of challenges any province would want to face: meeting the demands for skilled labour as megaprojects, such as the ongoing Long Harbour nickel processing plant, the Hebron project and the Muskrat Falls hydro development, ramp up.

This is all very positive, but we can do more. The vastness of the resources we are talking about should permanently change our economic future. Not just until these projects are over.

We should be thinking, planning, and working together to ensure the impacts felt are not short-term jobs. The impacts should be meaningful and long term.

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<sup>3</sup> *Overview of Eastern and Atlantic Canada's Petroleum Industry and Economic Impacts of Offshore Atlantic Projects,* 2010-2035, CERI, November 2011

<sup>4</sup> *How the Oil Industry has Transformed the Newfoundland and Labrador Economy,* APEC, summer 2011

We should be developing companies and people who run those companies so they can compete on the world stage for decades to come.

We should ensure that proponents that come here to develop our resources leave an indelible mark on Newfoundland & Labrador – one that can be measured.

After discussions with our membership, NOIA believes that, while we are doing well and we are appreciative of the success so far, we still have much work to do to ensure the spirit of local benefits is being met.

### **Local benefits**

NOIA believes that the local community and workforce should grow dynamically with each offshore project through local benefits – resulting in the growth of direct and indirect employment, local knowledge, expertise and capability to do more work on subsequent oil and gas projects.

As well, we believe this expertise and capability can be transferred to other sectors of the Newfoundland & Labrador economy, such as mining and construction, or exported to other Canadian and international projects.

Under the provisions of the Atlantic Accord Act, all offshore petroleum projects must have a benefits plan and “first consideration” for employment and training must be given to Newfoundland & Labrador residents.<sup>5</sup> The act states first consideration must also be given to “services provided from within the province and to goods manufactured in the province, where those services and goods are competitive in terms of fair market price, quality and delivery.”<sup>6</sup>

The benefits plan must also provide “manufacturers, consultants, contractors and service companies in the province and other parts of Canada with a full and fair opportunity to participate on a competitive basis in the supply of goods and services used in any proposed work or activity referred to in the benefits plan.”<sup>7</sup>

NOIA believes the Hebron Benefits Plan could be more specific in its local benefits commitments to advance the further development of the Newfoundland & Labrador oil and gas industry through the execution of the project.

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<sup>5</sup> Atlantic Accord Act, Section 45 (3,b)

<sup>6</sup> Atlantic Accord Act, Section 45 (3,d).

<sup>7</sup> Atlantic Accord, Section 45 (1).

The Hebron proponent acknowledges the lack of specifics in its benefits plan – describing the plan as a “high-level document” that outlines “benefits approaches and mechanisms that have the flexibility to respond to change.”<sup>8</sup> NOIA welcomes this flexibility and encourages the proponent to expand on the ways that the Hebron project will further enhance the industry through local participation.

The Hebron Benefits Plan also acknowledges the importance of progressive development of the local industry with each offshore project. It pledges to deliver long-term value to Newfoundlanders & Labradorians and Canadians by “contributing to the province’s reputation as being a source of supply, service, construction, fabrication, labour, education, training and R&D capabilities and expertise that are globally competitive in terms of safety performance, price, quality and delivery.”<sup>9</sup>

NOIA encourages the proponent in meeting these goals, and pledges to help the Hebron proponent in achieving them. We do, however, question the use of the phrase “globally competitive.” The benefits requirements are intended to enhance local participation in offshore oil and gas projects, and nowhere in the Atlantic Accord Act does the phrase “globally competitive” appear as the basis for this participation.

The Hebron benefits plan adds requirements that are beyond the scale of the current capacity of the local supply and service sector. The use of the phrase “globally competitive” throughout the benefits plan sets a standard that a small, young industry like ours will struggle to reach in its present state. In NOIA’s view, the proponent should focus efforts on advancing the local industry toward global competitiveness, rather than make it a condition of local participation in the Hebron project.

NOIA members expect each new project to “raise the bar” on local content and participation at all levels of development and operations – not just increase the person-hours of work achieved. We want to see an increase in the level of specialized work, technology transfer and expertise gained.

