



**United Kingdom Continental Shelf
Petroleum & Exploration Licensing
Arrangements and Regulations**

Explanatory Guidelines

2006

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[Appendix A: Fallow Blocks Process](#)

[Appendix B: Fallow Discoveries Process](#)

[Appendix C: Licence Application Round Summary](#)



1. INTRODUCTION

- The UKCS licensing system has been active for more than forty years and has evolved significant complexity.
- The aim of this document is to provide a convenient single-source for this information to complement the detail available through the [DTI website](#).
- With the exception of Section 16, all the information presented here is derived from material available from the DTI website.
- The relevance of these guidelines, and their continuous improvement, depends upon feedback on their use (whether positive or negative). Comments and queries (in confidence if requested) may be sent at any time by email to [CDA](#).
- Revised and updated versions of the Guidelines will appear from time to time on the CDA website (www.cdal.com).

2. OVERVIEW

2.1 General

- DTI's Licensing system covers oil and gas within Great Britain, its territorial sea and on the UK Continental Shelf (UKCS). Northern Ireland's offshore waters are subject to the same licensing system as the rest of the United Kingdom Continental Shelf.
- The Isle of Man issues Licences for its own onshore area and territorial waters.
- The designated area of the UKCS has been refined over the years by a series of designations under the Continental Shelf Act 1964 following the conclusion of boundary agreements with neighbouring states. The most recent is the Scottish Adjacent Waters Boundaries Order 1999 (No. 1126) implementing an agreement reached with the Faeroe Islands.
- The Petroleum Act 1998 vests all rights to the UK's petroleum resources in the Crown but the DTI can grant licences that confer exclusive rights to "search and bore for and get" petroleum.
- Licences can be held by a single company or by several working together, but in legal terms there is only ever a single licensee, however many companies it may include. All the companies on a Licence share joint and several liability for operations conducted under it.
- Each Licence actually takes the form of a Deed, which binds the licensee to obey the licence conditions regardless of whether or not s/he is using the Licence at any given moment.
- The Ministry of Power issued the first offshore licence, P001, in 1964, and its successor the Department of Trade & Industry issued the one-thousandth licence in 1999.

2.2 Rentals

- Each licence carries an annual charge, called a rental. Rentals fall due each year on the licence anniversary (except that for pre-20th Round Seaward Production Licences in their Initial Terms, rentals only fell due in Year 1). They are charged at an escalating rate on each square kilometre that the licence covers at that date.



- Rentals have two purposes: they encourage licensees to surrender acreage they don't want to exploit, so as to free it up for others who do; and they concentrate their minds on the acreage they actually decide to keep.

2.3 Licence Terms (Periods)

- Seaward Production Licences are valid for a sequence of periods, called Terms. These Terms are designed to follow the typical lifecycle of a field: exploration, appraisal, production.
- Each licence expires automatically at the end of each Term, unless the licensee has made enough progress to earn the chance to move into the next Term.

2.4 Relinquishments/Surrenders (See Section 7)

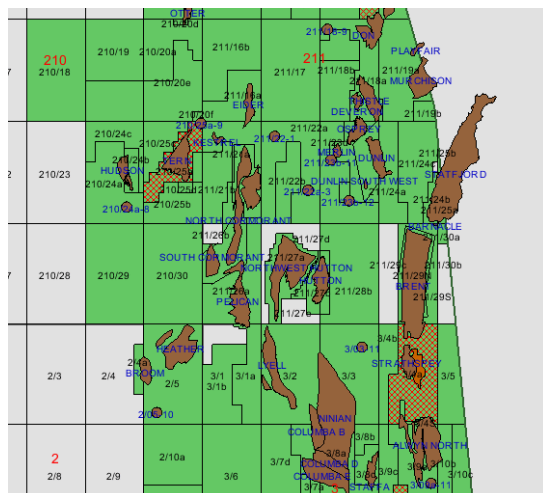
- Licensees are entitled to 'determine' (i.e. surrender) a licence, or part of the acreage covered by it, at any time but determination does not remove any actual or potential liabilities or obligations that have already been incurred.
- DTI positively encourages the surrender of acreage unless the licensee actually intends to work it, and a minimum relinquishment of acreage at the end of the Initial Term is actually a condition of most licences.
- Partial surrenders are subject to restrictions on the complexity of the area relinquished. DTI does not wish to create unlicensed areas so irregular in shape that they would be unattractive to other companies.

2.5 Multiblock Licences

- The term "multiblock licences" refers to offshore licences where the blocks are scattered geographically.
- DTI has undertaken not to issue any more licences covering scattered areas and (in principle) would consider splitting existing multiblock licences.

2.6 Licence Geometry

- A licence may include more than one block, a single block, one or more part-blocks or one or more sub-areas.





3. LEGISLATIVE BACKGROUND

3.1 Petroleum Act 1998

- Part I of the Petroleum Act 1998 (see <http://www.opsi.gov.uk/acts/acts1998/19980017.htm>) (and before it, the 1934 Act) vests all rights to petroleum in the Crown, including the rights to search for, bore for and get it. It then goes on to empower the Secretary of State to grant licences to “search for and bore for and get petroleum” to such persons as he thinks fit.

3.2 Model Clauses

- As with any licensing system, many of the detailed regulatory provisions are laid down in conditions attached to the licences. The Petroleum Act is rather unusual in that these conditions ("Model Clauses") are published in secondary legislation. In the past, they have been incorporated into licences by means of a single short paragraph, but from the 20th round they are set out in full in the licence itself, for the sake of clarity. It is the licensee's responsibility to understand these conditions and ensure they are observed.
- The major sets of Model Clauses currently in use can be inspected on the HMSO website :
 - The 2004 regulations are found at <http://www.opsi.gov.uk/si/si2004/20040352.htm>
 - The 2006 regulations are found at: <http://www.opsi.gov.uk/si/si2006/20060784.htm>
- The Model Clauses attached to existing licences are not affected by the issue of subsequent sets of Model Clauses, except through specifically retrospective measures.
- There are other restrictions on activity besides those contained in the Model Clauses. All new Seaward Licences (Production and Exploration) may contain additional restrictions (for instance, a requirement to appoint a Fisheries Liaison Officer).

3.3 Hydrocarbons Licensing Directive Regulations 1995

- In 1994, the EU laid down strict rules that Member States have to follow when issuing petroleum licences, covering such things as the factors that may (and may not) be taken into account when deciding whether or not to issue a licence.
- These rules were contained in the Hydrocarbons Licensing Directive, which was implemented in the UK in 1995 by means of Hydrocarbons Licensing Directive Regulations.

4. LICENCE TYPES

This section describes the current arrangements for licensing. Arrangements have varied considerably in the past (and of course, may still be in force for surviving licence areas). Appendix C summarises the principal terms attached to licenses granted since 1964.

4.1 Production Licences

- The main type of offshore licence is the Seaward Production Licence, of which the DTI and its predecessors have now granted more than 1,250.
- Production Licences cover the full life of a field from exploration to decommissioning cover (i.e. more than just production).
- Production Licences cover relatively small areas - typically a couple of hundred square kilometres.
- In recent years, DTI has issued three variations of the Production Licence (described below).

4.1.1 Traditional Production Licences

- These are the standard type of Seaward Production Licences, making up the bulk of the 1,250 or so Seaward Production Licences issued as of 2004
- Traditional licences run for three successive periods, or Terms:
 - The Initial Term lasts for four years.
 - The licence will only continue into a Second Term if the agreed Work Programme has been completed and if 50% of the acreage has been relinquished.
 - The Second Term lasts for four years; the licence will only continue into a Third Term if a development plan has been approved, and all the acreage outside that development has been relinquished.
 - The Third Term lasts for 18 years.

(These are the arrangement for licences granted since 2002. See Appendix C for previous arrangements.)

4.1.2 Promote Licences

- DTI has recognised a demand for new Seaward Production Licences from companies that would not be able to compete in Traditional Licensing Rounds and introduced the concept of the 'Promote' Application in the 21st Round (2002).
- The general concept of the 'Promote' Licence is that the licensee will be given two years after award to attract the technical, environmental and financial capacity to complete an agreed Work Programme. The way this is implemented is that each Promote Licence carries a "Drill-or-Drop" Initial Term Work Programme. That means that it will expire after two years if the licensee has not made a firm commitment to DTI to complete the Work Programme (i.e. to drill a well). By the same point, it must also have satisfied DTI of its technical, environmental and financial capacity to do so.
- In effect, DTI will defer (not waive) its financial, technical and environmental checks until a predetermined Check Point at two years. Promote licensees will not be allowed to carry out operations until they have met the appropriate criteria.



- Assuming the licence continues into Years 3 and 4, the Work Programme must be carried out before the end of the Initial term (i.e. within four years). The general idea of the Promote Licence is illustrated (as one possible course of events) below:
 - Year 1: Data purchase and evaluation;
 - Year 2: Attract a new co-venturer who acquires an interest in the licence (subject to DTI approval) and whose presence will satisfy DTI of the licence group's financial and technical capacity;
 - Before the end of Year 2: Submit a Report to DTI, make a Firm Drilling Commitment, and give DTI evidence of financial, technical and environmental competence; and, if DTI is content and the licence continues:
 - Years 3 and 4: complete the Work Programme by drilling a well.

