Annex B

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MEETING WITH GRETA LYDECKER, CHEVRON UPSTREAM EUROPE
WEDNESDAY 18 JANUARY 2017

Key Message	The Scottish Government is committed to a sustainable future for the oil and gas sector in Scotland. We understand the challenges facing the industry at this time and are doing all we can under devolved powers to provide support.
Who	Greta Lydecker, Managing Director, Chevron Upstream Europe Alex Yelland, Manager, Policy, Government and Public Affairs
What	Meeting with MD of Chevron Upstream Europe
Why	Chevron are the 3rd largest company in the UKCS by reserves remaining (behind Shell and BP) and the 11th in terms of current production. This meeting will allow the FM to hear from Chevron on positive changes being made in the industry in light of a persistent low oil price. This will also provide a platform to demonstrate that the Scottish Government remains supportive of the industry, and to seek industry view on whether further support is required from the Scottish and/or UK Government.
Where	Scottish Parliament
When	Wednesday 18 January 2017, 14:00 – 14:30
Supporting Official	David Ritchie, Oil & Gas Policy Team, **[REDACTED]**
Attached documents	Annex A – Summary Annex B – Biography Annex C – Company Overview Annex D – IEA World Energy Outlook 2016 Annex E – Apprenticeship Levy Annex F – Energy and Europe Annex G – Oil & Gas FMQ Note

ANNEX A: SUMMARY

Greta Lydecker is a member of the Oil and Gas UK Board, and the Oil and Gas Authority Maximising Economic Recovery UK (MER-UK) forum. You last met the OGUK Board on 19 September 2016 where you agreed to a meeting with Ms Lydecker.

The meeting will be an opportunity to gain Chevron's views on what actions can be taken by industry and Government to make the most of the opportunities available in the North Sea.

Suggested questions

- We are nearly two years into the downturn, and significant challenges remain with a persistent low oil price. What else can the industry do to remain attractive to the global investment market?
- In light of the difficulties highlighted by the most recent OGUK economic report, are there any other actions that the Scottish Government or UK Government should be taking to support the industry?

The following discussion points have been agreed with Chevron.

1. Update on Chevron UK operations and North Sea projects

- Key Projects include the recently opened **Alder Gas Field** – both you and the Minister for Business Energy and innovation were invited to their 'first gas' event but were unable to attend. Mr Wheelhouse sent a letter to Ms Lydecker supportive of the opening.
- The **Clair Ridge** development of the Clair field (West of Shetland) is operated by BP with Chevron having a 19.43% stake. It is the largest undeveloped hydrocarbon resource on the UK Continental Shelf (UKCS). Construction was completed in June 2016 and the first oil is expected at the end of 2017.
- The **Rosebank field**, a probable development situated west of Shetland. It has suffered a recent setback after Chevron terminated an order for a $1.85bn Floating Production Storage and Offloading (FPSO) unit in December 2016. A Chevron spokesperson said it was too early to say anything on the Final Investment Decision for the field. Rosebank has the largest reserves of any field Chevron operate. [Factual clarification: Rosebank has the largest resource volume of any license Chevron holds]

2. North Sea challenges / competitiveness

- The oil price remains relatively low, at around $55 per barrel, OGUK estimate that over 120,000 jobs in the UK supported by the industry will have been lost by end 2016 compared to their peak in 2014.
- SG Oil and Gas Production Statistics published 14th September show production in Scotland (including Scottish adjacent waters) **increased by 21.4%** in 2015-16

compared to the previous year - however, the **value of sales has decreased by 24% due to sustained low prices** over the same period. Capital spending has also fallen by 18% but remained significant at an estimated £10.2 bn in 2015-16
- The OGUK Economic Report 2016 highlights the continued downward trend in exploration and investment, with capital investment expected to fall to £9 billion in 2016, of which only £100 million is in new projects.

3. Brexit and EU regulations

- The Scottish Government is clear that the energy industry requires a stable environment in which to operate. Investors need certainty, consumers need an affordable energy supply
- Clear signals of Scotland's long-term energy priorities will provide clarity to prospective investors, at times of investor uncertainty following the EU referendum.
- By having a consistent set of rules across countries in the EU the complication, and cost, of dealing with various regulatory regimes is reduced and the ability to quickly and effectively respond if things do go wrong is improved.
- EU rules governing Oil and gas production include the *Prospection, Exploration, and Production of Hydrocarbon Directive* governing the granting of exploration licences and also the *Safety of Offshore Oil and Gas Operations Directive* adopted in 2013 which puts in place a set of rules to help prevent accidents, as well as respond promptly and efficiently should one occur. Scotland, the UK and the North Sea industry drove ambition in setting the required regulation.

