Licensing on the UKCS
History, Regulation, Policy and Practice

DEVEX 7th - 8th MAY 2019

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Head of Exploration Licence Management

May 2019
Outline

• Why Licence?
• Delimitation (UNCLOS)
• Geography: English vs Scottish Licences
• Designated Areas
• History
• Regulation; Regulation; Regulation
• Licensing Systems
• Licence Types: Landward and Seaward
• Licensing
• How to run a Round
• The Innovate Licence
• Recent Rounds
• “Law” of Capture
• Unitisation
• Field Determination
• English
• Maths
• Subareas
Why Licence?

- Without Licensing, both Onshore and Offshore, anyone (Foreign or Domestic) could in theory drill anywhere without controls with respect to Safety, the Environment, or Trade.
Delimitation (1)

Countries bordering the UKCS

Licensing on the UKCS
The requirements for the determination of the position of the outer limit of the continental shelf essentially require:

(1) an understanding of the arguments behind the case for ‘natural prolongation’ of the landmass
(2) knowledge of the morphology of the edge of the continental slope to identify the benchmark “foot of the slope”
(3) mapping the sediment thickness to apply the one percent rule
(4) identification of the 2500 metres isobath for the purposes of constraining a claim
Delimitation (3)

- European Offshore exploration can be traced back to 1958 when the Convention on the Continental Shelf adopted at the United Nations Law of the Sea Conference provided for coastal states to have the right to regulate and exploit the natural resources of their own sectors of the shelf out to 200 miles.
- The Danish Government was the first to initiate offshore licensing, in 1962.
- Maritime boundaries on the Median Line principle were agreed between the United Kingdom and The Netherlands in February 1964, Norway in March 1965, and between Norway and Denmark, and Denmark and the UK, in December 1965.
- The boundary dispute between Denmark, Germany and The Netherlands was settled in 1970.
- The UK Offshore, Norway and Denmark based their licensing systems on numbered one-degree Quadrants (1° north-south and 1° east-west).
- Within each Quadrant the UK has 30 Blocks (10 minutes by 12 minutes) whereas Norway has 12, and Denmark 32.
North Sea Continental Shelf Case

Delimitation after the Court’s decision

International Boundary Study “Limits in the Seas”, prepared by the Bureau of Intelligence and Research of the Department of State (USA), 1974
<http://www.state.gov/documents/organization/62000.pdf>
Delimitation (5) Not all are Median Lines
Geography: English vs Scottish Licences

- There is a dividing line between England and Scotland
- More or less along the “Fishing Line”
- English Regulations are more onerous
- Require two signatures from the OGA Directors
Designated Areas

- First area to be designated in 1964
- Faroes Designation began at the “Elbow” point then followed the Median Line principle, finalising in 1999
- Greenpeace brought a Judicial Review claiming the UK had not followed the European Union regarding Environmental requirements
- It went to Court where the UK was successful, but Licensing was delayed for approx. two years
- The Government (now the OGA) is required to await holding any Licensing Round until the potential environmental impacts have been assessed. BEIS carry out Strategic Environmental Impact Assessments prior to each potential Round
- The UK held the 19th Round adjacent the Faroe Islands in 2000
- The Faroese First Round was also held in 2000
• Petroleum Production Act 1934 vested ownership of petroleum within the UK and its Territorial Sea in the Crown
  • Gave the Government powers to grant licences to explore for, and exploit (“search and bore for and get”) petroleum (unlike onshore US where Landowners retain the rights to petroleum production)
• Continental Shelf Act 1964 allowed Designation
• Foreign Office negotiated on the basis of a simplified Median Line based on “Gnomic” Projection; agreed 18th February 1964
• Designation two miles to the west of the Median Line
• Agreement signed 10th March 1965, coming into force 29th June 1965
History (2)

- Landward Regulations
  - Petroleum (Production) Act 1918
    - Hardstoft Field Onshore started Production 1919

- Seaward Regulations
  - Continental Shelf Act 1964
    - The Petroleum (Production) (Continental Shelf and Territorial Sea) Regulations 1964
      - Made 12th May 1964
      - Laid before Parliament 13th May 1964
      - Coming into Operation 15th May 1964
      - Closing Date for 1st Round 20th July 1964
      - First Licence issued 18th September 1964
History (3)