4.1.3 Frontier Licences

- Certain areas of the United Kingdom Continental Shelf, like the deep waters west of the Shetlands, are particularly challenging areas for companies to operate in. Recognising this, DTI offers Production Licences on 'Frontier' terms that are specially crafted to suit these conditions better.
- The objective is to allow companies to screen large areas, potentially with greater materiality, for a brief period so they can look for a wider range of prospects.
- A Frontier Licence is unusual in that what would be the Initial Term of a Traditional Licence is split into two Terms: the Initial Term and the Second Term (meaning that overall, the Frontier Licence has four terms instead of three). These first two Terms together last for six years (2+4). This is the period in which the Work Programme must be completed if the licence is to continue further.
- The two-year Initial Term could be considered an additional Term for preliminary evaluation. The rental rates in these two years are low so that such licences are not prohibitively expensive even when they cover large areas. At the end of the Initial Term, though, there is a 75% relinquishment and subsequently the rentals are the same as those of a Traditional Licence. There is no requirement to have completed the Work Programme, or any part of it, during the Initial Term, though it is in the licensee's interest to have done enough work to know which 75% of the Licensed Area to relinquish.
- At the end of the Second Term, which falls four years later (i.e. when the licence is six years old), the Work Programme must have been completed and there is another mandatory relinquishment, this time of 50% of what is left (i.e. leaving one eighth of the original licensed area). In this sense, the end of a Frontier Licence's Second Term corresponds to the end of a Traditional Licence's Initial Term.
- The Work Programme will contain at least a 'drill-or-drop' commitment.
- DTI recognises that two years is a tight schedule even for a preliminary evaluation and in exceptional circumstances (e.g. where weather delays firm seismic acquisition planned in the first year of the programme, or where demonstrable prospectivity covers more than 25% of the licence), may consider requests to grant extra time on the Initial Term or accept only a 50% relinquishment. This is at DTI's discretion. It's also important to note that rentals in the third year will be at the full Year 3 rate, and that the second relinquishment would have to make up for any allowances granted on the first one - that is, the second relinquishment will still have to bring the area down to one-eighth of its original value and complete the Work Programme in six years.



4.2 Exploration Licences

- Some companies carry out exploratory surveys over wide areas of the offshore sector, and don't need exclusive rights to do it. Production Licences would be impractical and prohibitively expensive for such activities; hence DTI also issues Seaward Exploration Licences.
- Companies may can apply for an Exploration Licence at any time, using [form](#) available from the DTI website.
- Exploration Licences run for three years at a time, and allow exploration anywhere on the United Kingdom Continental Shelf except on any area that is covered at the time by a Production Licence.
- If the holder of an Exploration Licence wants to explore acreage covered by a Petroleum Licence, it will need the agreement of the holder of the Production Licence. See the UKOOA website for further details of the [UKOOA/DTI Guidelines on Open Access](#).

4.3 Summary Table

The table below summarises the licence term for each type of licence.

Summary of Licence Types and their Principal Features			
<i>Licence Type</i>	<i>Initial Term</i>	<i>Second Term</i>	<i>Third Term</i>
Seaward Production Licence			
Traditional	4 years	4 years	18 years
Promote	2 + 2 years	4 years	18 years
Frontier Licence	2 + 4 years	4 Years	18 years
General Scope	Exploration Work Programme	Appraisal and Development	Production
Exploration Licence	3 Years		



5. AWARD OF LICENCES

5.1 Licensing Rounds

- DTI issues Production licences through competitive Licensing Rounds (see historical summary of rounds in [Appendix C](#)).
- DTI is committed to a regular timetable of one onshore and one offshore Licensing Round each year.

5.2 Out-of-Round Applications

- The vast majority of Seaward Production Licences are issued in Licensing Rounds, but particular cases may present compelling reasons to issue a licence outside a Round. It rests with the company seeking an Out-of-Round licence to make a case to DTI.
- In most cases, the DTI is nonetheless required to follow the usual procedures (including an invitation for applications in the European Journal at least 90 days in advance) for Out-Of-Round Applications under the Hydrocarbons Licensing Directive Regulations.

5.3 Applying for a Production or Petroleum Exploration and Development Licence

Applications, whether in a Licensing Round or Out-of-round, are made via a DTI Application Form (see <http://www.og.dti.gov.uk/upstream/licensing/LicAppGuide.doc>)

5.4 How to Apply for an Exploration Licence

Companies can apply for a (Seaward) Exploration Licence at any time, using a (different) DTI Application Form (<http://www.og.dti.gov.uk/upstream/licensing/LicguideApp1.doc>).

6. LICENCE ASSIGNMENTS

6.1 Background

- A company that is party to a licence may wish to sell an interest to another. Such a transfer is referred to here as a Licence Assignment.
- Licence Assignments are prohibited except with the consent of the Secretary of State. This restriction applies just as much to assignments between sister companies within a single company group as to assignments between unrelated companies. It also applies to the withdrawal of a company from a licence, which entails the assignment of its rights to the remaining companies.
- There is a type of transaction in which two or more companies already on a licence adjust the proportions of their shares of the licence interests/liabilities, and nobody enters or leaves the licence. These transactions are made by adjusting a Joint Operating Agreement (or similar agreement among the companies), and do not qualify for these purposes as Licence Assignments. However they still require consent though in most cases are handled by a greatly-expedited system (see under Open Permission).

6.2 Overview of Procedures

- DTI operates a simple email-based procedure, based on a short checklist of relevant information, and requirements are encapsulated in an [Application Form](#) which is supported by a [Guidance Note](#). If DTI receives a fully-completed form, it usually won't need any further information (though DTI does reserve the right to call for additional information if it thinks it necessary).
- Earlier systems required applicants to submit pre-execution drafts of all the relevant legal documentation including Deeds of Assignment and novations of relevant agreements, all of which had to be examined by DTI lawyers.
- DTI has suspended its former requirement to be supplied with executed copies of all the documentation after completion. However, it does still require notification of completion, and has added a facility to make this easy (each consent carries a simple notification slip to be completed and returned to DTI by the assignee(s) as soon as possible after completion).
- Before applications are submitted to DTI, DTI expect them to have been agreed, at least in principle, by all other parties whose consent will be required; in particular the other parties to the licence. There is a box on Form S8 in which licensees can give confirmation of this.
- When DTI receives an application DTI routinely seeks advice about it from the Licensing and Consents Unit's Asset Teams, Exploration Team, Decommissioning Unit, DTI's financial advisers and others. DTI also circulates details of each application to Inland Revenue's Oil Taxation Office (OTO).

6.3 DTI Policy

6.3.1 Technical and Financial Capacity of the Licensee

DTI will need to be satisfied that the proposed new company is suitable to be on the licence. That means checking its capacity to participate fully in licence operations, to discharge its licence obligations (see also Section 9: Suitability of licensees) and meets certain residence requirements.



6.3.2 Decommissioning Costs

Financial capacity will be an even greater concern if significant decommissioning costs are likely to be incurred by licensees in the near future. There is a dedicated Decommissioning Unit based in Aberdeen with the task of ensuring that future decommissioning liabilities are covered.

6.3.3 New Entrants to the UK

DTI may take a company's track record into account. If the company is new to the UK, DTI will try to take account of a track record gained overseas. Where the proposed licensee is a subsidiary of a foreign parent, DTI will generally require an undertaking from the parent to support the licensee in its licence operations (see also Section 9: Suitability of licensees).

6.3.4 Effect on Operatorship Arrangements

DTI will not approve any assignment if it would result in a licence having no approved operator. So when an operator seeks to leave a licence, it will need to ensure that its remaining partners have agreed a replacement operator and that DTI is ready to approve their choice. This is especially important where production operatorship is concerned. Approving an operator can take time, especially a production operator with no previous track record of operating on the UKCS.

6.3.5 Licence Alignment

This is not usually a concern for DTI, but DTI might feel the need to look carefully at a case where one company gains a completely dominant position on a licence, or a case where one company has such a small interest that it is not motivated to participate fully in the exploitation of a licence and yet is in a position to block it.

6.3.6 Intragroup Assignments

DTI has no objection in principle to assignments to a sister company, but if they are made specifically for the purpose of a subsequent disposal of the licence interests via a corporate sale, then DTI will generally want to know who the buyer is before approving it. Where the reason for the assignment is tax-related, DTI recommends discussing it with the Oil Taxation Office first.

6.3.7 Fragmentation of Licence Interests

In some circumstances, the creation of very small licence interests may be of questionable advantage to the UKCS. It may, for instance, prejudice the licence group's attempts to agree on new work by introducing new voices. On the other hand, any such drawbacks may be outweighed by a new licensee's expertise or experience. As a general rule, DTI suggests that any licensee seeking to create small licence interests (under 5%) should justify the transaction in "Extra information" on the Application Form.

6.3.8 Infrastructure

Again, this is a conceivable rather than a routine issue, but DTI might be concerned if, for instance, it seemed that an infrastructure owner was seeking to enter a licence group to influence tariffing negotiations.

6.3.9 OPOL

DTI expects all operators to be members of the Offshore Pollution Liability Association Ltd and to register each of its separate operatorships. Prospective new operators, to be approved as part of a Licence Assignment, can satisfy DTI that they are members by including their OPOL numbers at the appropriate place on the form.



6.4 Procedures

- It is the current holder of the licence interest who must make the formal application to DTI permission for transfer, even though in many cases much of the information that DTI needs will have to come from the acquiring company.
- An Application Form is available from the DTI website. Use of the form is recommended but not obligatory (see <http://www.og.dti.gov.uk/upstream/licensing/LicguideApp3.doc>).
- DTI reserves the right to call for additional information in specific cases.
- The Application Form must be completed in full, in accordance with the Guidance Note (see <http://www.og.dti.gov.uk/upstream/licensing/LicguideApp3guide.doc>).

6.5 Approval

- If it is content that the transfer should proceed, DTI will send its consent to the applicant, copying it to the assignee.
- At the same time DTI will approve the amendment/novation of related agreements (other than Operating Agreements, which are dealt with separately (see <http://www.og.dti.gov.uk/upstream/licensing/OpenPermJOA.doc>)).
- The Secretary of State's assignment consent(s) and operator approval(s) will be valid for three months after the predicted Execution/Handover Date(s) inserted in the Application Form. If any completions are delayed longer than that, the applicant will require an extension, which DTI will consider on receipt of a revised Completion Date, and confirmation that the information contained in the original application is still valid.
- Use of the consent to execute the assignment is conditional on the assignee's notification of execution within two weeks.