We applaud the proponents training of Newfoundlanders & Labradorians and Canadians; however, this does not transfer knowledge to local companies to improve their ability to compete. Technology transfer must be encouraged and enhanced through good working relationships, joint ventures and licensing arrangements. NOIA defines technology transfer as: local companies acquiring technological expertise and capabilities by partnering and working with the companies that bring value to the work that can be done here.

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<sup>8</sup> Hebron Benefits Plan, Section 1, pg. 1-1.

<sup>9</sup> Hebron Benefits Plan, Section 1, pp. 1-2 to 1-3.

We seek a pro-active stance from the proponent to develop and execute a plan that leaves the supply and service community stronger after Hebron. We also seek a mechanism to measure and publicly report what is accomplished with each project.

The regulations require that project operators regularly submit information to the Canada-Newfoundland and Labrador Offshore Petroleum Board (CNLOPB) detailing local benefits in project employment and spending. Operators collect much of this information from their contractors – our members. NOIA members want to know the end result of that reporting process.

While the CNLOPB tracks the data and publishes a portion of it in annual reports, it doesn't publicly release detailed information on the percentage of local benefits derived from each stage of a project, such as front-end engineering and design (FEED) or topsides construction, on a regular and ongoing basis throughout the project.

The lack of publicly available information about local content at each stage of a project makes it difficult to tell if we are achieving increased local content levels in engineering, design and fabrication from one project to the next. "First consideration" is a requirement of the Atlantic Accord, and proponent must be measured on its achievement.

We must ask ourselves the following questions: Are we expanding our capabilities and capacity to take on a greater level of work and responsibility in each new project? Are we developing a local base of expertise that can be used in other sectors of our economy? Can that expertise be exported to other projects internationally in the oil and gas, mining or construction sectors?

NOIA believes that, in order to determine whether an offshore project is successful in exceeding the previous local content benchmarks, each project must be measured on its achievements and that information must be publicly available on a regular basis. It must include local content percentages during: FEED, detailed engineering, construction of GBS and topsides, mechanical outfitting, hook-up and commissioning, and operations and maintenance.

This benchmarking, along with reporting on the proponent's performance in attaining and exceeding its commitments, is a critical step in the vision implicit in the Atlantic Accord.

NOIA would like to highlight the potential for the erosion of local benefits. We are seeing some erosion in other offshore oil and gas jurisdictions and we are seeing some of this happening here.

For example, the State of Western Australia – where multibillion-dollar liquefied natural gas (LNG) projects are ongoing – is seeing an erosion of local benefits in its offshore petroleum industry, particularly in steel fabrication, engineering and design. As well, overseas competition is occurring in areas once serviced almost entirely by local companies, such as accommodation, catering, concrete walkways and equipment maintenance.

A report by the Western Australian government notes these changes have been “particularly pronounced in offshore energy projects.”<sup>10</sup> It states that local industry participation has decreased from a peak of 72 per cent during the fourth phase of development of the North West Shelf LNG project several years ago to an estimated 45-55 per cent for the ongoing LNG projects, Pluto and Gorgon.<sup>11</sup>

The Western Australian report also explains how the advantage of local companies is diminishing due to a number of factors, including: increased use of modular construction technology to produce major capital equipment which is usually supplied from overseas; design, procurement and contract management moving offshore; and the rising use of global supply chains and international marketing arrangements.<sup>12</sup>

We do not want to see that happen here, and this is why we must strive for continuous improvement in the level of local participation in the oil and gas projects developed off our shores.

## **Procurement**

Keeping in mind the spirit of the Atlantic Accord, NOIA believes that supply and service companies operating in Newfoundland & Labrador must be provided with first consideration and full and fair opportunities to bid for work on the Hebron project on a competitive basis.

To achieve this, a transparent and consistent procurement process is required during both the development and operations phases of offshore projects, such as Hebron. We believe this is key to ensuring that local capacity and expertise continues to grow with each new offshore development.

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<sup>10</sup> “Local Content Report,” Government of Western Australia, pg. 6, May 2011.

<sup>11</sup> North West Shelf started production in 2004, while development of the Pluto and Gorgon projects is ongoing. “Local Content Report,” Government of Western Australia, pg. 7, May 2011.