- First Offshore well
  - 38/29-1  Spud 24\textsuperscript{th} December 1964
  - Reached TD  16\textsuperscript{th} March 1965  Dry Hole
- First Gas Discovery
  - 48/06-1  Spud 5\textsuperscript{th} June 1965
  - Reached TD  13\textsuperscript{th} October 1965  West Sole
  - First Gas Field Approved for Production March 1967
- First Oil Discovery
  - 21/20-1  Spud 4\textsuperscript{th} January 1969
  - Reached TD  23\textsuperscript{rd} February 1969  Gannet F
  - Not Approved for Production until July 1996
- First Oil Field approved for Production (FDP)  Argyll  December 1976
Petroleum (Production) Act 1918
• Petroleum (Production) Act 1934
• Petroleum and Submarine Pipelines Act 1975 Energy Act 1976
• Petroleum (Production) Act 1998
• Other Acts are available
• Acts are Primary Legislation, which can amend backwards as well as forwards
• Non-related Acts could be used to introduce Oil & Gas Legislation
Regulation; Regulation; Regulation

- The Petroleum (Production) Regulations 1976
- The Petroleum (Production) (Seaward Areas) Regulations 1988
- Other Regulations are available
- Regulations spell out how the Acts are implemented
Licensing on the UKCS

Oil & Gas Authority

- Regulations cover all aspects relating to Petroleum:
  - Licensing
  - Work Programmes
  - Development Plans
  - Royalties
  - Measurement
  - Abandoning wells
  - Unitisation
  - Royalties etc

**Statutory Instruments**

**1976 No. 1129**

**PETROLEUM CONTINENTAL SHELF**

The Petroleum (Production) Regulations 1976

Made... Laid before Parliament

Commencement and Citation

1. These Regulations shall come into force as the Petroleum (Product)...

Interpretation

2. (1) In these Regulations the following definitions shall be given to certain terms used therein:

   - "offshore area" means an area...

   - "landward area" means an area...

   - "measure drainage licence" means a licence...

   - "non-invited application" has the meaning...

(2) The Interpretation Act 1889(6) shall apply to these Regulations as it applies to the Interpretation Act 1889.

Applications for licences

4. Any person may apply in accordance with these Regulations for...

(a) a production licence which may be in respect of a landward area or a seaward area;

(b) an exploration licence in respect of the areas referred to in Regulation 8;

(c) a method drainage licence.

Applications for production and exploration licences

8. (1) An application for a production licence or an exploration licence shall be made in writing and shall be in the form specified in Schedule 3 and may be a form prescribed by the Secretary of State by Order in Council.

(2) An application for a production licence or an exploration licence shall be in respect of areas which are designated landward areas or seaward areas and shall be accompanied by such information as may be prescribed by regulations.

(3) Any notice in writing in relation to the Secretary of State giving particulars of the change.

Non-invited applications

6. (1) The application for a production licence in accordance with the provisions of this Regulation of these Regulations called a "non-invited application" may be made...

(2) Any such application shall be in the form specified in Schedule 3 and may be a form prescribed by the Secretary of State by Order in Council.

(3) Any notice in writing in relation to the Secretary of State giving particulars of the change.

(4) The application shall be in the form specified in Schedule 3 and may be a form prescribed by the Secretary of State by Order in Council.
Licensing Systems (1)

- The UK favours the discretionary system for Licence Awards
- Based on competition, with a Marks Scheme, mainly through Licence Rounds
- Some Rounds had cash-bid elements like the US system, but the UK considers it is better to have money spent on exploration rather than just putting bid money directly into the Treasury

Criteria 1\textsuperscript{st} to 15\textsuperscript{th} Rounds

- Encourage rapid and thorough exploration and economical exploitation of petroleum resources
- Applicant incorporated in the UK, profits taxable there
- The programme of work and the ability and resources of the applicant to carry it out
Criteria for Awards from the 16th Round to date

- From the 16th Round the criteria for Awards were revised to take account of the European Commission Directive that includes:
  - the applicant’s financial capability to carry out the permitted activity (particularly the Work Programme);
  - the applicant’s technical capability to carry out those activities (including an assessment of the quality of the geoscientific analysis submitted in support of the Application (Appendix B) (the Application is the Appendix A);
  - the Work Programme proposed for the Initial Term; the approach to environmental protection;
  - any lack of efficiency and responsibility displayed by the applicant in operations under existing or previous licences could count against the applicant.
Licensing Systems (3)

- The Terms are considered for each Round
- The Types of Licence are considered before every Round
- The acreage to be offered is discussed before every Round
- Out of Round is always potentially an option
- Supplementary Rounds have been held recently (including the one for the Buchan Area – a new approach based on an Area Plan concept)
- The Guidance is reviewed for each Round
- The Marks Scheme may be adjusted prior to announcement of a Round

Always read the Guidance!
Keep an eye on the OGA website for any announcements
Licence Types: Landward (not necessarily comprehensive)