6.6 Execution

- Any consent granted by the Secretary of State will be made conditional on the Deed of Assignment conforming substantially to a draft approved by the Secretary of State. There are currently two such approved drafts.
- The first is contained in the PILOT Master Deed, which sets out agreed assignment procedures and forms agreed by PILOT. LOGIC has provided guidance to the use of the Master Deed separately. DTI recommends use of the [Master Deed](#) procedures.
- The alternative is the Approved Model Deed of Assignment (see <http://www.og.dti.gov.uk/upstream/licensing/LicguideApp4.doc>).

6.7 Processing Time

- In general, DTI aims to process a straightforward case in 10 working days (although cannot guarantee that response time in any particular case).
- Production Operatorship and financial checks in particular can take longer – the overall processing time will increase to 25-30 days where (straightforward) financial checks are involved.



7. LICENCE RELINQUISHMENTS AND SURRENDERS

7.1 Relinquishment Form

- Any licensee wishing to surrender (i.e. determine) their licence, or to relinquish part of the Licensed Area whilst the licence continues over the remainder, should do so by completing and returning the licence Relinquishment/Surrender Form (see <http://www.og.dti.gov.uk/upstream/licensing/LicrelinqApp.doc>).
- DTI will assume that any such form has been submitted in accordance with the wishes of the entire licence group under the terms of the Joint Operating Agreement or similar agreement (but would like to know if any dissenting party has been outvoted).

7.2 Companies Losing their Interest by a Relinquishment

- Occasionally, a Partial Relinquishment may leave a company with no beneficial interest under the licence. Nevertheless, the relinquishment does not have the effect of removing that company from the licence; it will remain a party to the licence unless and until it withdraws by making an assignment of its rights under the licence to the remaining companies.
- Usually the assignment would be made effective on the same date as the relinquishment, though it does not need to be. Note that all assignments need the Secretary of State's prior permission, so the application needs to be made in good time before the relinquishment.

8. LICENCE EXTENSIONS

- There are cases where a field looks likely to have such a long production life that it will even outlive the relevant Production Licence. In such cases, the Secretary of State has discretion to extend the licence (although there is no general right of extension).
- DTI will not extend a licence until its expiry is imminent, but understands that licensees may need an earlier indication that DTI will extend it when the time comes (perhaps to satisfy regulatory bodies looking at the reserves quoted in their books) and will consider such requests up to ten years before the licence is due to expire. The request should indicate the expected date that production will cease. Any such indication, besides being subject to the continuing satisfactory performance of licence obligations, will also reserve DTI's right to review the terms of the licence at that time (particularly the rentals); and licensees should not expect the extension to cover any acreage outside the field.

9. SUITABILITY OF LICENSEES

- DTI must be satisfied that a licensee (a) is solvent and is likely to remain so; and (b) will not impede future work on a licence because it cannot afford to pay its share of the bills.

10. OPERATING AGREEMENTS

10.1 Overview

- When several companies are party to a licence, they usually make an agreement among themselves governing future operations. Such an agreement is commonly called a Joint Operating Agreement (JOA).
- Creating or amending a JOA entails the apportionment of at least some of the rights granted by a Petroleum Act licence. As such, it requires the consent of the Secretary of State (see, for example, Model Clause 41(5) in the most recent Production Licences).
- Some Operating Agreements are created as the result of the unitisation of a field across several different licences - they are usually called Unit Operating Agreements.

10.2 Open Permission (Operating Agreements)

- An Open Permission (see <http://www.og.dti.gov.uk/upstream/licensing/OpenPermJOA.doc>) grants prior DTI approval to most instances of the creation, amendment or novation of Operating Agreements.
- If a company is satisfied that the Open Permission describes the act that it is proposing, complying with any conditions and restrictions on its use, then it can go ahead and perform the act under the Open Permission, and doesn't need any further individual permission.
- Anyone wishing to create, amend or novate an Operating Agreement should first examine the text of the Open Permission (Operating Agreements) to decide whether the act has already been granted prior approval. If so, no further permission from the Secretary of State is needed, and in the case of this Open Permission there is no need to notify DTI of intention to use it. Note, however, that there is a requirement to provide certain information to DTI about the new Operating Agreement within two weeks after execution.

10.3 Approvals Outside the Scope of Open Permission

- If licensees consider that their proposed creation/novation/amendment of an Operating Agreement is excluded from the cover of the Open Permission (Operating Agreements), they may still apply for individual approval.
- Exclusion of an act from the most relevant Open Permission is not necessarily an indication that the Secretary of State is opposed in principle to the act and will never be prepared to approve it. In some cases (such as the exclusion of Operating Agreements that non-licensees are party to) it simply reflects DTI's need for individual scrutiny in certain circumstances.
- However, other exclusions clearly reflect DTI policy - this applies to the requirement for compliance with PILOT/PPWG on Pre-Emption. Even there the Secretary of State is not prevented from issuing an individual approval, but in general any company seeking it should expect to have to make a special case for an exception to be made.
- The Open Permission only covers the apportionment of rights granted by the licence and relating to petroleum won and saved, and any proceeds of its sale. Any particular agreement may be subject to other regulatory provisions (including other controls imposed by the Model Clauses), and if so it remains the responsibility of the licensee to comply with those provisions. In particular, nothing in this Approval has any effect on controls on licence assignments, operator approvals or the Petroleum Act's decommissioning provisions.



11. STREAMLINED TRANSFER AND PRE-EMPTION ARRANGEMENTS

11.1 The UKOOA/PPWG 'Master Deed'

- The 'Master Deed' (see <http://www.og.dti.gov.uk/upstream/licensing/masterdeed.doc>) was developed by UKOOA's Progressing Partnership Working Group (PPWG), DTI, and a number of other interested organisations.
- The Master Deed greatly expedites the transfer of offshore licence interests and other agreements relating to associated assets and infrastructure; and it introduces a standard pre-emption regime to give confidence to incoming companies.

11.2 New Transfer Arrangements

- Under former practice, a deal could be significantly delayed by the need to get a range of signatures applied to many documents, even when all parties are content with it. Under the Master Deed, licensees have appointed an Administrator to act as their attorney for the execution of *pro forma* documents. The Administrator is a specially-created subsidiary of UKOOA called 'UKCS Administrator Limited'. The service is actually provided by LOGIC (the 'Service Provider') on behalf of the Administrator under a separate 'Services Agreement' (see <http://www.og.dti.gov.uk/upstream/licensing/SLA.doc>). The disposing company pays a small fee for the service.
- Use of the New Transfer Arrangements is voluntary for the party disposing of its interest. If it does not wish to use them, it is free to stay with the traditional arrangements. The New Transfer Arrangements do not affect any existing rights of objection to an assignment or provisions for the granting or withholding of consents.

11.3 New Pre-emption Arrangements

- The standard new arrangements replace the range of provisions that existed previously (though they do not take effect where there had been none before), giving buyers confidence and clarity.
- When informed of a proposed Licence Assignment, companies on a licence will have an initial seven-day period in which to waive or reserve their rights to pre-emption; and then, if they have reserved their rights, a 30-day period in which to decide whether or not actually to pre-empt.



12. UK FALLOW ASSETS AND PROCESS

12.1 Fallow Blocks

- Fallow blocks are those where the Initial Term (normally 6 years) has expired and there has been no drilling, dedicated seismic or other significant activity for a period of 3 years.
- DTI further sub-categorises fallow blocks into "A" and "B" classifications.
- See Appendix A for details of the fallow block process.

12.1.1 Fallow A Blocks

- A Fallow A block is a block in which the current licensees are doing all that a technically competent group with full access to funding could reasonably be expected to do.

12.1.2 Fallow B Blocks

- A Fallow B block is a block in which the current licensees are unable to progress towards activity due to misalignment within the partnership, a failure to meet economic criteria, other commercial barriers, or a combination of these.

12.2 Fallow Discoveries

- Fallow discoveries are those discoveries where the initial term (normally 6 years) has expired and there has been no 'Significant Activity' (such as appraisal drilling, dedicated seismic acquisition, extended well testing, or other substantial dedicated activity) for a period of 3 years.
- DTI further sub-categorises fallow discoveries into "A" and "B" classifications:
- See Appendix B for details of the fallow discoveries process.

12.2.1 Fallow A Discoveries

- A Fallow A discovery is a discovery in which the current licensees are doing all that a technically competent group with full access to funding could reasonably be expected to do.
- There are three Fallow A sub-classes: Linked; Stranded and Active (see Appendix B for detail).

12.2.2 Fallow B Discoveries

- A Fallow B discovery is a discovery which the current licensees are unable to progress towards activity due to misalignment within the partnership, a failure to meet economic criteria, other commercial barriers, or a combination of these.
- Any fallow discovery (or exploration potential) vertically underlying or overlying an existing development will be considered under the Stewardship process rather than Fallow.
- DTI will seek to ensure that only those fallow discoveries that have some development potential will be included in the fallow discovery process. Accordingly companies will be encouraged to agree that any discoveries without development potential are removed from the process and the acreage treated under the fallow blocks process.

13. OPERATOR APPROVALS

- Under the Model Clauses attached to each licence, the licensee may not appoint an operator without the approval of the Secretary of State.
- Operator approvals are specific to the licence under which they are given, and are considered on a case-by-case basis.
- There are two main types of operator: Exploration and Production Operators.
- As a shorthand description of the three classes, the Production Operator is approved to explore for petroleum, drill for it and produce it. The Exploration Operator is approved only to explore for petroleum, including exploration drilling but not production, and would need further approval as a Production Operator to begin production.
- Operator approvals can be made at any time, but are normally made either at the issue of a licence (i.e. approval of an Exploration Operator), at Field Development approval (i.e. approval of a Production Operator), or in some cases at approval of a licence assignment. DTI will normally expect the operator to be a member of the licence group.
- In some cases, different bits of acreage within a single Licensed Area have different operators. This reflects the commercial/operational arrangements within the licence group.
- Other restrictions and controls on drilling, seismic surveys, field developments, etc., are not affected by the approval of an operator.