<sup>12</sup> North West Shelf started production in 2004, while development of the Pluto and Gorgon projects is ongoing. “Local Content Report,” Government of Western Australia, pg. 7, May 2011.

NOIA appreciates the efforts to date by the proponent and its engineering, procurement and construction (EPC) contractors to hold supplier sessions with local businesses and educate the local supply and service community on the Hebron project requirements and procurement process.

Additional work remains to be done – and a collaborative industry effort is required to create a transparent and consistent bid process that is followed from project to project, and from company to company. This is the only way public confidence in the Atlantic Accord requirements is assured.

NOIA believes the procurement process should include the regular and timely publication of detailed procurement forecasts, expressions of interest, bidders' lists and contract awards by the proponent and its EPC contractors. Regular updates enable local companies to “stay in the loop,” track their progress at each stage of procurement, and build business relationships with the contractors who do qualify to bid.

The Canadian Association of Petroleum Producers (CAPP)<sup>13</sup> outlined a similar process in a 2004 report that contained recommended practices between offshore operators and supply and service companies in Atlantic Canada. The report noted the importance of communication in the procurement process and was one of the outcomes of the Atlantic Energy Roundtable.<sup>14</sup>

CAPP stated, “Through the sharing of information and streamlining the supply chain management process, it will make the procurement of goods and services for the offshore petroleum industry in Atlantic Canada more efficient and effective.”<sup>15</sup>

The Atlantic Energy Roundtable<sup>16</sup> acknowledged as much in February 2005 when it stated “AER partners agreed that a well functioning local supply chain would provide suppliers with greater opportunities and could lower costs for both suppliers and purchasers.”<sup>17</sup>

Implementing a transparent and consistent procurement process is just one step in ensuring full and fair opportunities for the local contractor community. There are barriers to an effective procurement process, including:

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<sup>13</sup> CAPP members produce more than 90 per cent of Canada's natural gas and crude oil.

<sup>14</sup> Created in 2002, the Atlantic Energy Roundtable provides a forum for governments, offshore operators, supply and service companies, regulators and labour to work together on issues of common interest.

<sup>15</sup> “Atlantic Canada Offshore Petroleum Industry – Supply Chain Management,” CAPP, August 2004

<sup>17</sup> “Report of the Implementation Committee,” Atlantic Energy Roundtable, pg. 9, Feb. 19, 2005.

- Frame agreements with international suppliers not based in Newfoundland & Labrador may exclude local companies from the supply chain and prevent them from bidding on goods and services they can supply.
- Bid packages that are not scaled to enable local small- and medium-sized contractors to bid on the work they are capable of doing.

The local supply and service community must have timely access to the proponent and its main EPC contractors, but also to the bidders for the major components of the Hebron production platform so they can become part of the bidders' supply chain.

International suppliers that are not based in the province and have frame agreements with the Hebron proponent and its main contractors should partner with locally based, tax-paying companies to ensure technology transfer.

Good communication and consistent bid practices are key elements in delivering projects on time, on budget. With sufficient notice of an operator's requirements, NOIA members are able to deliver better products and better service on time and at a cost savings to the Hebron proponent and its EPC contractors.

## **Legacy**

The legacy of the Hibernia project was the creation of our offshore oil and gas industry. The \$3.7 billion in taxpayer loan guarantees, non-repayable contribution, interest assistance and ownership interest in Hibernia was intended to launch an industry in Newfoundland & Labrador – not simply develop one oilfield on the Grand Banks for 25 years.

Another significant part of the Hibernia legacy was the scaling of design of the components and bid packages to match capability and capacity of local contractors. This enabled local companies to gain valuable experience building topsides modules and components.

Of the Hibernia platform's five "super" modules, the wellhead module was built at Bull Arm, while four topsides modules were built internationally (process, mud, utilities and accommodations). Also built at Bull Arm were smaller modules, such as the flare boom, helideck and two lifeboat stations.

NOIA encourages the proponent to exceed its local content commitments outlined in the Hebron development and benefits plans. Just as the Hebron proponent strives for safety excellence in its projects, so too, should the proponent strive to exceed its local benefits commitments as it is doing in other jurisdictions, such as Russia.