- Landward Regulations
- The OGA no longer Licence in Scotland or Wales
- Landward Watery Areas
- Landward Licences
  - Methane Drainage Licences
  - Exploration Licences
  - Appraisal Licences
  - Development Licences
  - PEDLs (Petroleum Exploration and Development Licences)
Licence Types: Seaward Variations

- “Original” Two Terms
- (Tranche) Larger tracts of acreage that were parcelled at time of offer
- (Auction) No Work Programme stage
- Traditional Three Terms more recent 4 + 4 + 18 years
- Promote Three Terms but the Initial Term has two phases
  - Promote Phase no Technical Competence, Environmental Competence or Financial capability checks; exclusivity to work up Prospects to “Promote” to Operators to drill wells in the next Phase before the end of the Initial Term
- Frontier Three Terms but the Initial Term has two phases
  - First Phase usually to shoot or purchase seismic over a larger area; reduce by 75%
  - Second Phase to interpret
- Innovate (all Licences from 29th Round are now Innovate)
  - Phase A Obtain seismic, Reprocess seismic, Studies
  - Phase B Shoot new seismic
  - Phase C Drilling

Straight to Second Term and Merge options available
Licence Types: Seaward

• Exploration
  • Essentially for seismic contractors and eg the BGS;
  • Application fee £500; Annual fee £2,000; no competition (non-exclusive); renewable; seismic and other surveying; core sampling to 350 metres

• Production
  • Allow Licensees to search and bore for and get Petroleum (although not without additional permits/consents, especially to drill, develop, and produce)
  • Usually have three Terms with Regulations requiring specific activity and partial Relinquishment (Surrender) at various stages
    • Initial Term  To carry out the Exploration Work Programme; 50% Relinquishment
      • Shoot or purchase seismic; reprocess seismic etc
      • Drill a well
    • Second Term  To carry out Appraisal activities as necessary; the licence will expire unless a Field Development Plan has been approved; retain only the acreage required for Development
    • Third Term  intended for Production
**Licensing: Table of Licences Awarded over time (Seaward)**

<table>
<thead>
<tr>
<th>Round</th>
<th>Year</th>
<th>Blocks offered</th>
<th>Blocks applied for</th>
<th>Blocks awarded</th>
<th>Appoes</th>
<th>Licences</th>
<th>Licence numbers</th>
<th>Licence terms (years/%)</th>
<th>Next licence event as determined by licence provisions at issue</th>
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<tbody>
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<td>(x)</td>
<td>(x)</td>
<td>4+4+18(e)</td>
<td>End of Initial February 2015</td>
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</table>
Licensing: Regulations on Applicants; Applications for Licences; LARRY

(b) to search for petroleum in strata in the areas of Great Britain and beneath the waters adjacent thereto which lie in the landward areas between the said lines and the low water line (in these Regulations referred to as “landward areas below the low-water line”).

(2) The provisions of the Regulations specified in Schedule 2 hereto shall cease to have effect in relation to:
(a) applications made after the date of coming into force of these Regulations for production licences in respect of seaward areas and exploration licences in respect of seaward areas and landward areas below the low water line.
(b) model clauses to be incorporated in any such licence to be granted after the date of coming into force of these Regulations in pursuance of an application lodged after that date.

Applicants for licences
4. Any person may apply in accordance with these Regulations for:
(a) a production licence in respect of a seaward area;
(b) an exploration licence in respect of the whole or part of the seaward areas or the landward areas below the low water line.

Applications for licences
5.—(1) An application for a licence shall be made in writing and shall be in the form specified in Schedule 3 hereto or in a form substantially to the like effect, sent to the Licensing Branch, Oil and Gas Division, Department of Energy, London SW1, and shall be accompanied by the appropriate fee and by such evidence and particulars or documents in support thereof as are referred to in that Schedule and are appropriate to that application.

(2) If any of the matters stated in an application or any further information supplied by the applicant shall change after the application is made or after the information is given but before a licence is granted or the Secretary of State informs the applicant that the application is refused, the applicant shall forthwith give notice in writing to the Secretary of State giving particulars of the change.

Non-invited applications
6.—(1) An application for a production licence in accordance with the provisions of this Regulation (in these Regulations called a “non-invited application”) may, subject to paragraph (2), be made in respect of any seaward area.