Summary of Operator Types and their Levels of Approval			
Operator Type	Explore?	Drill?	Produce?
Production Operator	Yes	Yes	Yes
Exploration Operator	Yes	Exploration Drilling	No
Limited Operator	Yes	No	No

14. DETERMINATION OF FIELDS

14.1 Legislative Framework

- The Oil Taxation Act 1975 introduced and made provision for Petroleum Revenue Tax (PRT) to be levied on all oil and gas fields. Schedule 1 to the Act states that all fields are to be "determined" by a boundary drawn around them.
- Debate on the Oil Taxation Bill, made it clear that the boundary was to be drawn using geological criteria alone so that the field was defined as a single geological petroleum structure. Field boundaries may only cover an area which is part of a licensed area. Occasionally fields may have a top and a base or overlie or abut one another.
- The 1993 Finance Act abolished PRT for new fields and thereby created two categories of field:
 - Old Fields: Those given development consent before 16 March 1993. These fields are subject to PRT.
 - New Fields: Whilst not subject to PRT, it was agreed that all new fields would receive determinations and re-determinations as appropriate in order that all fields were defined in the same way. Determinations are still needed for Corporation Tax purposes.

14.2 Field Determination Process

- Before an oil field is given development consent by the Minister, a proposed determination of the field must have been made.
- The process of making such a determination involves issuing a proposal (for the boundary) to all licensees having an interest in the licence (blocks in which the field is situated), together with licensees in the adjacent blocks, so that all parties may ensure that their interests in the oil field will be recognised. The boundary is defined offshore by parallels of Latitude and Meridians joining the co-ordinate points.
- Licensees have 60 days from the date on which a proposal is issued to lodge any objection to it. They are then given the opportunity to present any specific concerns in more detail. Following any relevant discussion the actual (final) determination is made. A final determination must be in place prior to first production.
- Fields may be re-determined at any time at the request of any party following the acquisition of new information, either seismic or from wells, which indicates that the original determination is no longer valid. An identical procedure to that described above is followed in each case.
- As all fields are determined as areas of which every part is, or is part of, an area licensed under the Petroleum Act 1998, it follows that when such a licensed area is relinquished the field must be re-determined to exclude that area.



15. FIELD DEVELOPMENT PROGRAMME PROCESS

- The powers of the Secretary of State in relation to development and production consents are set out in the Model Clauses incorporated into individual licences.
- The documentation required for new oil and gas field authorisations is the Field Development Programme (FDP). The discussion leading to the submission of the FDP is the process by which the Oil and Gas Directorate secures the Department's policy objectives. The aim of the process is to identify aspects of the Development Plan which relate to the Department's objectives and on which the views of the Department and licensees may diverge. These aspects will be examined more thoroughly with licensees, with the aim of reaching mutually satisfactory conclusions. The resulting FDP should provide a summary description of the actual development and the principles and objectives which will govern its management.
- Operators considering a development are advised to contact the Department early in the appraisal stage of a field. A multi-disciplinary team from the Oil and Gas Directorate will be assigned to carry forward the technical discussion on the field, headed by a manager authorised to take technical decisions on behalf of the Department and to co-ordinate, where necessary, the Department's response on policy issues.
- Licensees should provide the Department with sufficient opportunity and information to gain an understanding of the field and its conceptual development. The Department's team manager will provide notification of any aspects of the development where a conflict of interest is seen to exist and which may prevent the authorisation of the programme. The Department will then seek to agree a programme of work leading to their resolution and a timetable for its completion.
- The Offshore Petroleum Production and Pipe-lines (Assessment of Environmental Effects) Regulations 1999 require that an Environmental Impact Assessment be completed for most new offshore oil and gas developments. Guidance notes are available [here](#).
- Guidance notes on procedures for regulating oil and gas field developments are available (see http://www.og.dti.gov.uk/regulation/guidance/reg_offshore/index.htm).
- The economics of field and incremental developments are considered by DTI as part of the assessment of field development programmes.

16. LICENCE DATA OBLIGATIONS AND RIGHTS

This section describes the rights and obligations of licensees and the DTI with respect to Licence Data.

16.1 'Records' and 'Samples'

- Under the terms of the Petroleum Act 1998, and the licences granted thereunder, licensees are obliged to hold accurate records in order to preserve all information about the geology of the licensed area ('Licence Data').
- The term 'records' includes all sub-surface geological and geophysical data, whether 'raw' or interpreted. The term however also applies generally to any information connected with the activities of the licence in question and at the boundaries of this definition is open to interpretation, discussion and negotiation with the DTI.
- Licence records must be kept in perpetuity (literally 'forever') by all licensees; even where such Licence Data has also been published ('released') through the DTI or its agents.
- The Model Clauses in the licence agreements discriminate between 'records' (clauses 31 and 8.2) and 'samples' (clause 33). A licensee is required to retain samples (well cores and cuttings, portions of sea bed samples and/or cores from boreholes penetrating below the sea bed) for a minimum period of 5 years. However at any time after 5 years, licensees may give the DTI six months' notice in writing of their intent to dispose of samples.

16.2 Obligations for Licence Data at the Time of Initial Licence Award

- Companies entering into new licence agreements do not take on any obligations with respect to Licence Data that was associated with previous (surrendered) licences that happen to fall geographically within the area of the new licence.
- The companies that held the surrendered licence in question are not released from their obligations to the DTI even if they have come to an arrangement with the licence group (or members thereof) that enter into a new licence agreement over the same area (unless the DTI also explicitly agrees in writing to this arrangement).

16.3 Summary of Licensees' Rights and Obligations

16.3.1 Obligation to provide Licence Data to the DTI

- Licensees are required to satisfy all requests from the DTI for (copies of) Licence Data acquired during the term of the licence (but see special provisions for CDA Members below).
- Although each licensee is strictly responsible under the licence, for practical purposes the Operating licensee assumes the responsibility on behalf of the licence group for ensuring that Licence Data acquired under that License is made available to the DTI (or its agents).
- These obligations are set out in detail in the latest [PON 9](#) and include requirements for:
 - Actual physical data to be submitted to the DTI;
 - A catalogue of certain Licence Data types and vintages to be provided to the DEAL Data Registry; and
 - Metadata (well header and seismic header information) to be submitted to the DTI

16.3.2 Right to Object to the Publication of Licence Data by the DTI

- Licensees may object to the publication ('release') of any Licence Data provided to the DTI on the grounds that such Licence Data contains commercially-sensitive, proprietary information.



16.3.3 Obligation to Retain Licence Data in Perpetuity

- Licensees must retain Licence Data (with the exception of samples) in an accurate (useable, accessible and reproducible) form in perpetuity, even where such Licence Data has also been published by the DTI. This obligation survives the life of the licence and the licence agreement.

16.3.4 Licence Data Obligations are Joint and Several

- The obligations to the DTI for Licence Data are borne jointly and severally by all companies who are party to a licence and not by the operator of that licence alone (although it is accepted practice for the licence operator to act on behalf of all licensees for a licence).

16.3.5 Title in Licence Data

- In principle, title in Licence Data is held by licensees.

16.3.6 Obligation to Appoint a 'PON 9 Coordinator'

- Each licence operator is required to appoint a single 'focal point' to coordinate PON 9 compliance for that company (the 'PON 9 Co-ordinator').
- The PON 9 Co-ordinator will be the first point of contact for the DTI for all PON 9 compliance matters, including (but not limited to):
 - Compliance with well and seismic survey naming standards
 - Correct well and seismic survey ownership on DEAL
 - Verification of operated well and seismic survey header information on DEAL
 - Confirmation of completeness of catalogue and data submission to the DTI and its agents
 - DEAL Data Registry catalogue entitlements
 - Future PON9 consultation and review

16.3.7 Obligation for Data Release

- There is no obligation for licensees to release well data – this is the function of the DTI and its agents.
- There is no obligation for licensees to give access to the Samples in their custody (other than the obligation to provide samples to Gilmerton at the DTI's request).
- Under the Guidelines for the [Release of Proprietary Seismic Data](#) agreed between DTI and UKOOA in 2004, UKOOA members have agreed to publish certain seismic Licence Data instead of the DTI.
- Guidelines were also agreed in 2004 between the DTI and IAGC which provide for some discounted terms for the licensing of [Speculative Seismic data](#).



16.4 Summary of The DTI's Rights and Obligations

16.4.1 DTI's Right to Collect Licence Data

- The DTI has the right to collect Licence Data from licensees but must keep it confidential for a prescribed confidentiality period. The prescribed confidentiality period is:
 - 4 years (for licences awarded in Licence Rounds 1 to 19 inclusive); and
 - 3 three years (for licences awarded in subsequent Licence Rounds),
- The prescribed confidentiality period starts from the date the DTI actually receives or when it 'should have received' the Licence Data in the normal course of events (in circumstances where the DTI has temporarily waived its right to receive Licence Data for example).
- The DTI has the right to request Licence Data from any licensee on a licence but where possible will do so via the operating licensee.
- There is no theoretical limit to the number of times the DTI can request Licence Data from a licensee.

16.4.2 DTI's Right to Collect Samples

- The DTI receives slabbed cores, cuttings sets and other samples soon after a well is completed and these are stored at the DTI's Gilmerton core store in Edinburgh.
- Licensees retain the remaining samples material at various commercial storage sites
- Licensees must retain all samples not submitted to Gilmerton for a minimum of 5 years after which time they may give the DTI six months' notice in writing of their intent to dispose of the Samples (and an opportunity for the DTI to make a specific request for the samples to be provided to Gilmerton or elsewhere).

