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LDD DELIVERS SOLUTIONS DEEP IN THE JUNGLE OF PAPUA NEW GUINEA

INTERACT BUILDS RELATIONSHIPS IN THE WORLD OF PROCESS, PROCEDURES AND REPORTING

2H SHOWS HOW INSPECTION AND CONDITION MONITORING GO HAND IN HAND

A low-angle, blue-tinted photograph of an oil pumpjack against a clear sky. The pumpjack's long, dark arm extends from the left towards the top right, ending in a large, curved counterweight. The structure is supported by a complex metal framework. The overall mood is industrial and professional.

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RELATIONSHIPS, REACHING  
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MICHELLE PASINI  
President, InterAct

# BUILDING RELATIONSHIPS

IN A WORLD OF PROCESS, PROCEDURES AND REPORTING, INTERACT SHOWS HOW REACHING WORKABLE AGREEMENTS IS MORE IMPORTANT THAN A FORMULAIC APPROACH.

Recent events in the Gulf of Mexico have served to illustrate the challenges facing the oil industry in seeking to meet our long-term energy needs. The environmental damage caused by the blowout of BP's ill-fated Macondo well, and the resulting government and public reaction, can only increase the pressure on an industry that is already, and rightly, one of the most heavily regulated at local, national and international levels.

Even before this high-profile setback, dealing with the relevant agencies to gain official approval for a project or production operation could be extremely resource- and time-consuming. Further, the penalties for getting this key part of any oil and gas venture wrong can be severe: withheld permits, project delays, cost overruns and, ultimately, the possibility of having to abandon development or production plans altogether.

The environmental and regulatory services group within InterAct was set up to help operators get this part of their business right. Based in InterAct's office in Ventura, California, the group provides support to operators not only within the USA but also, increasingly since InterAct became part of Acteon in 2007, in other parts of the world.

## Working with the authorities

To the outsider, what the group does may seem dry: an activity dominated by process, procedures and reporting. According to InterAct president Michelle Pasini, an environmental specialist with experience of working as a regulator herself, the work is anything but dry. "It is all about working with the authorities to cut through the bureaucracy that can exist in these situations. The job is about building relationships, reaching workable agreements and streamlining the process to the benefit of everyone concerned," she says.

Knowledge of the regulations pertaining to a specific location and type of project or operation is a prerequisite, of course, but it is not the hardest part of the job. Pasini stresses the ability to interpret the regulations sensibly (she talks about "sorting out the grey areas") and to understand the regulator's mindset, both of which are essential to gaining the trust of the individuals involved. She also emphasises having good negotiating skills, a sense of timing and, not least, a feel for how external stakeholders (environmental interest groups and the public most affected by a project) are likely to react.

"We are involved with process and regulation, but we have to avoid taking a formulaic approach," says Pasini. "Every project is unique: the context is different each time; there are different stakeholders involved; and there are different issues and concerns to understand. The stakeholder side of the work is particularly important onshore in urban areas, where we often have to dissect the issues raised by local residents and quell any opposition by helping to communicate the benefits of what the operator is proposing."

It is an advantage to Pasini's team, all experienced, full-time professionals supported by a network of specialist environmental and regulatory consultants, to be part of a company that also provides project management, drilling and production operations services. Pasini says, "To do this job effectively, we need to be able to see projects from the standpoint of the regulator, the various stakeholders and the client. The people directly around us at InterAct help us to understand the environment in which our clients operate and the challenges that they face."

Although the environmental and regulatory services group is based in California and works extensively in its home state, Pasini is keen to stress that the skills and experience gained locally are transferable to oil and gas projects around the world. "Regulations and processes differ slightly, depending on the location, but this is actually a minor point," she claims, before adding, "The fundamental nature of the tasks related to permitting and compliance are the same wherever you go. It is all down to understanding the project, the client's objectives, the position of the regulator and the concerns expressed by the stakeholders in order to frame a workable and cost-effective outcome that is acceptable to everyone involved."

