

January 17, 2007

Mr. Max Ruelokke, P. Eng.  
Chairman & CEO  
Canada-Newfoundland and Labrador  
Offshore Petroleum Board  
Fifth Floor, TD Place  
140 Water Street  
St. John's, NL A1C 6H6

Dear Mr. Ruelokke:

I have reviewed the recent Decision of the Canada-Newfoundland and Labrador Offshore Petroleum Board ("CNLOPB") regarding an application made by Hibernia Management and Development Company Limited ("HMDC"). The CNLOPB determined that the material filed by HMDC constituted an amendment to the Hibernia Development Plan requiring CNLOPB approval. I agree with this assessment. Pursuant to s.139 (5) of the Accord Act, the CNLOPB's decision is a fundamental decision subject to approval by the federal and provincial Ministers of Natural Resources.

After reviewing the CNLOPB's Decision, the document entitled "Development Plan Update" submitted by the Proponent, and analysis prepared by officials of the Government of Newfoundland and Labrador, I am writing to advise that I do not approve of the CNLOPB's decision. What follows is a summary of the reasons for this decision.

### **Scope of Application**

The Proponent's Development Plan Amendment Application (DPAA) proposes a depletion plan (water flood) for the Hibernia reservoir southern extension area, and a proposed gas flood scheme for a central fault block (Hibernia B4 Pool, P fault block). Approving this proposal would enable the Proponent to begin production from what is commonly referred to as "Hibernia South" – an area that was not considered as part of the approved Development Plan in 1986.

When initial Development Plan Approval was granted for the Hibernia field in 1986, the Proponent's reserve estimates were 522 million barrels. Present reserve estimates by the CNLOPB are 1244 million barrels. According to the CNLOPB's Decision Report, the potential upside oil reserve estimate for the Hibernia field is 1916 million barrels. This is a significant increase by any measure.

## Conditions set by the CNLOPB

In its Decision, the CNLOPB set out four conditions on its approval of the DPAA. These conditions are:

1. Prior to initiation of production from the Hibernia reservoir southern extension area, the Proponent shall file with the Board's Chief Conservation Officer a copy of the commercial agreements amongst interest owners of PL 1001, PL 1005 and EL 1093 and confirmation that the royalty owners concur with the commercial agreements.
2. The Proponent shall submit a report to the Board by June 30, 2007, or such other date approved by the Board, detailing the results of its assessment of opportunities for de-bottlenecking of the Hibernia platform facilities, an evaluation of facility expansion options and an assessment of the potential for adding drill slots to the Hibernia platform.
3. The Proponent shall submit for the Board's approval by January 31, 2008, or such other date approved by the Board, an exploitation plan for the oil, natural gas and natural gas liquids contained within the Hibernia field. The plan shall include all oil, gas and natural gas liquids, and should be supported by both technical and economic assessments. The plan must also address the facility life, facility expansion and additions, well requirements and estimated start dates for development of remaining oil, gas and natural gas liquids. It should be based on most likely and upside reserve cases for the Hibernia Field.
4. Within 30 days of the final approval of this Decision by Ministers, the Proponent shall submit, for approval by the Board, an amendment to the Hibernia Benefits Plan consistent with the Board's Benefits Guidelines February 2006. Specifically, that amendment should address the requirements of paragraph 45(3)(c) and subsection 45(4) of the legislation as interpreted in these guidelines in respect of Research & Development / Education & Training (R&D/E&T) Expenditures and Affirmative Action Programs.

The Decision reveals that the CNLOPB shares some of the Province's concerns on issues, but has decided to address its concerns by putting these conditions on its decision.

I do not agree that these conditions are the best mechanism to ensure the Province's concerns are addressed. These conditions require that the Board be satisfied that the conditions are met, without any formal role for the Province in three of the conditions. The scope of these conditions could effectively transfer the Province's decision-making power to the Board. The Province is the steward of this resource, and I am not prepared to abandon that responsibility. The Province requires further information and analysis from the Proponent prior to considering the DPAA. Accordingly, I do not approve of the Board's decision.

## Information gaps

The Application as submitted contains insufficient information on a number of issues. The Province requires additional information from the Proponent to fully assess these issues.