Off Russia's east coast, the Sakhalin-1 project is being developed by the proponent and its partner Neftegas. On the Sakhalin-1 website, the partners outline their commitment to Russian content, noting it accounts for more than two-thirds (or more than \$.7.7 billion) of the contracts awarded for the project.

The consortium's website goes on to state: "We are committed to maximizing the participation of local suppliers and contractors. The entire project gains from the experience of regional companies that understand the local operating environment." NOIA concurs with this philosophy, and would like to see a similar commitment from the Hebron proponent in Newfoundland & Labrador.

In a report released earlier this month, Memorial University economist Dr. Wade Locke compared Newfoundland & Labrador content during the Hibernia project with the proposed Hebron project.<sup>18</sup>

Local content accounted for 47 per cent of Hibernia's capital expenditures, while local content is expected to account for 44 per cent of the planned Hebron capital expenditures.<sup>19</sup>

The gap widens when employment numbers are compared. For Hibernia, 66 per cent of employment occurred in Newfoundland & Labrador. For Hebron, 40 per cent of proposed employment is expected to occur in the province.<sup>20</sup>

With each offshore project, NOIA believes our industry should grow, expand its capabilities, and be able to export its expertise to other Canadian and international projects. The goal is to build a knowledge base that can take Newfoundland & Labrador companies to the next offshore frontiers, the Arctic and Greenland.

The first step in accomplishing this goal is, "More must be done here," in the words of one NOIA member.

During public hearings on the White Rose development in 2001, the proponent was challenged to do just that. More front-end engineering and design (FEED) was done in Newfoundland & Labrador; topsides were scaled to match the capacities of local yards resulting in the construction of 13 modules; and a transparent, consistent procurement process was followed throughout the development.

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<sup>18</sup> Dr. Locke's report, "Assessing the Economic Impact of the Hebron Offshore Oil Project," was prepared for the Hebron Review Commission.

<sup>19</sup> "Assessing the Economic Impact of the Hebron Offshore Oil Project," Dr. Wade Locke, pg. 26, Nov. 1, 2011

<sup>20</sup> Locke, pp. 27.

The result was that White Rose was delivered on budget and on time.

The local industry has a proven track record of delivering quality work. Let's continue to build on the legacy of Hibernia, Terra Nova and White Rose.

By helping locally based supply and service companies contribute in a proactive manner to the Hebron project, NOIA believes there will be less risk to project cost and schedule, thereby helping the proponent achieve first oil on time and on budget – and also leaving a lasting legacy of capability and capacity in the province.

### **NOIA Recommendations**

In representing the issues and concerns of our members, NOIA firmly asserts that more transparency and consultation with the local supplier community will help the Hebron project meet its targets on time and on budget. We encourage the Hebron project to exceed the local benefits described in the development and benefits plans. Not only can the project reap the benefits of a more robust supply and service community, but so, too, can the entire industry now and into the future.

There is no doubt that the positive impacts of the industry are being felt. We are very pleased with the amount of spinoff that has come to the region as a result. We are convinced that with more attention, more tracking, more detailed thinking, we can do even better. We can help the proponents achieve their goals, we can help local companies and we can help the people of our province.

With this vision for the future of the oil and gas industry in mind, NOIA makes the following recommendations to the Hebron Public Review Commission:

- 1. The proponent and its EPC contractors scale the size of bid packages to meet local capabilities.**

To enable full and fair opportunity in Newfoundland & Labrador offshore projects, as envisioned by the Atlantic Accord, local business capability and capacity must be considered in the design and bid packaging stages of development.

By issuing smaller bid packages that more closely match the capabilities of local supply and service companies, small- and medium-sized contractors will be able to bid on the work they can do, and also develop joint ventures with other contractors working on other parts of the overall contract.

As with the Western Australia example, the packaging of the Utilities and Process Module (UPM) as a single-unit international bid ensures no local participation in the UPM, and this could result in support and maintenance work also moving to other jurisdictions.