## Due diligence

Whether or not companies are in compliance with all the relevant industry regulations is a key issue when assets change hands. Equally, the past environmental performance of an asset is vital information for a prospective buyer. Checking on these issues, as part of a larger due diligence exercise commonly centred on the financial health of a company, is a growing part of InterAct's business.





There are also other questions to be considered, as Tom Kennedy, past president of InterAct, explains. "Checking environmental and regulatory performance often leads to the subject of decommissioning liability, which is also regulated. Some time ago, the US Financial Accounting Standards Board issued Statement 143, which relates to so-called asset retirement obligations. Under the rules, oil company operators are forced to manage and update their decommissioning liabilities."

With this regulation in mind, the potential buyer of a major production asset in the Gulf of Mexico recently asked InterAct to estimate the cost of decommissioning the facility. "The results of our study indicated that the owner had underestimated the liability by a margin that was significant in terms of the total cost of the deal," says Kennedy. "What was satisfying from our viewpoint was that, because of our reputation and relationships with the two parties, the discrepancy that we reported was accepted by both and did not become a contentious issue in the negotiations."

Environmental and regulatory knowledge plus good engineering and project management skills are a powerful combination in work of this kind. For example, engineering and project management skill came into play when a US-based operator seeking to acquire a field producing heavy crude oil asked Kennedy's team to look at the possible benefits of introducing downhole heating to enhance production. The positive outcome of the study led to InterAct being asked to design, build and install a suitable system, work that resulted in InterAct then operating the facility for an agreed period.

"Building relationships and trust is a factor in the success of a lot of our regulatory and due diligence work," says Kennedy. "We are working at the interface between the operator and the authorities, or sometimes between two different operators. Without the confidence of the various parties, we could not hope to add the value that clients expect from us in this vital area of their operations."

## REGULATION, PERMITS AND COMPLIANCE

### ▶ Resumption of drilling

There were deep repercussions from an unplanned release of gas, which gave a strong odour kick, at an oilfield in a residential area of Southern California in 2006. All new drilling was suspended by the authorities and a major environmental review of the operations was instigated, one that very quickly drew in local residents and community pressure groups.

The review resulted in a series of recommendations and a set of demanding new regulations aimed at reducing inherent land-use conflicts in the area. InterAct worked closely with the field operator and the regulatory agencies to examine the feasibility of the recommendations and to advance an effective and workable way forward that was acceptable to all parties. The company also helped the operator to develop numerous compliance programmes ranging from noise, odour and total hydrocarbon monitoring to safety inspection and maintenance planning, and then took part in negotiations with the regulators to get the programmes approved. Additionally, InterAct developed and led training programmes for operations and contract personnel to help them to implement the new operating regime.

Drilling resumed at the field in June this year.

### Air emissions

Following the purchase by one of InterAct's clients of several separate oil leases in Ventura County, California, the local authorities called for them all to be combined for the purpose of air permitting. InterAct helped with the new permit application by pulling together all the available process information on the facilities and wells, and calculating their total emissions.

Because of the relatively high level of emissions from the combined operation, the client had to apply for air permits to satisfy both local and federal requirements, a task handed over to InterAct. As part of the work, InterAct helped the client secure emission reduction credits for several engines that have been shut down. These credits are a valuable commodity that can be used during subsequent production expansion programmes or sold to other operating companies.

The same client is in the process of abandoning facilities inherited from a previous operator near Santa Barbara, California. Very little documentation existed for the facilities, so InterAct's role was to document all the equipment, estimate its potential emissions and to re-permit the facility while it was being abandoned. Crucially, this process enabled the operator to bank the emissions from the abandoned facilities.

### Water injection

A renewed and rigorous enforcement of regulations by the California Department of Conservation Division of Oil, Gas and Geothermal Resources has caused substantial delays in oil and gas production for operators experiencing high water yields. Operators seeking approval for produced water injection schemes have to prove that the process will not affect adjacent wells, fresh water aquifers or surrounding formations. This involves presenting detailed wellbore diagrams for all the wells within 0.4 km of the proposed injector. Moreover, these diagrams have to cover the entire well history, which, in some cases, goes back to the 1930s. InterAct is currently working with operators affected by the regulations to document casing design and cement levels for over 2000 wells.