



Oil & Gas  
Authority

# Response to the consultation on the proposed changes to model clauses for seaward production licences

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Consultation response  
21st April 2017

This response can be found on the OGAs website:

[www.ogauthority.co.uk/](http://www.ogauthority.co.uk/)

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Enquiries to:

Mike Hawkins

Oil and Gas Authority

21 Bloomsbury Street

London

WC1B 3HF

Tel: 0300 067 1637

Email: [oilandgaslicensing@ogauthority.co.uk](mailto:oilandgaslicensing@ogauthority.co.uk)

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# General information

## Purpose of this consultation

The Oil and Gas Authority (OGA) conducted a consultation between 21 November 2016 and 6 January 2017 on the proposal to the Secretary of State for Business, Energy and Industrial Strategy (BEIS), to change the Model Clauses for Seaward Production Licences. These changes will introduce a single type of Seaward Production Licence that provides flexibility to suit all potential applicants for Seaward Production Licences.

Several other changes to Seaward Production Licences were also proposed, as detailed in this Consultation Document. The changes to the Model Clauses are proposed to apply for the 30th Seaward Licensing Round onwards.

The OGA sought the views of the offshore oil and gas industry and other interested stakeholders.

## Response issued: 21st April 2017

**Territorial extent:** The offshore petroleum-licensing regime, including the Model Clauses for Seaward Production Licences, has UK extent. Seaward Production Licences are awarded for areas in the UK's territorial waters and the UK Continental Shelf.

## Additional copies

Other versions of the document in Braille, large print, audio or Welsh can be made available on request. Please contact us using the 'enquiries' details to request alternative versions.

## Quality assurance

This consultation has been conducted in line with the government's consultation principles.

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

OGA Consultation Co-ordinator  
Oil and Gas Authority  
21 Bloomsbury Street  
London  
WC1B 3HF

Email: [matthew.garland@ogauthority.co.uk](mailto:matthew.garland@ogauthority.co.uk)

## Introduction

This document sets out the OGA's response to the consultation on the OGA's proposal to the Secretary of State for Business, Energy & Industrial Strategy (BEIS) to change the Model Clauses for Seaward Production Licences.

The consultation conducted between 21 November 2016 and 6 January 2017 sought comments on proposal to the Secretary of State for change the Model Clauses for Seaward Production Licences. Changes to the Model Clauses are proposed to fully introduce a single type of Seaward Production Licence that provides flexibility to suit all potential applicants for Seaward Production Licences.

The consultation also proposed other changes to Seaward Production Licences, which are intended to clarify the Model Clauses and simplify their administration as detailed further in the Consultation Document. The changes to the Model Clauses are proposed to apply for the 30th Seaward Licensing Round onwards.

# Response to the consultation

## List of Questions raised in the Consultation

- Q1. Do you have any comments on the proposed changes to introduce the Innovate Licence concept in full, as described under 'Further Proposed Innovate Changes'?
- Q2. Do you have any comments on the proposed change to the definition of the licence's commencement date, as described under 'Other Proposed Changes'?
- Q3. Do you have any comments on the proposed flexibility regarding termination in the final term, as described under 'Other Proposed Changes'?

The OGA received responses from Oil and Gas UK and The Oil and Gas Independents' Association (OGIA), which are trade associations that had consulted their membership and sent aggregate responses. Between them they represent a large majority of offshore licensees. Oil and Gas UK stated that it was transmitting responses from ten operator/licensee members and one first tier contractor. In addition, two companies sent separate responses: Nexen Petroleum UK Ltd and Xcite Energy Resources plc.

All responses were received by e-mail to [oilandgaslicensing@ogauthority.co.uk](mailto:oilandgaslicensing@ogauthority.co.uk).

## Summary of responses

### Q1. Do you have any comments on the proposed changes to introduce the Innovate Licence concept in full, as described under 'Further Proposed Innovate Changes'?

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Three respondents commented on this proposal and all supported the proposal.