While the size of the Hebron topsides has grown from 28,000 tonnes to approximately 38,000 tonnes, this growth of about 36 per cent in the weight of the topsides has not translated into additional opportunities for the local industry. The GBS design has also moved mechanical outfitting to the topsides and there is no commitment to replace this anticipated local work.

During construction of the Hibernia GBS and the White Rose topsides, bid packages were scaled to fit the capabilities of local companies. We are being advised by our members that Hebron bid packages are scaled so that they cannot bid on contracts.

Since the two main Hebron EPC contracts to date are on a “reimbursable” rather than “lump sum” basis, the proponent has the ability to direct its EPC contractors to carve out more opportunity for Newfoundland & Labrador and Canada. NOIA is also concerned that local companies are being asked to take on more financial risk and liability in order to land contracts on the Hebron project. We are seeking clarification of this practice.

Through its supplier sessions with local companies and its assessment of local engineering, yard and fabrication services, the proponent and its EPC contractors should be familiar with the capabilities of many Newfoundland & Labrador companies and design bid packages accordingly – rather than packaging them in a way that minimizes local participation.

**2. The proponent and its EPC contractors develop a consistent, transparent procurement process with a strong local benefits approach. Such a procurement process should be followed from project to project during both the development and production phases.**

This requires regular and timely publication of detailed procurement forecasts, EOIs, bidders’ lists and contract awards at all contract levels by the proponent and its EPC contractors. This timely information is critical to local companies preparing bids, partnering with other companies, and becoming part of domestic and international supply and service chains.

Detailed procurement forecasts are critical to companies in planning strategy and arranging joint ventures. Published procurement forecasts to date are too high level and without sufficient detail to be truly useful to the local supply and service community.

NOIA also asks that the ceiling for publishing bidders' lists be lowered to \$50,000 from the \$250,000 level currently used by the Hebron proponent and its EPC contractors.

### **3. Challenge the proponent to exceed its local benefits benchmarks.**

NOIA and its members would like to see more project engineering done locally. Front-end engineering and design (FEED) determines how a project will be built and how much it will cost.

If more FEED and detailed engineering were done in the province, it would be done with consideration as to who, locally, could supply the goods and services needed to build modules and other equipment. Local abilities and services would be taken into account by the engineers, as would the need to scale the design of modules and equipment to meet the capacities of local fabricators.

The importance of the accessibility of engineers to the local supply and service community cannot be under-estimated. The involvement of local companies during the FEED stage is critical to:

- The transfer of technology and increasing local knowledge and capacity for future oil and gas projects;
- Providing local supply and service companies with unimpeded, face-to-face access to project engineers, project information and decision-making;
- Developing the skills to carry out similar work in other sectors, such as mining and construction;
- Utilizing and exporting local expertise on international projects.

NOIA recommends that the proponent undertake significantly more engineering in Newfoundland & Labrador – thereby establishing a strong and lasting legacy within the province.

### **4. The proponent submit a separate Benefits Plan for the Pool 3 development and conduct FEED locally as was done for North Amethyst.**

NOIA believes the development of Pool 3 via a potential subsea tie-back represents an opportunity for significant local participation. Such an oilfield development would be similar to other subsea tiebacks in offshore Newfoundland & Labrador, such as the North Amethyst expansion of the White Rose oilfield.

Satellite or add-on developments are as vital to the expansion of the Newfoundland & Labrador offshore industry as are megaprojects, such as Hebron. As existing fields expand,

subsea tiebacks can provide engineering, fabrication and other supply and service opportunities for local companies.

The proponent has stated the current Hebron development and benefits plans include the development of Pool 3,<sup>21</sup> though further studies to define the design, cost and schedule estimates are not expected to be completed until 2012. NOIA believes the local benefits to be derived from the development of Pool 3 require further clarification. That will only be possible when the proponent completes its technical studies next year and determines exactly how Pool 3 will be developed and when.

**5. The proponent and its EPC contractor carry out supplier development sessions for Newfoundland & Labrador companies specifically on the Utilities and Process Module that will be built overseas.**

The better informed the local service and supply community is about the Utility and Process Module, the better its chances of understanding the maintenance requirements during Hebron operations. Such efforts will transfer knowledge – enabling local companies to land support and maintenance contracts and become part of the supply chain for the Hebron project during operations.