16.4.3 The DEAL Data Registry

- In 2004 the DTI implemented a requirement for licensees to provide catalogues of certain types and vintages of Licence Data to the BGS (British Geological Survey) *in lieu* of sending the Licence Data itself to the DTI at the time of acquisition.
- The requirements currently require catalogues for:
 - all Seaward 2D and 3D seismic surveys shot since 1st January 2000;
 - all Exploration, Appraisal and Development wells in Seaward areas spudded since 1st January 2000; and
 - cores and samples from all wells.

16.4.4 DTI's Right to Use and Copy Licence Data

- The DTI may use Licence Data during the prescribed confidentiality period and may copy it to its agents (including NERC and the BGS) provided it does so under similar terms of confidentiality.

16.4.5 DTI's Right to Publish ('Release') Licence Data

- The DTI has a right to publish ('release') Licence Data after expiry of the prescribed period of confidentiality unless representations to the contrary are successfully made by licensees.
- There is an important distinction between (a) the DTI's right to receive (copies) of Licence Data; and (b) the DTI's right to publish Licence Data. The DTI may request any item deemed to fall within the (very broad and vague) term 'Licence Data' but may not publish commercially sensitive elements of Licence Data.



- It is the responsibility of individual licensees to make representations to the DTI if they do not wish to have their Licence Data released. This representation should be made via the operating licensee at least six months prior to the release date.
- For the purpose of data release, the 'due delivery date' to the DTI (and start of confidentiality period) is deemed to be the well completion date for well data and the end of the calendar year when data acquisition was completed for seismic data.
- The DTI may publish Licence Data on behalf of the Crown after the prescribed confidentiality period as generalised in the table below:

Summary of Release Triggers and Dates by Data Type		
<i>Licence Data Type</i>	<i>Licence Rounds</i>	<i>Timing/Trigger</i>
Well Reports & Logs	01 to 19	4 years from well completion date
Well Reports & Logs	20 onwards	3 years from well completion date
Seismic Trace Data ¹	01 to 19	4 calendar years from the date first processing completed
Seismic Trace Data ¹	20 onwards	3 calendar years from the date first processing completed
Cores & Samples	01 to 19	4 years from well completion date
Cores & Samples	20 onwards	3 years from well completion date

16.4.6 Method of Data Release

- The table below shows the channels used by the DTI to release Licence Data:

Summary of Methods of Data Release	
<i>Licence Data Type</i>	<i>Agency for Release</i>
Well Reports & Logs	DTI's Data Release Agents
Proprietary Seismic	Via the Operating licensee
Speculative Seismic	From the Seismic Contractor
Cores & Samples	Via inspection at the DTO Gilmerton (Edinburgh) facility

16.4.7 Title in Licence Data

- The DTI does not own the Licence Data (but it does have copyright in the collections of Licence Data published by itself or its agents).

16.5 **Transfer and Termination of Responsibility for Licence Data**

Under certain circumstances, and in some cases, at the discretion of the DTI, licensees may either be relieved of or transfer their obligations with respect to Licence Data. Such circumstances include:

16.5.1 National Hydrocarbons Data Archive

- Under a PILOT initiative, licensees may, at the discretion of the DTI, be granted relief from their obligations to retain Licence Data for a licence (or an agreed part thereof) provided that they transfer an agreed subset of the Licence Data pertaining to the licence (or an agreed part thereof) to the National Hydrocarbons Data Archive.
- Details of the Archive process can be found in the Archive Handbook which is available at www.nhda.bgs.ac.uk

¹ This applies to Proprietary Seismic data only. Separate arrangements have been put in place between DTI and IAGC for speculative seismic data.



16.5.2 Samples

- A licensee is required to retain well cores and cuttings, portions of sea bed samples and/or cores from boreholes penetrating below the sea bed for a minimum period of 5 years. However at any time after 5 years, licensees may give the DTI six months' notice in writing of their intent to dispose of samples.
- At any time during this notice period, the DTI may request the licensees to submit the samples to the DTI (or another nominated agent of the DTI). If no such request is received by the licensees within the six-month period then the licensees are free to dispose of the samples.
- Specifically for oil samples taken in an exploration well, licensees may give the DTI six-months' notice in writing of their intent to dispose of the oil samples at any time after completion of their analyses. At any time during this six-month period, the DTI may request the licensee to submit a one litre sample to the DTI (or a nominated agent of the DTI). If no such request is received within the six month period then the licensee is free to dispose of the samples.
- There is no requirement for licensees to retain gas samples once analyses are complete.

16.5.3 Effect of Relinquishment on Responsibility for Licence Data

- Licensees' obligations with respect to the retention and provision of Licence Data survive licence relinquishment and remain, jointly and severally, with all individual members of a licence group except where otherwise explicitly agreed in writing by the DTI

16.5.4 Effect of Licence Assignment on Licence Data Rights and Obligations

- A Licence Assignment implies assignment of the rights and obligations attached to the Licence Data associated with the licence in question. However, in the event of default by the new licensee, the DTI retains certain rights to look to the previous licensee to satisfy the obligations in default.
- The title in Licence Data previously enjoyed by the outgoing licensee (where they can be established) is passed to the incoming licensee.
- UKOOA has produced draft guidelines for the transfer of Licence Data in Licence Assignments².

16.6 The Role of the CDA

- CDA³ has executed a Deed with the DTI by which licensees who store their Licence Data with CDA and who entitle such Licence Data to the DTI are deemed to meet their obligations under the Model Clauses for as long as they remain participants in CDA.
- The Deed also enables the DTI's Release Agents to obtain the well data they need from CDA (where licensees are CDA members) for the purpose of preparing data release products. Where such data is available from CDA the Data Release Agents must obtain data from CDA and not approach the licensee itself.

² These have not been published but are available as a draft on request from mfleming@cdal.com

³ Common Data Access Limited, a wholly-owned subsidiary of UKOOA

FALLOW BLOCKS

This process was first announced in March 2002 and is different from the Fallow Discoveries process described in Appendix B.

The description included in this appendix is based upon revised guidance published in July 2005. Details of the arrangements in operation prior to this date may be found on the [DT website](#).

Definitions

1. Fallow blocks are those where the initial term (normally 6 years) has expired and there has been no drilling, no dedicated seismic or other significant activity for a period of 3 years⁴.
2. Fallow blocks are divided into two classes:
Fallow A: those blocks where the current licensees are doing all that a technically competent group with full access to funding could reasonably be expected to do⁽³⁾, and
Fallow B: those blocks where the current licensees are unable to progress towards activity due to misalignment within the partnership, a failure to meet economic criteria, other commercial barriers or a combination of these.

Fallow Blocks Process

During the first quarter of each year, DTI will produce a listing of all blocks it considers fallow (either A or B) and will send the list to all relevant licensees inviting their views on the proposed classification. Following appropriate dialogue, DTI will make a final classification that will be communicated to licensees along with any requisite explanations.

Fallow A Blocks:

1. All Fallow A blocks will be posted on the DTI website (along with agreed reasoning for the classification) and will be reviewed on an annual basis to check progress against plans and to assess whether the classification remains appropriate.

Fallow B Blocks:

2. Following B classification, there is a 3-month period during which licensees are encouraged to present any activity plans or re-allocation of interests that might help facilitate taking the block out of Fallow status. If this is not forthcoming then the block will be posted as Fallow B on the DTI web site (along with an agreed reasoning for the classification). This date will be deemed the "release date".
3. For the year that a block is listed as Fallow B on DTI's web site, licensees are free to market the asset as they see fit and will ensure that any data of release age is available to third parties through normal release channels (as per well and seismic release guidelines). Where appropriate, Fallow B blocks may be presented at the annual PESGB/DTI Prospect Fair.
4. After 9 months of being a released Fallow B block, licensees and interested third parties should report to DTI any plans for proposed Significant Activity. Any licensee without a firm activity plan at that time will assign its interest and any agreed remaining liabilities to any co-licensees or third parties with a firm plan if requested by them to do so. Where two or more parties are competing for the equity then the choice would be made on normal commercial criteria.

⁴ This is a modified arrangement. Until 2005 the definition was "no drilling for a period of 4 years and no dedicated seismic or other significant activity for a period of 2 years".

5. If Significant Activity is planned and agreed but has not yet taken place, then the block will temporarily be re-categorised as Fallow BR (Rescued) until completion. The Significant Activity should take place within 1 year of the activity plan being agreed (allowing for extenuating circumstances).
6. Following completion and agreement with the DTI that Significant Activity has taken place, the block will be deemed not fallow and treated as such for 3 years.
7. Where no satisfactory Significant Activity plan is agreed by the end of the 12-month Fallow B period or an agreed plan has not been executed, then the licensees will relinquish the block.
8. Relinquished blocks will be made available in the next Licensing Round. Licensees will ensure that data relating to the block is released and listed on DEAL.
9. Prior to relinquishment licensees will be obliged to have agreed and made provision to fully abandon any wells and remove any suspended wellheads from the block. This obligation need not take effect immediately if this facilitated future activity.

Change of Interest

1. When considering initial classification, a block in which a field has commenced production within the past year, or where there has been a change of operator in the past year, or where there has been a substantial change of ownership in the past 3 months will be considered as Class A. These derogations will only take effect once the assignment or change of operator have been agreed by the Department and will only apply to newly fallow blocks, not to those that have already entered the Fallow process and been formally classified.
2. Where Fallow B blocks are assigned, divested, farmed out, or the operator changes within the initial 3 month pre-release phase or during the 12 month Fallow B period, any new licence group will be expected to deliver a plan and fulfil activity in a timeframe as close as is reasonably possible to that which would have been the case had no change in interest or operatorship occurred. To facilitate this, current owners should make best efforts to market Fallow B blocks in a manner that will give new owners reasonable time to develop an activity plan ready for submission to DTI at the 9 month review point. If a sale is only agreed within the final 3 months of the 12 month Fallow B period then the new licence group must, at that time, provide assurance to DTI that a firm plan of activity will be forthcoming within a further 3 months. In the event of this not materialising then the block will be relinquished.