Two respondents asked what kind of commitment would be needed to move from one phase to another. **OGA response:** The commitment envisaged by the OGA is nothing novel. It would be simply a written commitment to the OGA to carry out the next part of the Work Programme, such as has been part of the licensing system for many years in the case of 'drill-or-drop' work programmes.

One respondent proposed safeguards on the amendment of licences to prevent the OGA from imposing increased burdens on licensees against the will of the licensee. **OGA response:** Companies need have no concern that the OGA will be able to use this mechanism to increase burdens on licensees. The consultation proposed a mechanism by which "the licensee may propose, and the OGA may agree" an amendment, so the OGA cannot impose changes other than those proposed by the licensee itself.

Two respondents stressed the need for clarity in the drafting of work programmes, and one said it could be unclear whether a drilling commitment required the start or the finish of drilling. **OGA response:** The OGA agrees that work programmes should be clear and objective. If an agreed commitment includes, not only the drilling of a well, but also its evaluation, then it will specify the evaluation that is required; if the commitment is just to drill by a particular date then it will say so. The OGA also agrees that it should be clear what “drill” means; for example, whether it means to spud a well or to complete it.

One respondent stressed the need for flexibility in deciding whether the work programme has been completed, and suggested that (a) individual elements of work programmes should include additional wording along the lines of “...has completed...the work programme or equivalent substantive evaluation.....” and that (b) continuation of the licence after the end of a phase should depend only on a commitment to complete the next phase, not on completion of the work programme thus far. **OGA response:** Even after award of a licence, the need for a certain amount of pragmatic flexibility has always been recognised by the OGA and its predecessors to accommodate new information and the external factors that may impinge upon a company’s plans. That said, however, where the OGA awards a licence on the basis of commitments to do work, during a particular Phase, it will not continue into a subsequent Phase/Term unless that work is carried out (or unless the OGA exceptionally agrees otherwise). Both licensee and the OGA require the work programme to be defined objectively and clearly, and the OGA does not propose to include such subjective terms as “or equivalent substantive evaluation” in any work programme.



## **Q2. “Do you have any comments on the proposed change to the definition of the licence’s commencement date, as described under ‘Other Proposed Changes’?”**

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Three respondents commented and all supported the proposal. Some stressed that the formula can be simplified to the date of execution (as was foreshadowed in the Consultation). **OGA response:** That is the formula that the OGA will propose.

## **Q3. Do you have any comments on the proposed flexibility regarding termination in the final term, as described under ‘Other Proposed Changes’?**

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Two respondents supported the proposal; the other two neither supported nor opposed it. There were also comments about the need for the OGA to continue to show flexibility. However, the OGA has concluded that amending the current provisions would deliver minimal additional benefit to the principal objective of maximising economic recovery of UK petroleum (MER UK) beyond what can be delivered by its existing powers, including the provision in the current model clauses for extension of the licence’s duration. The OGA has therefore decided not to pursue this proposal at this time.

## Next steps

### **Introduction of the Innovate Model Clauses**

The Secretary of State for BEIS will be presented with the changes proposed in the consultation. Regulations, subject to Ministerial approval and Parliamentary process, will implement these changes. Any Seaward Production licence issued in the 30th Seaward Licensing Round and subsequently would then (except where modified in particular cases) incorporate the Model Clauses as amended accordingly.

# Regulatory Impact Assessment and Equality Impact Assessment

The proposed changes to the Model Clauses are not expected to result in increased costs to business. With the aim of contributing towards the principal objective of maximising economic recovery of UK petroleum, the intention is to provide flexibility for all potential applicants for Seaward Production licences and to simplify the current arrangements.

The OGA has a general duty under the Equality Act 2010 in carrying out its functions to have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation
- advance equality of opportunity between different groups
- foster good relations between different groups

Further details can be found at:  
[www.equalityhumanrights.com/en/equality-act/equality-act-2010](http://www.equalityhumanrights.com/en/equality-act/equality-act-2010)

## Annex 1: Respondents to the Consultation

Oil companies	Trade associations
Xcite Nexen	Oil and Gas UK OGIA



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