(2) No non-invited application may be made unless:
(a) every part of the area to which the application relates is, or has been, comprised in a production licence which was granted in pursuance of an invited application;
(b) every such part is proposed to be, or has been, surrendered by the holder for the time being of the production licence so granted in which it is, or has been, comprised, or has been comprised in a production licence which has been revoked either in whole or in relation to the area to which the application relates; and
(c) the Secretary of State has served notice in writing on such persons as appear to him to be concerned that he would be prepared to consider the application in such circumstances as may be specified in the notice.

Invited applications
7.—(1) Every application for a production licence pursuant to these Regulations, not being a non-invited application made pursuant to the last foregoing Regulation (in these Regulations referred to as an “invited application”), shall be—
(a) in respect of one or more blocks described or specified by a Gazette notice published in accordance with the next following paragraph;
(b) lodged within the period specified by such a notice as the period during which the Secretary of State is prepared to receive applications in respect of the blocks so specified; and shall not comprise any part of a block.

31st Offshore Licensing Round information and resources (CLICK TO EXPAND)

General information
- Press notice at close of round
- Press notice
- Invitation to apply in the Official Journal of the European Union
- List of offshore blocks on offer
- Questions and answers [note the latest update contains an important update in relation to system]

How to apply
- General guidance and introduction
- Guidance about the technical aspects of any application
- Guidance on the financial requirements to be used in the Round
- Safety and environmental issues licensing and operatorship guidance (Appendix C)
- Enter point/register to use LARRY
- Guidance about the use of LARRY
- Other regulatory issues

Maps
- Map of the offshore blocks on offer
- Shapetiles

Environmental Information
- Strategic Environmental Assessment
- Proposed offshore special areas of conservation
- 31st Licensing Round - Matrix of Blocks and Conservation Sites

Other useful information
- The OGA Data Centre
- The Crown Estate Interests
Licensing

• **1<sup>st</sup> Round** 394 Blocks applied for in 31 Applications
  • “The Ministry would not reveal which of the Blocks was uncontested in case the Applicant then offered a poor Work Programme for these” (WPs were not submitted with the Applications at that time.)

• **30<sup>th</sup> Round** Opened 25<sup>th</sup> July 2017  Closed 21<sup>st</sup> November 2017
  • 123 Licences for 229 Blocks in “Mature” areas
Licensing: 1st ROUND AND 4th ROUND AREAS

Licensing on the UKCS
Licensing: 28th ROUND AND 30th ROUND AREAS
Wells drilled by Round since 2003; calculated end 2012

- Rounds 1 & 2: 43%
- Rounds 3 - 7: 18%
- Rounds 8 - 11: 26%
- Rounds 12 - 16: 4%
- Rounds 17 - 19: 4%
- Rounds 20 - 26: 5%
5-Year Licence Round Forward Plan

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
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</table>

31st Round Launch in mid-2018 120-day Application Period

Timelines are indicative, and final schedule is subject to variation.

Note: Licence Rounds and timings are contingent on the Strategic Environmental Assessment (SEA), with the next SEA assessment planned in 2020/2021.
How to run a Round

Licensing on the UKCS
Round Close

LARRY Access
Application Transfer to Access DB
Mapping of Blocks & PI
Allocation of Workload to Assessors
Initial Technical Assessment
Technical Interview (LON & ABZ)

Interview Scheduling (subject to industry and OGA availability + volume of applications)
Final Recommendation to Chief Executive
Further Clarifications, ‘Loose-Ends’

Lobby Award Listing, Maps, Work, Prop Summary, Statistics
Draft Recommendation to Chief Executive and Directors
Preparation of Draft Press Release, Media Scheduling
Final Block Selections/Splits, Licences, Work Programmes
LARRY Work Programmes, Draft Deeds, Template Letters

Announce Offer of Awards

Chief Executive Approval of Offer of Awards

Financial Capability, Viability & Capacity Evaluation by OGA Finance
Financial Clarifications by OGA Finance
Financial Evaluation Completion & Recommendations

Preparation of Appropriate Assessment Public Consultation (6 weeks min. plus 2 weeks)
Preparation of Appropriate Assessment Consultation Response (2-3 weeks)
Submission of AA to Minister for Approval
Ministerial Approval (Variable; 4 weeks)

Appendix C Clarity: Initial Evaluation by CA (OPRED & HSE)
Appendix C Clarifications
Appendix C Evaluation Completion & Recommendations

Appendix C Initial Evaluation by CA (OPRED & HSE)
Appendix C Clarifications
Appendix C Evaluation Completion & Recommendations