Median Line Blocks

Fallow Blocks adjacent to Median Lines will be brought into the process while fully recognising inter-government and cross border licence implications and the need to maintain the National and UK licence interests.

DTI Regulatory Position

If it appears to DTI at any stage in the process that there is a firm activity plan that is not being progressed on a commercial basis, the DTI will consider using its powers under the PSPA to require the licensees to drill the block or forfeit the licence (or part thereof).

Right of Appeal

DTI recognises this is a voluntary process and will apply the rules in a fair and reasonable manner. Where companies feel their case has not been fully understood or the rules are not being applied

properly or are producing an unreasonable outcome, they should raise these concerns for review with senior DTI officials.

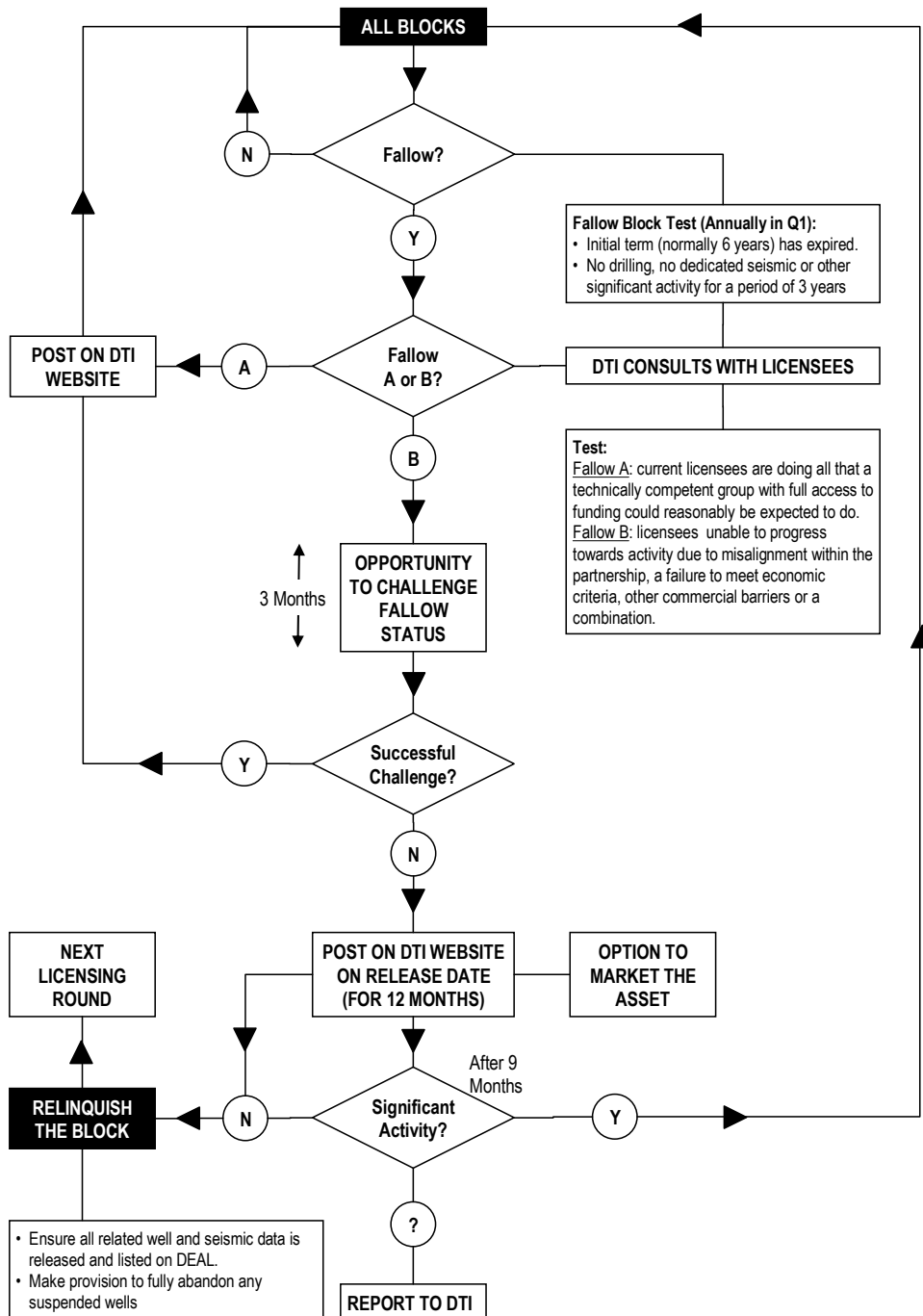
Fallow Block Classes

- A1** “Doing all that can be expected” is assigned to blocks which have technical challenges which need a significant breakthrough to progress exploration (e.g. heavy oil, West of Shetland stranded gas)
- A2** “Wells AFE'd” is updated to Not Fallow (N3) for a period of 4 years once the well has spudded.
- A3** “Proprietary Seismic AFE'd” is updated to Not Fallow (N2) for a period of 2 years once acquisition begins.
- A4** “Seismic Reprocessing 2 year review” is assigned if a significant reprocessing program is initiated (usually only a large pre-stack depth migration would qualify).
- A5** “Seismic Reprocessing 1 year review” is assigned when there is interpretation underway on a new significant reprocessing product delivered within the last year.
- A6** “Infrastructure full or none available” is occasionally assigned when all the technical work has been completed, but drilling is deferred because development export routes are currently full or not available.
- A7** “FDP in preparation” is updated to Not Fallow (N4) once the FDP is submitted, and remains not fallow until one year after production begins.
- A8** “Sub-economic” (from class B) is used for fallow discoveries only
- A9** “Median Line issues” is occasionally assigned to blocks that have commercial or Treaty issues that have delayed exploration.
- M** “Moratorium” Moratoria for either operator or substantial licensee change (greater than 20%) will only apply to newly Fallow blocks and not to those that have already entered the Fallow process and been formally classified. Moratoria will not normally be given where there has been a change in operator as a result of a corporate takeover or merger but only where the change in operatorship has been on an asset specific basis. However, if the personnel working on the assets are not taken over by the new operator, a Moratorium may be considered appropriate.
- Moratoria will commence from the earliest of either the date of DTI approval of an asset transfer or the effective date of the transaction.
- BH** “Class B Hold” is assigned when an agreed asset transfer could result in a new operator, who requires additional time to assess their strategy for activity on a Class B block. These blocks are held from release onto the website, but must have a firm programme for activity (supplied within a month of the transfer by the new operator) over an agreed time frame with the Department.
- When the programme for activity is agreed, the block will be retained as (BH) until there is a signed AFE for significant activity to take place. Failure to implement the programme will result in the block being put onto the website immediately for twelve months.
- BR** “Class B Rescued” applies to a block which has already been publicised on the web, but when an agreed asset transfer could result in a new operator, who requires additional time to assess their strategy for activity on a Class B block. These blocks are removed from the website, but must have a firm programme for activity (supplied within a month of the transfer by the new operator) over an agreed time frame with the Department.
- When the programme for activity is agreed, the block will be retained as (BR) until there is a signed AFE for significant activity to take place. Failure to implement the programme will result in

the block being put onto the website immediately for the remainder of the twelve month period from the date it was rescued (BR).

- B1** “No activity” is assigned when there is no apparent work being carried out on a block.
- B2** “Low level activity” is assigned when there are ongoing studies but no significant activity on a block.
- B3** “Delayed by partner misalignment” is assigned when a licensee or the operator has proposed a plan for significant activity, but the group has not approved expenditure.
- B4** “Delayed by third party issues” is assigned when the licensees are in alignment but there is a commercial obstacle that has delayed activity.
- B5** “Delayed by infrastructure issues” is assigned when the licensees are in alignment but there are infrastructure related commercial obstacles that have delayed activity.
- B6** “Divestment planned” is assigned when the operator’s or other partner’s strategy is to market their interest in the block, which has delayed significant activity.
- B7** “Non-economic accumulation” is assigned when the block has been fully evaluated, but the licensees believe it has no economically viable prospectivity.
- N1** “Not Fallow - Relinquished” is assigned when a block relinquishment is updated in the Department Licensing database. A list of relinquished blocks is regularly updated on the DTI website.
- N2** “Not Fallow - New proprietary seismic” is assigned when new proprietary seismic data has been acquired. This class is in effect for a period of two years from the date of first acquisition.
- N3** “Not Fallow - Well drilled” is assigned when a well testing a prospect on the subarea of the block is drilled. The block will be Not Fallow for a period of four years from spud date.
- N4** “Not Fallow - FDP or new production” is assigned when the Department receives a Field Development Plan for a discovery that is on block, and will remain Not Fallow until a year after first production. If the Field Development Plan is withdrawn, the block becomes potentially fallow immediately.
- N5** “Not Fallow - no exploration area remaining” is assigned when a determined field or the hydrocarbon accumulation relating to a Fallow Discovery covers most of the block and no further prospectivity occurs at other geologic levels.
- N6** “Not Fallow - licence in primary term” is assigned when a previously fallow block is relinquished and subsequently re-licensed.
- R** “Relinquishment notice submitted” is assigned when the Department receives a request for relinquishment of a block, or occasionally when an operator has indicated that a request for relinquishment is in preparation. Blocks are not given N1 status at this time as the licensees are at liberty to withdraw a notice of relinquishment (or amend it) up to a month before the anniversary date or the date that the DTI has indicated a relinquishment should be notified.

FALLOW BLOCKS PROCESS



FALLOW DISCOVERIES

The process for Fallow Discoveries is different from that for Fallow Blocks described in Appendix A.