4. Government support

4.1. Skills - Apprenticeship Levy

- The Apprenticeship Levy is a new way of the UK Government raising funds direct from business, a policy they **decided without consultation with the Scottish Government or employers.** It will apply from April 2017
- On 7 December, the Minister for Employability and Training met the Offshore Petroleum Industry Training Organisation (OPITO) to discuss the Apprenticeship Levy.
- While the Apprenticeship Levy will be a new tax on employers, it's proceeds **will largely be replacing existing apprenticeship funding** in England of which Scotland will receive a proportionate share.
- We consulted on how to respond to the introduction of the Apprenticeship Levy in Scotland and we have committed to developing an approach that is more flexible and broader than is currently being proposed in England, we will;
    - Continue to expand the number of Modern Apprenticeship opportunities as part of our planned growth to 30,000 new starts each year by 2020.
    - Support measures to tackle structural unemployment issues
    - Continue to implement the Youth Employment Strategy'
    - Establishment a new Flexible Workforce Development Fund

- Industry has backed our **plans to expand Foundation and Graduate Level apprenticeships.**

4.2. Oil and Gas Technology Centre

- The OGTC's strategic objective is to establish a globally recognised "go to" technology centre based in Aberdeen as the focus for delivery of technology innovation driven by industry working with partners to extend UKCS recovery, drive cost efficiencies and increase export potential of the supply chain
- The OGTC is a key element of the Aberdeen City Deal and will help forge new collaborations between universities and industry to increase R&D investment.
- Although it will formally launch in 2017, the Scottish Government has committed over £2m up front for this financial year to get the ball rolling. This is part of a long term £90m commitment from the Scottish Government (matched by the UK Government) over 10 years.
- Scottish Enterprise has been a key player in the development of the OGTC model, alongside industry, academia and the Oil and Gas Innovation Centre (OGIC), and has supported the development of the successful Business Case.
- The Scottish Government has worked with industry, Sir Ian Wood's Opportunity North East and other parties to drive the acceptance of the OGTC business case.

<u>5. The Scottish Energy Strategy and Climate Change Plan</u>

- The Scottish Government will shortly commence linked consultations on Scotland's Energy Strategy and Climate Change Plan.
- The Energy Strategy sets out the SG's energy vision to 2050 to ensure Scotland has the best policies in place to facilitate and capitalise on the transition to a low carbon economy, reaping social, economic and environmental benefits.
- The Climate Change Plan will be published in draft for parliamentary scrutiny, and sets out policies and proposals to reduce emissions by over a third by 2032 in line with our annual targets.
- Maximising return from our offshore oil and gas reserves is in line with decarbonising our energy system: a successful oil & gas sector will assist with diversification of energy supplies.

Greta Lydecker, Managing Director, Chevron Upstream Europe

Greta currently serves as Managing Director of Chevron Upstream Europe's (CUE) Business Unit (BU). Headquartered in Aberdeen, Scotland, CUE manages exploration and production in the UK, Norway, Denmark and Greenland.

Greta earned her Bachelor of Science degree in Geology from Allegheny College and a Master of Science degree, in Geophysics from Boston College. She began her career with Chevron in 1982.

Prior to joining CUE, Greta served as Vice President of the San Joaquin Valley BU, responsible for Chevron's oil and gas production in California with core operations in eight field locations.

Over her career, Greta has held a variety of technical positions and roles in Gas Marketing, Corporate Planning and Finance, Asset Development, Drilling and Operations. Greta also served on Chevron's Capital Stewardship Organisational Capability Design Team, and in her role as General Manager of Operational Excellence (OE) for Chevron Corporation, guided the overall strategic direction of OE including the implementation of the company's OE management system.

Greta also previously held the position of President of Chevron Environmental Management Company (EMC). EMC provides environmental liability management and decommissioning services for Chevron in over 50 countries around the world. Projects include well, offshore platform and pipeline decommissioning and abandonment, site remediation and cleanup for refineries, service stations and terminals.

ANNEX C

Background

- Chevron is a American multinational energy corporation operating worldwide in all aspects of the oil and gas industry. It's involvement in the North Sea primarily concerns producing crude oil and natural gas.