**6. The Hebron proponent provide specific percentages of employment and expenditure goals expected to occur in Newfoundland & Labrador at each stage of the project: FEED, detailed engineering, GBS construction, topsides fabrication, and mechanical outfitting, hook-up and commissioning, and operations and maintenance.**

NOIA believes the project is at a stage where more accurate estimates can be provided.

The Hebron benefits plan cites broad ranges of employment and expenditures that may occur in Newfoundland & Labrador during the Hebron development phase. The proponent estimates the project expenditures at 35 per cent to 55 per cent +/- 25%, while project employment is estimated at 30 per cent to 50 per cent.<sup>22</sup>

The benefits plan does not state how the proponent expects to achieve the top end of these ranges – 55 per cent for expenditures or 50 per cent for employment. And it does not state if achieving the top range is the proponent's goal. The benefits plan points out that the employment and expenditure estimates are accurate within plus/minus 25 per cent.

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<sup>21</sup> "Response to Hebron Public Review Additional Information Request," ExxonMobil, Section 5, pp. 5-6, October 2011.

<sup>22</sup> Hebron Benefits Plan, ExxonMobil, Section 4, pg. 4-27, April 2011.

In its response for additional information to the Hebron Review Commission, the proponent later stated the employment range (without the +/- 25 per cent contingency) would be 40 per cent Newfoundland & Labrador content.<sup>23</sup> That goal is considerably lower than the local employment level achieved by the Hibernia project.

Nowhere in the Hebron development and benefit plans does the proponent define the “natural” local capture. This is defined as work or expenditures, such as GBS construction and hook-up and commissioning, that must be done locally simply because this work cannot be done elsewhere.

**7. The CNLOPB create a mechanism to track, measure, compare and regularly report the detailed local content achievements at each stage of offshore projects – and make those reports publicly available.**

A detailed comparison of the local benefits achieved from project to project is necessary to see if we are raising the bar on local content and participation with each new offshore development, and determining where we need to improve. It would also help in setting benchmarks for future projects.

Memorial University economist, Dr. Wade Locke’s recent report<sup>24</sup> comparing the expenditures and employment levels in the Hibernia project and the proposed Hebron project provided some of the measurements and comparisons that NOIA would like to see more of in future. The Locke report stated:

- 47 per cent of \$5.6 billion in Hibernia capital expenditures and 66 per cent of employment occurred in Newfoundland & Labrador;
- 44 per cent of planned Hebron capital expenditures of \$6.7 billion and 40 per cent of proposed employment are forecast to occur in Newfoundland & Labrador.

NOIA recommends that the commissioner seek clarity on what is categorized as a local benefit and make provision for a mechanism to measure and publicly report on local content during FEED, detailed engineering, GBS construction, topsides fabrication, mechanical outfitting, hook-up and commissioning, and operations and maintenance stages of the project.

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<sup>23</sup> “Response to Hebron Public Review Additional Information Request,” ExxonMobil, Section 7, Question 4, October 2011.

<sup>24</sup> “Assessing the Economic Impact of the Hebron Offshore Oil Project,” Nov. 1, 2011.

## **Conclusion**

The oil and gas industry has revitalized the economy of Newfoundland & Labrador with each new offshore development – creating direct and spinoff jobs and new businesses.

Revenue from those projects has transformed us into a “have” province – one that is paying down its debts, building roads, schools and hospitals, and educating our young people who no longer face an uncertain future in the province.

And the industry continues to drive both the economy and provincial revenues. The provincial government recently announced that its budget surplus has grown exponentially – from \$59 million for \$759 million for the 2011-12 fiscal year – thanks to oil prices and higher than anticipated oil production.

Much has been accomplished. And we can accomplish much more. The Newfoundland & Labrador oil and gas industry is still young – we must continue to build upon the success of Hibernia, Terra Nova, White Rose and North Amethyst.

The Hebron project is the next step in that growth. NOIA welcomes this next phase in our development as an industry and as a province. Let’s make sure the legacy of Hebron continues to build our local industry capability and capacity to a level that will allow us to become a major player in the global oil and gas industry.