The description included in this appendix is based upon revised guidance published in July 2005. Details of the arrangements in operation prior to this date may be found on the [DT website](#).

Definitions

1. A discovery is any well where hydrocarbons were encountered. Multiple horizons are treated as a single discovery.
2. Fallow discoveries are those discoveries where the initial term (normally 6 years) has expired and there has been no 'Significant Activity' such as appraisal drilling, dedicated seismic acquisition, extended well testing, or other substantial dedicated activity for a period of 3 years.
3. Fallow discoveries are divided into two classes:

Fallow A: those discoveries where the current licensees are doing all that a technically competent group with full access to funding could reasonably be expected to do(3).

Three Fallow A sub-classes exist:

- '**Linked**' Fallow A for a discovery where it can be demonstrated there is ongoing significant linked and approved investment in an area (exploration or development) and the discovery is explicitly included in this investment plan. Examples of such linkage could include 1) clustered (within the same or adjacent blocks) discoveries or leads which need completion of further planned exploration activity to enable development, 2) a discovery in close proximity to a new or existing development which is actively included in the wider field plans.
- '**Stranded**' Fallow A which could include situations where there is a lack of infrastructure or viable ullage (e.g. WOB) or where adequate technology does not exist e.g. technically-challenged HPHT, heavy oil opportunities, ultra tight gas etc.
- '**Active**' Fallow A where a discovery is newly fallow and where Significant Activity has been pledged but has yet to be fulfilled.

Fallow B: a fallow discovery in which the current licensees are unable to progress towards activity due to misalignment within the partnership, a failure to meet economic criteria, other commercial barriers or a combination of these.

4. Any fallow discovery (or exploration potential) vertically underlying or overlying an existing development will be considered under the [Stewardship Process](#) rather than Fallow.
5. DTI will seek to ensure that only those fallow discoveries that have some development potential will be included in the fallow discovery process. Accordingly companies will be encouraged to agree that any discoveries without development potential are removed from the process and the acreage treated as fallow blocks.

Fallow Discoveries Process

During the first quarter of each year, in conjunction with the Fallow Blocks process, DTI will produce a listing of all discoveries it considers fallow (either A or B) and will send the list to all relevant licensees inviting their views on the proposed classification. Following appropriate dialogue, DTI will make a final classification that will be communicated to licensees along with any requisite explanations.

Fallow A Discoveries:

1. Any Linked Fallow A discovery will need to be part of an agreed, and financially approved, nearby exploration or development activity plan. This detailed activity plan, which may be longer than the normal 2-year Fallow B process, must ultimately lead to the delivery of Significant Activity on the fallow discovery. Should the agreed associated activity plan not be executed or, on completion, fail to help deliver a firm Significant Activity plan on the fallow discovery, then, unless agreed otherwise with DTI, the discovery will be relinquished after a further period of 6 months (to allow time for divestment). In the case of divestment, any incoming licence group would be required to deliver a funded activity plan within 3 months of the sale being agreed or the discovery will be relinquished.
2. All Fallow A discoveries will be posted on the DTI website (along with agreed reasoning for the classification) and will be reviewed on an annual basis to check progress against plans and to assess whether the classification remains appropriate.

Fallow B Discoveries:

4. Following classification there is a 3-month period during which licensees are encouraged to present any activity plans or re-allocation of interests that might help facilitate taking the discovery out of Fallow status. If this is not forthcoming then the discovery will be posted as Fallow B on the DTI web site (along with an agreed reasoning for the classification). This date will be deemed the "release date".
5. For the 2 years that a discovery is listed as Fallow B on DTI's web site, licensees are free to market the asset as they see fit and will ensure that any data of release age is available to third parties through normal release channels (as per well and seismic release guidelines). Where appropriate, Fallow B discoveries may be presented at the annual PESGB/DTI Prospect Fair.
6. After 21 months of being a released Fallow B discovery, licensees and interested third parties should report to DTI any plans for proposed Significant Activity. Any licensee without a firm activity plan at that time will assign its interest and any agreed remaining liabilities to any co-licensees or third parties with a firm plan if requested by them to do so. Where two or more parties are competing for the equity then the choice would be made on normal commercial criteria.
7. If Significant Activity is planned and agreed but has not yet taken place, then the discovery will temporarily be re-categorised as Fallow BR (Rescued) until completion. The Significant Activity should take place within 1 year of the activity plan being agreed (allowing for extenuating circumstances).
8. Following completion and agreement with the DTI that Significant Activity has taken place, the discovery will be deemed not fallow and treated as such for 3 years.
9. Where no satisfactory Significant Activity plan is agreed by the end of the 2-year Fallow B period or an agreed plan has not been executed, then the licensees will relinquish the acreage containing the fallow discovery. In such cases licensees will propose and agree with DTI a defined geographic area and, in justifiable cases, a stratigraphic interval around the discovery.

10. Relinquished discoveries will be made available in the next Licensing Round. licensees will ensure that released data relating to the discovery is made available promptly and listed on DEAL.
11. Prior to relinquishment, licensees will agree to fully abandon any wells and have removed any suspended wellheads by a specified time. Assignment of these obligations may occur at the time of assignment of equity in the discovery to the co-licensees or third parties.
12. The industry will continue to introduce its remaining multi-well discoveries into the fallow process in the currently agreed manner.

Change of Interest

1. Where Fallow B discoveries are assigned, divested, farmed out, or the operator changes within the initial 3 month pre-release phase or during the 2 year Fallow B period, any new licence group will be expected to deliver a plan and fulfil activity in a timeframe as close as is reasonably possible to that which would have been the case had no change in interest or operatorship occurred. To facilitate this, current owners should make best efforts to market Fallow B discoveries in a manner that will give new owners reasonable time to develop an activity plan ready for submission to DTI at the 21 month review point.
2. If a sale is only agreed within the final 3 months of the 2 year Fallow B period then the new licence group must, at that time, provide assurance to DTI that a firm plan of activity will be forthcoming within a further 3 months. In the event of this not materialising then the discovery will be relinquished.

Phasing In

1. New and existing Fallow A&B discoveries (including those with no activity plan which have been through the process and continue to be held by the original owners) will be reviewed with licensees during 2005 to ensure the classification and process is in accordance with these revised procedures. This may for example include moving some existing Fallow A or B discoveries across into the new 'Linked' Fallow A classification.
2. Remaining released Fallow B discoveries (from 2002 – Jan 2005) will be relinquished at the end of 2006 should no firm activity plan be forthcoming. DTI will seek relinquishment of fallow discoveries before the end of 2006, particularly where they have already been through or are a significant way through the release process.
3. The full process described here will apply for Fallow B discoveries released in January 2006.

Median Line Discoveries

Fallow Discoveries adjacent to Median Lines will be brought into the process while fully recognising inter-government and cross border licence implications and the need to maintain the National and UK licence interests.

DTI Regulatory Position

If it appears to DTI at any stage in the process that there is a firm activity plan that is not being progressed on a commercial basis, the DTI will consider using its powers under the PSPA to require the licensees to undertake activity to establish commercial viability or forfeit the licence (or part thereof).

Right of Appeal

DTI recognises this is a voluntary process and will apply the rules in a fair and reasonable manner. Where companies feel their case has not been fully understood or the rules are not being applied properly or are producing an unreasonable outcome, they should raise these concerns for review with senior DTI officials.

Fallow Discovery Classes

- A1** “Doing all that can be expected” is assigned to discoveries that have technical challenges that need a significant breakthrough to progress appraisal or development (e.g. heavy oil, HPHT, West of Shetland stranded gas.)
- A2** “Wells AFE'd” is assigned when there is a firm plan for a well on the discovery, with the effective date being the date on which the AFE for the well was signed.
- A3** “Proprietary Seismic AFE'd” is assigned when there is a firm plan for proprietary seismic over the discovery, with the effective date being the date of acquisition of the seismic.
- A4** “Seismic Reprocessing 2 year review” is assigned if a significant reprocessing effort is initiated to delineate the discovery (usually only a large Pre-stack depth migrations). The effective date of the classification being the date of receipt of the seismic data for reprocessing.
- A5** “Seismic Reprocessing 1 year review” is assigned when there has been a new significant reprocessing product to delineate the discovery delivered within the last year. The effective date of the classification being the date of receipt of the seismic data for reprocessing.
- A6** “Infrastructure full or none available” is assigned when all the technical work has been completed, but appraisal drilling or development is deferred because export routes are currently full or not available.
- A7** “FDP in preparation” is assigned where a development plan for a discovery is in preparation with the effective date being the date of receipt by the DTI of the development plan.
- A8** “Sub-economic” (from class B) is used for fallow discoveries for which no firm strategy has been proposed to develop or appraise after they have been published for a period of 18 months and where an economic test has not established commercial viability. These discoveries will be reviewed again after two years.
- A9** “Median Line issues” is occasionally assigned to discoveries that have commercial or Treaty issues that have delayed appraisal or development activity.
- M** “Moratorium” Moratoria for either operator or substantial licensee change (greater than 20%) will only apply to newly Fallow discoveries and not to those that have already entered the Fallow process and been formally classified. Moratoria will not normally be given where there has been a change in operator as a result of a corporate takeover or merger but only where the change in operatorship has been on an asset specific basis. However, if the personnel working on the assets are not taken over by the new operator, a Moratorium may be considered appropriate.
- Moratoria will commence from the earliest of either the date of DTI approval of an asset transfer or the effective date of the transaction.
- BH** “Class B Hold” is assigned when an agreed asset transfer could result in a new operator, who requires additional time to assess their strategy for activity on a Class B discovery. These discoveries are held from release onto the website, but must have a firm programme for activity (supplied within a month of the transfer by the new operator) over an agreed time frame with the Department.

When the programme for activity is agreed, the discovery will be retained as (BH) until there is a signed AFE for significant activity to take place. Failure to implement the programme will result in the discovery being put onto the website immediately for two years.