[REDACTED]

ANNEX D: INTERNATIONAL ENERGY AGENCY WORLD ENERGY OUTLOOK, – IMPLICATIONS FOR OIL & GAS (PUBLISHED NOVEMBER 2016)

Fossil Fuels & risks from low-carbon transition

- Despite climate change pledges, fossil fuels and particular natural gas "*will continue to be a bedrock of the global energy system for many decades to come" but must be ignore risk of "sharper transition*".
- For oil specifically, the IEA finds *"no reason to assume widespread stranding of upstream oil assets in the 450 scenario[1]"*, as long as governments pursue consistent, unambiguous policies and give clear signals of intent.
- Investment and developing new upstream projects is an *"important component of a least-cost transition, as the decline in output from existing fields is much larger than the anticipated fall in demand"*.
- By 2040 *"oil demand returns to the levels of the late 1990s in the 450 Scenario, at under 75mb/d"*.

Oil markets could be in for another bumpy ride

- Near term risk if *"the cuts in upstream spending [as seen] in 2015-2016 are prolonged for another year"*.
- Without new project approvals in 2017 then it becomes *"increasingly unlikely that demand…and supply can be matched in the early 2020s"*.
- Looking more long term; oil demand *"concentrates in freight, aviation and petrochemicals, areas where alternatives are scarce, while oil supply – despite a strong outlook for US tight oil – increasingly concentrates in the Middle East"*. These 3 sectors alone account for all of the growth in global oil consumption.
- By early 2030s *"China overtakes the United States to become the single largest consuming country"*; whilst India become "*leading source of future growth"*.
- OPEC returns to a policy of *"active market management"* and will see its *"share of global production rising towards 50% by 2040"*; the world will become *"increasingly reliant on expansion in Iran…and Iraq…to balance the market"* as well by 2040.

A truly global gas market is coming into view

- Natural gas demand to have an annual growth rate of 1.5% to 2040 but *"markets, business models and pricing arrangements are all in flux"*. This is the fastest growing among the fossil fuels where its global primary energy demand will increase by 3% points to 24% by 2040.
- The power sector *"accounts for 34% of the growth in global gas use"*.
- A flexible global market *"linked by a doubling of trade in liquefied natural gas (LNG), supports an expanded role for gas in the global mix"*.
- LNG capacity will be gone by mid-2020s requiring *"timely investment in new gas supply projects…to pre-empt price volatility"*.

[1] A decarbonisation option which is consistent with a 50% chance of limiting global warming to 2 °C.

Our response to the UK Government Apprenticeship Levy, published on 16 December sets out how we will use the money to support skills and training and employment in Scotland. The Levy will commence in April 2017.

- In direct response to the views of employers in Scotland, this report set out a range of interventions that further support skills, training and employment in Scotland. In particular we will:
  - continue to expand the number of Modern Apprenticeship opportunities as part of our planned growth to 30,000 new starts each year by 2020 alongside an increase in the number of Graduate Level and Foundation Apprenticeships during 2017-18;
  - support measures to tackle structural unemployment issues and challenge inequalities;
  - continue with the implementation of the Youth Employment Strategy:
  - respond to the immediate skills needs of employers, through:
    - the establishment of a new Flexible Workforce Development Fund for employers; and
    - ongoing and sector-specific skills support for priority sectors in the economy such as digital, care and early years.

Employers in Scotland are set to benefit from a new £10 million skills fund, announced as part of the Scottish Government's response to the UK Government Apprenticeship Levy.

- The fund will be introduced in the Autumn 2017 and we will bring forward further details in the New Year.

There is not £221m of additional money coming to Scotland through the Apprenticeship Levy.

- While the Apprenticeship Levy will be **a new tax on employers, its proceeds will largely be replacing existing apprenticeship funding** in England of which Scotland will receive a proportionate share.
- This is a new way of the UK Government raising funds direct from business, a **policy they announced in 2015 without consultation with the Scottish Government or employers**. We estimate that the **cost to the public sector in Scotland will be around £73 million p.a.**
- We have already set out plans to deliver on our ambitious commitment to supporting 30,000 Modern Apprenticeships starts by 2020. That plan has the support of industry who have also backed our **plans to expand Foundation and Graduate Level apprenticeships.**

- The Scottish Government is clear that the energy industry requires a stable environment in which to operate. Investors need certainty, consumers need an affordable energy supply, and the challenge of climate change requires decarbonisation.
- Recent decisions and actions, by the UK Government (UKG) have resulted in considerable change and uncertainty for the industry in Scotland.
- Clear signals of Scotland's long-term energy priorities will provide clarity to prospective investors, at times of investor uncertainty following the EU referendum.
- Scotland's new Energy Strategy will reaffirm the Government's overarching commitment to reducing energy demand and supplying clean energy. It will drive a host of economic, social and environmental improvements; promoting sustainable economic growth and reducing inequality.