### *Modes of Development*

The DPAA proposes that the existing Hibernia gravity-based structure will be used to develop the southern extension area. No topsides improvements are proposed and no other modes of development are addressed in the DPAA. Instead, the DPAA states that evaluations and assessment of potential upgrades to topsides “will be carried out” at some undefined point in the future. The application goes on to note that if the studies result in significant suggested modifications to the platform or topsides, a separate DPAA will be filed.

The Proponent provided no information or analysis in its DPAA to indicate why topsides upgrades are not being pursued at this time or on a defined timeline. Topsides upgrades would likely mean increased employment in the Province’s oil and gas sector, which is an important industrial benefit for the Province.

Similarly, there has been no assessment provided to the Province of other potential modes of exploiting the Hibernia South oil. We are aware that there was an EOI (Expressions of Interest) process for subsea engineering related to this area, for instance, but that this process was abandoned. Combined with this was another EOI for up to 2 semi-submersibles to drill the sub-sea wells. The DPAA provides no information regarding this possibility, and no insight into why it was rejected.

Even if the Hibernia South oil is part of the existing Hibernia field, the reserve amounts are significant enough that the Province requires an assessment of these or other alternative modes of developing Hibernia South.

### *Commercial and Financial Issues*

The Hibernia South area encompasses not only the original Hibernia production license area, but portions of adjacent production and exploration licenses as well. These licenses are held by the Hibernia Proponents or related parties, and this raises issues about the combination of interests or other commercial arrangements for the production from these licenses by the Hibernia platform.

The application indicates that the interest owners do not plan to unitize, but will instead negotiate an agreement amongst themselves. No indication as to what this agreement is or whether this agreement has been reached has been provided. The Board has indicated that its staff has concerns that without agreements in place, waste could occur. The Board also notes that having these agreements in place and known is necessary for prudent resource management. The Province agrees.

The CNLOPB attempted to address this issue by requiring the Proponents to provide the details of their commercial arrangements to the Board’s Chief Conservation Officer, along with confirmation that the royalty owners are in agreement with these arrangements, prior to commencing activity in Hibernia South.

This is not satisfactory. The nature of the commercial arrangements among interest holders is relevant to the Province, as it may impact on royalty and tax revenue. Obtaining this information after approval of the DPAA does not provide the Province with sufficient confidence that its interests are being protected.

### *Facility Constraints*

The production capacity of the platform requires further assessment. The DPAA indicates that oil production is constrained by the existing water injection and gas handling capacities. The DPAA also indicates that studies are continuing to assess "future debottlenecking" of the platform facilities, but that the scope and feasibility of such work remain undefined.

The Board notes that its staff have concerns with respect to longer-term facilities utilization, and the Province shares these concerns. The Board also notes that investigation of the impact of the limitations of the gas handling capabilities on oil production need additional investigation. While the Board concludes that this investigation is not required prior to approval, the Province does not agree with this conclusion.

There is no further assessment of these important issues in the application. Without further information on this issue, the Province cannot be confident that the production approach being proposed will optimize the resource.

### *Slot Constraints*

Slot availability is also identified by the CNLOPB and the Proponent as an issue. In the DPAA, the Proponent proposes sixteen (16) wells for development of the Hibernia South area, but only seven (7) slots have been assigned. The nine (9) remaining wells are deferred until slots become available. Unfortunately, the timing of future slot availability is not well defined in either the DPAA or the CNLOPB Decision.

The DPAA notes that "new technologies such as multilaterals and the potential to add additional drillwell slots to the platform are being studied but are not part of the current plan." Without a better understanding of how the Proponent will address this drill slot issue, the Province does not have sufficient confidence that it would be prudent to permit this activity without additional infrastructure improvements.

It is also noteworthy that the Proponent's model for slot reclamation after well abandonment includes a two year delay to allow for depletion of intersected pools prior to abandonment. The CNLOPB Decision indicates that this may be optimistic. The Province requires more information on this issue before assessing the DPAA.

### *Secondary Reservoirs*

The application indicates that production from secondary reservoirs will be delayed in favour of activity in Hibernia South. As noted above, production is currently constrained by existing water and gas handling facilities, and there are limited drill slots available. These factors raise concerns for the Province that secondary reservoirs in the Hibernia field may be left undeveloped in favour of the southern area extension. I am concerned that this could have an impact on whether recovery ultimately occurs from those secondary reservoirs. Without further information regarding plans for those reservoirs, this issue is difficult to assess.