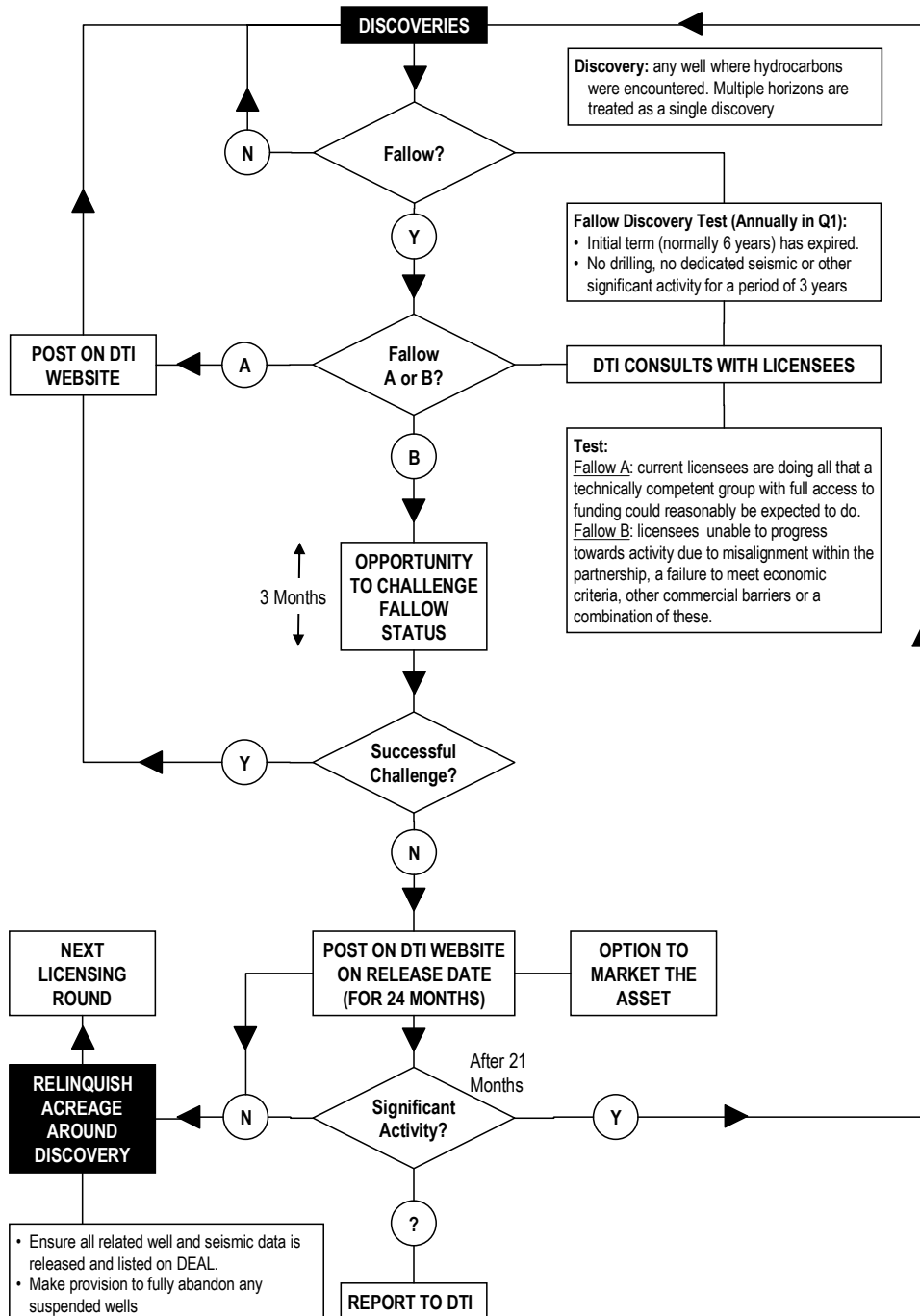
- BR** “Class B Rescued” applies to a discovery which has already been publicised on the web, but when an agreed asset transfer could result in a new operator, who requires additional time to assess their strategy for activity on a Class B discovery. These discoveries are removed from the website, but must have a firm programme for activity (supplied within a month of the transfer by the new operator) over an agreed time frame with the Department.

When the programme for activity is agreed, the discovery will be retained as (BR) until there is a signed AFE for significant activity to take place. Failure to implement the programme will result in the discovery being put onto the website immediately for the remainder of the two year period from the date it was given (BR) status.

- B1** “No activity” is assigned when there is no apparent work being carried out on a discovery.
- B2** “Low level activity” is assigned when there are ongoing studies but no significant activity on a discovery.
- B3** “Delayed by partner misalignment” is assigned when a licensee or the operator has proposed a plan for significant activity, but the group has not approved expenditure.
- B4** “Delayed by third party issues” is assigned when the licensees are in alignment but there is a commercial obstacle that has delayed activity.
- B5** “Delayed by infrastructure issues” is assigned when the licensees are in alignment but there are infrastructure related commercial obstacles that have delayed activity.
- B6** “Divestment planned” is assigned when the operator’s or other licensee’s strategy to market their interest in the discovery has delayed appraisal or development.
- B7** “Non-economic accumulation” is assigned when the discovery has been fully evaluated, but the licensees believe it has no economically viable prospectivity.
- N1** “Not Fallow - Relinquished” is assigned when a discovery is located on a block that has been relinquishment and is updated in the Department Licensing database. The list of relinquished blocks is updated regularly on the DTI website.
- N2** “Not Fallow - New proprietary seismic” is assigned when new proprietary seismic data appraising the discovery has been acquired. This class is not used for Fallow B discoveries that have been published; instead these are placed in class A3 for a period of two years from the date the acquisition began.
- N3** “Not Fallow - Well drilled” is assigned when a well appraising the discovery is drilled. The discovery will be not fallow for a period of four years from spud date. This class is not used for Fallow B discoveries that have been published; instead these are placed in class A2 for a period of two years from the spud date.
- N4** “Not Fallow - FDP or new production” is assigned when the Department receives a Field Development Plan for a discovery. This class is not used for Fallow B discoveries that have been posted on the website; instead these are placed in class A7 for a period of two years from the date of receipt of the Field Development Plan. If the Field Development Plan is withdrawn, the discovery becomes potentially fallow immediately.
- [N5** “Not Fallow - limited exploration area” is only used for fallow blocks.]

- N6** “Not Fallow - licence in primary term” is assigned when a previously fallow discovery is relinquished and the block is subsequently re-licensed.
- R** “Relinquishment notice submitted” is assigned when the Department receives a request for relinquishment of the block containing the discovery, or occasionally when an operator has indicated that a request for relinquishment is in preparation. Discoveries are not given N1 status at this time as the licensees are at liberty to withdraw a notice of relinquishment (or amend it) up to a month before the anniversary date or the date that the DTI has indicated a relinquishment should be notified.

FALLOW DISCOVERIES PROCESS



SUMMARY OF PAST (PRODUCTION) LICENCE ROUNDS

Appendix C

Round	Year of Round	Blocks offered	Blocks applied for	Blocks awarded	Applics	Licences Granted	Licence numbers	Licence terms (years)	Next licence event as determined by licence provisions at issue
1	1964	960	394	348	31	53	P001-P053	6+40	Expires September 2010
2	1965	1102	127	127	21	37	P054-P090	6+40	Expires November 2011
3	1970	157	117	106	34	37	P091-P127	6+40	Expires June to September 2016 and October 2017
4	1971-2	436	286	282	259	118	P128-P245	6+40	Expires December 2017 to March 2018
5	1976-7	71	51	44	53	28	P259-P286	4+3+30	Expires November 2014 to August 2016
6	1978-9	46	46	42	55	26	P297-P322	4+3+30	Expires July 2016 to July 2017
7	1980-1	395	97	90	125	91	P325-P415	6+30	Expires December 2016 to October 2017
8	1982-3	184	84	70	60	55	P417-P471	6+30	Expires January 2019 to May 2019
9	1984-5	195	120	93	149	89	P477-P565	6+30	Expires January 2021 to June 2021
10	1986-7	127	61	51	75	51	P566-P616	6+30	Expires June 2023
11	1988-9	212	115	115	125	105	P617-P721	6+12+18	End of second term July 2007
12	1990-1	161	116	107	115	74	P722-P795	6+12+18	End of second term July 2009
13(b)	1990-1	117	66	66	13	6	P796-P801	9+15+24	End of second term July 2015
14	1992-3	484	128	110	97	79	P803-P881	6+12+18	End of second term March to July 2011
15	1994	81	34	29	25	20	P882-P901	6+12+18	End of second term September 2012
16	1994-5	164	82	79	61	45	P902-P946	6+12+18	End of second term July 2013
17	1996-7	275	127	114	32	25	P948-P972	3+6+15+24	Variable relinquishment 2006(c)
18	1998	602	82	78	43	47	P975-P1021	6+12+18	50% relinquishment December 2004
19	2000-1	44	12	12	13	8	P1023-P1030	6+12+18	50% relinquishment June 2007
20	2002	289	36	36	29	25	P1039-P1063	4+4+18	50% relinquishment July 2006
21	2003	611	211	138	70	89	P1064-P1152	4+4+18	50% relinquishment September 2007
22	2004	1039	164	162	76	96	P1159-P1254	(d) 2+4+6+18 (e) 4+4+18	(d) 75% relinquishment December 2006 (e) 50% relinquishment December 2008
23	2005	1329	274	259	135	151	P1254-P1404	(d) 2+4+6+18	(d) 75% relinquishment December 2007 (e) 50% relinquishment December 2009
24	2006								

Notes:

(b) Frontier Round; (c) One third relinquishment if two or more wells drilled; two thirds if only one well drilled; all if no wells drilled; (d) Frontier licences; (e) Other licences