- On June 23 the people of Scotland voted emphatically to remain within the EU.
- The Scottish Government strongly believes the best way to build a more prosperous and equal Scotland is to be a full member of the EU.
- After the EU referendum the Scottish Government committed to exploring all options to protect Scotland's national interests in order to respond to the democratic wishes of the people of Scotland, and the national Parliament of Scotland. The Scottish Parliament gave the Scottish Government a strong mandate on 28 June to do this.
- The SG's paper, "Scotland's Place in Europe" is the first, and only, detailed plan for dealing with the implications of Brexit to be published by any government in the UK. It proposes to keep Scotland, and preferably the whole of the UK, in the European Single Market whilst retaining access to the UK market and the provisions of the Common Travel Area. Scottish Ministers are clear that these proposals are a compromise, and are put forward in a spirit of seeking consensus.
- It is up to the UK Government to give the proposals in "Scotland's Place in Europe" serious consideration and to live up to the Prime Minister's commitments for Scotland to be fully engaged in the Brexit process and for Article 50 not to be triggered until there were UK objectives for negotiations.
- Scotland is not the only part of the UK facing challenging circumstances; we are working closely with other Devolved Administrations.

Scottish Enterprise published their Decommissioning Action Plan on 21 December 2016 – a key commitment within the Programme for Government, which outlines our commitment to the opportunities presented by decommissioning.

Oil & Gas UK published their Economic Report 2016 on 27 September, it highlights the challenging conditions in the industry, including a fall in total UK employment supported by the industry of 27% from a peak of 450,000 in 2014 to the current 330,000 jobs.

- The UKCS is expected to generate a free cash flow deficit of £2.7 billion in 2016 - **an improvement from the £4.2 billion seen in 2015 due to a reduction in expenditure**.
- **It also points to the positive impact of efficiency measures, and highlights production increases**:
- Average unit operating costs are expected to be around $16/boe, - driven by cost efficiencies and increases in production, with production increasing in 2015 by 10.4% with 602m boe produced (UKCS).
- The report also highlights the continued downward trend in exploration and investment, with capital investment expected to fall to £9 billion in 2016, of which only £100 million is in new projects

Top Lines

- The **North Sea still holds significant potential with up to 20 billion boe remaining**
- The 2016 OGUK Economic Report shows that **production increased in 2015 by 10.4%, with a reduction in average operating costs by 45%**
- **The key economic and fiscal levers remain with the UK Government**.
- 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.

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

- The fund, currently in its 12th month, will **operate for three years**. Latest figures show **more than 1,300 people have had applications approved from the fund**.
- Training programmes procured by the TTF will also **create around 340 employment opportunities across Scotland**, with procurement of further training programmes planned.
- 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 PACE programme has focused significant efforts in the North East – with **three large events in 2015 and direct redundancy support for over 2,500 people.**
- **A further employment & support event was held** on 22 June 2016 in Aberdeen, attended by 948 people.
- From March 2015 to April 2016, Scottish Enterprise has engaged directly with over 700 oil and gas companies via 29 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 includes £10 million of SE funding to **help firms reduce risks associated with carrying out research & development,** with around 70 innovation projects with a total project value of round £16 million having benefitted from £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 £1.1 million being invested 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

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

- The Chancellor provided no substantive measures to support to the oil and gas sector in the Autumn Statement. Despite
- A letter on 12 November 2016 from the Cabinet Secretary for Finance and Constitution to the Chancellor contained **three specific asks ahead of the Autumn Statement**
- These proposals were 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. These asks were not addressed in the Autumn Statement

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From: Ritchie D (David) SEPD
Sent: 18 January 2017 16:35
To: [REDACTED]
Cc: Stark C (Chris)
Subject: Chevron FM Meeting

All fine in meeting, very cordial as expected.

Chevron have some concerns, specifically the apprentice levy (similar point that have been made previously by OGUK and others), and brexit implications for ongoing ETS negotiations (OGUK have also flagged this).

Let's pick up tomorrow.

David

David Ritchie | Head of Energy Industries Division | Scottish Government