### *Gas and Natural Gas Liquids*

The application contains no information on the Proponent's plans for development of the gas resource in the Hibernia field. The Proponent recognizes gas as a storage problem, beyond its current use as an enhanced oil recovery mechanism and as a fuel source. The CNLOPB indicates that there are concerns that the limited gas processing and injection systems capacity will impact oil recovery from the gas flood region. In addition, the Board has concerns with the ongoing assessments of gas miscibility flooding opportunities, and the potential to extract additional natural gas liquids using a gas cycling scheme.

The Board notes that early assessment is needed of oil, gas and natural gas liquid recovery from the field if we want to ensure production is maximized. The Board is concerned that this issue be addressed in a timely manner. In the Province's view, requiring this assessment prior to approval is a way to ensure this work is done expeditiously.

The Board concluded that a detailed exploitation plan for the oil, natural gas and natural gas liquids contained within the Hibernia field was required. The Province agrees that such a plan would be beneficial, but would prefer to see information regarding this plan before, not after approval.

### **Benefits to the Province**

The DPAA as submitted contains no Benefits Plan Amendment. This is so despite a significant increase in reserves. The CNLOPB guidelines indicate that a DPAA should address all information requirements outlined for a Development Application, which includes a Benefits Plan.

The CNLOPB concluded that an amendment of the approved Benefits Plan was not warranted. This conclusion was based on acceptance of the Proponent's position that development of Hibernia South should occur with no infrastructure improvements or analysis of alternative modes of development. In the Province's view, this is an overly narrow approach.

As there are no proposed infrastructure improvements, there are no associated industrial benefits to the Province arising from this DPAA. In terms of employment benefits, the CNLOPB Decision indicates that there will be approximately 8 more years of production at the platform, resulting in 8 more years of employment for platform staff. There is no analysis in the DPAA or the CNLOPB Decision as to the industrial and employment benefits that might arise if topsides improvements were undertaken, or if alternative modes of development were used.

In addition, the DPAA does not address issues such as technology transfer, R&D, and employment equity. The Board attempted to address this issue by requiring a benefits plan amendment within a particular time frame after approval. The Board indicates that it took this approach "in the interest of expediency." I cannot agree that there are such pressing requirements in this case that the usual process of requiring necessary benefits plan amendments prior to approval should be changed.

The Board's proposed resolution of benefits issues does not meet the Province's needs. In my view, issues of benefits to the Province need to be addressed in a more comprehensive manner prior to approval. Without a more complete analysis of these benefits issues, the Province cannot be secure in knowing that this development achieves optimal benefits for the Province.

## Timing

The most recent drilling schedule filed by the Proponent with the CNLOPB indicates that drilling in Hibernia South is not anticipated to occur until February 2008. The Proponent has not provided an alternate drilling schedule as part of its application, although we are advised by the CNLOPB that the Proponent may have the ability to begin drilling the area as early as 2007.

With a DPAA affecting reserves of this size, we would expect that necessary information be provided prior to approval. We see nothing in the Proponent's application to suggest that this decision is required so urgently as to require a change from this process.

## Conclusion

The estimated recoverable reserves from the Hibernia South area represent a tremendous opportunity for industry, the Province, and Canada. The Province wishes to see development from Hibernia South proceed, but we require additional information. As can be seen from these reasons, there remain a large number of unanswered questions which impede the Province's ability to assess the request to begin producing Hibernia South.

I also note that the Province is engaged in creating a long term Energy Plan. As will be set out in the Energy Plan, the Province is focused on ensuring that we take a broad view of the energy sector, and make decisions with the fullest available information. This DPAA is significant for the Province, and a decision of this importance must be made with more complete information.

Development of Hibernia South will certainly result in additional royalty revenues for the Province, although the timing of this is unclear. At this point, though, the overall benefits are insufficient to outweigh the risks associated with the unanswered questions in the Proponent's application.

I must, then, disapprove of the Board's decision.

Sincerely yours,



**KATHY DUNDERDALE, MHA**  
Minister

c. Honourable Gary Lunn, P.C., M.P.  
Minister of Natural Resources