Legal & Commercial Consultation
Operations Director Initial Recommendation

Initial Re commencement & Map Creation

Local Team Consultation

Oil & Gas Authority
30th Licence Round Storyboard

Summer 2016
Second Government-Funded Seismic Shoot

End 2016
Introduction of New Flexible Innovate Licences

19th June 2017
Release of Undeveloped Discovery Data Packs

19th July 2017
Release of Regional Maps and Exploration Datasets

22nd August 2017
30th Round Technology Event with OGTC

21st November 2017
30th Round Application Deadline

End November 2017
Launch of Seismic Data to Support the 31st Licensing Round

Q4 2017-Q1 2018
Licence Application Assessments (OGA/BEIS/HSE)

Q2 2018
30th Round Licence Awards & Announcement of 31st Round

Ongoing
OGA Management of Exploration Portfolio

Oil & Gas Authority

Licensing on the UKCS
Flexible ‘Innovate’ Licences

• Licences devised in collaboration with industry to allow more flexibility

Approach:
1. Applicants devise required work programme to exploit resources
2. Structure licence phasing accordingly

• Licence can start in any Initial Term Phase, or
• Licence can start in Second Term (Straight to FDP planning)

• A licence can contain up to 10 contiguous blocks
• Blocks can be split vertically, stratigraphic splits are possible by commercial agreement
• Applications should address all prospectivity and development potential on the proposed licence (i.e. cluster concepts)
Example ‘Innovate’ Licences

- Flexibility for Operators: Many Initial Term combinations are possible
- More Onerous for OGA: Work programme tracking more complex (Stewardship Process)
  - Requires modification of OGA’s PEARs licence database

Many combinations of Initial Term Phasing possible
The marks scheme has evolved over time, and has been revised in consultation with industry.

Marks will be available for:
1. Geotechnical Database Used (Refer to SE-03)
2. Technical Evaluation Already Performed
3. Work Programme
4. Technology Application
5. Above Ground Evaluation
6. Phase Timing (Rewarding faster work programmes)

Applications are marked on a block-by-block basis

Marks Scheme available within Technical Guidance and as a separate Reference Sheet
Recent Rounds Offers of Awards 30th Round (1)

Licensing on the UKCS
Recent Rounds Offers of Awards 30th Round (2)
Recent Rounds 31st ROUND SUPPLEMENTARY (BUCHAN AREA)

- New Area Plan to maximise recovery (MER) from the Greater Buchan Area
- Features a number of opportunities including undeveloped discoveries
- OGA encouraging Companies to partner with each other and collaborate
- Information session and data pack supplied
- Closed 2nd May 2019
“Law” of Capture

- No such “Law” exists (I looked!)
- In the USA, Mineral rights are owned by the Landowners
- Production at the surface can drain from a wide area in the subsurface; but if it comes out on your land, it’s yours
- In the UK, Mineral rights are owned by the Crown (to 12nm Offshore)
- This sort of thing doesn’t happen here; BUT
There *IS* a Regulation requiring Unitisation

Where the [OGA] decides that a Field which straddles more than one Licence (operated by different Companies) is best developed as a Unit, then Unitisation is required to avoid competitive drilling

Unless the [OGA] agrees that an economic development can be made by each separately
Field Determination

“For the purposes of this Part of this Act an oil field is any area which the appropriate authority may determine to be an oil field, being an area of which every part is, or is part of, a licensed area”

- Oil Taxation Act 1975
- Introduced to Tax Production
- Retrospective, so Fields already in Production had to be Determined
- Tax no longer applies, but Fields continue to be Determined to define what areas need to be Unitised
- A “single petroleum geological structure”
- Determinations at depth too
Determination (as in Field Determination)
Determine (Expiry)
Determine (Relinquish)

Licence (to Licence)
Licensed (as it says on the tin)
Licensees (partners with a share in a Licence)
Licensing (e.g. hold a Licensing Round)

Continuation (from one Phase or Term to the next)
Extension (additional time added to a Phase or Term)
Prolongation (where a Licence would otherwise Expire)
**Maths**

**Quadrant** 1 degree of Latitude by 1 degree of Longitude

**Block** 10 minutes of Latitude by 12 minutes of Longitude

**Block Section** 1 minute by 1 minute

**Relinquishment** Along Block Section lines; 2 Block Sections from a Licence boundary unless otherwise agreed

**Subareas** Created by the Licensees; NOT Licences
Subareas (and “Zombie” Subareas!)

- **Subareas** are created by the Licensees for varied commercial reasons
- They are *not* Licences as such
- Partial Relinquishments do not take subareas into consideration
- If the Licensees, on Relinquishment, don’t request the subarea be “dissolved”, a “Zombie” subarea may remain
- *And you know how bad Zombies are …*
Thank you

https://www.ogauthority.co.uk/licensing-consents/licensing-system