



Oil & Gas
Authority

Engagement on proposals to revise the MER UK Strategy

Consultation workshops

17 & 24 June 2020

Introduction



In drawing up the obligations imposed by this Strategy, regard has been had to the following high-level principles:

- a. relevant persons are obliged to maximise the expected net value of economically recoverable petroleum from relevant UK waters, not the volume expected to be produced;
- b. to assist the Secretary of State with meeting the net zero target, and support investment in relevant activities, the OGA encourages and supports industry to be proactive in identifying and taking the steps necessary to reduce their greenhouse gas emissions as far as reasonable in the circumstances;
- c. that, to enable maximising economic recovery of petroleum, relevant persons should consider their social licence to operate, and develop and maintain good environmental, social and governance practices in their plans and daily operations;
- d. compliance with the Strategy is intended to lead to investment and operational activities that, on an expected basis, add net value overall to the UK;
- e. compliance with this Strategy may oblige individual companies to allocate value between them, matching risk to reward. However, while the net result should deliver greater value overall, it will not be the case that all companies will always be individually better off;
- f. compliance with this Strategy will not lead to any individual company investing in a project or operating existing assets where there is not a satisfactory expected commercial return on that investment or activity. Such a return does not necessarily mean a return commensurate with the overall corporate return on their portfolio of investment, e.g. a low risk investment could give low returns;
- g. in determining whether something is consistent with the obligations in this Strategy the OGA will need to balance the benefit of economic recovery of petroleum with the need to maintain the confidence of new and current investors to invest in exploration and production of petroleum from relevant UK waters, taking into account market conditions at the time of making its determination; and,
- h. that holders of an offshore licence must still comply with their licence and other regulatory obligations, including the execution of all operations in a proper and workmanlike manner in accordance with methods and practice customarily used in good oilfield practice.



1. This Strategy is drafted, in accordance with section 9A of the Petroleum Act 1998, to enable the principal objective established in that section to be met.

In drafting this Strategy, the OGA has had regard to, among other things, how the Secretary of State may be assisted in meeting the net zero target.

To that end, this Strategy sets out a Central Obligation, binding on relevant persons. In order to secure the effective delivery of the Central Obligation, this Strategy also sets out Supporting Obligations and Required Actions, which are as binding as the Central Obligation, and a number of Safeguards.

The Supporting Obligations clarify how the Central Obligation applies in certain circumstances and the Required Actions are obligations which apply to relevant persons when carrying out the Central Obligation and Supporting Obligations, all of which must be read subject to the Safeguards.

As set out in sections 9B and 9BA of the Petroleum Act 1998, the OGA and Secretary of State must act in accordance with this Strategy when exercising their defined functions. That the OGA or the Secretary of State are not in the definition of relevant person is not intended to change this.

2. Relevant persons must, in the exercise of their relevant activities, take the steps necessary to:

- a. secure that the maximum value of economically recoverable petroleum is recovered from the strata beneath relevant UK waters; and, in doing so,
- b. take appropriate steps to assist the Secretary of State in meeting the net zero target, including by reducing as far as reasonable in the circumstances greenhouse gas emissions from sources such as flaring and venting and power generation, and supporting carbon capture and storage projects



(1 of 3)

Development

Proposed new references to the net zero target, and CCS project considerations - in relation to the planning, construction and use of infrastructure.

Asset Stewardship

Proposed new provisions to require relevant metering and measuring activities are undertaken; and infrastructure is maintained to achieve optimum levels of performance.

Proposal to add requirement that infrastructure is maintained and operated so it may achieve optimum potential for future re-use or re-purpose.

(2 of 3)

Technology

Proposed revisions to clarify relevant persons should also ensure that existing, emerging and new technologies are developed and deployed to their optimum effect including for the purposes of reducing emissions; enabling the planning and development of CCS projects; and enabling projects relating to hydrogen supply to be planned for and developed.

Decommissioning

Proposals to clarify that relevant persons must ensure and be able to demonstrate that all continued or alternative uses for infrastructure, including for CCS have been considered.

(3 of 3)

Carbon capture and storage

22. Relevant persons must have regard to carbon capture and storage projects when complying with their obligations under this Strategy including:
- a. collaborating with those persons planning and carrying out carbon capture and storage projects;
 - b. negotiating access to infrastructure for carbon capture and storage projects in a timely fashion and in good faith; and,
 - c. permitting access to the relevant infrastructure to be used for the carbon capture and storage projects on fair, reasonable and non-discriminatory terms.

Plenary discussion 1

Feedback on proposed net zero changes



(1 of 4)

Corporate Governance

3. The licensee of an offshore licence, and where applicable the joint ventures in which they engage, must apply good and proper governance at all times, including complying with any principles and practices as the OGA may from time to time direct.
4. The licensee of an offshore licence must comply with a direction made by the OGA under paragraph 3 above.



(2 of 4)

Exploration

Proposed amendments relating to clarify that exploration also applies to other related licence activities, including seismic and other data acquisition and use, throughout the lifecycle of a project.

Proposal to require that licensees inform the OGA as soon as they become aware that they consider they will be unable to make a satisfactory expected commercial return

Asset Stewardship

Proposal that access should also be allowed on non-discriminatory terms, that such access should be negotiated in a timely fashion and in good faith.



(3 of 4)

Technology

Proposed clarification to address a minor inconsistency in the MER Strategy that the OGA does not need to create a Technology Plan to give effect to the technology obligations.

Decommissioning

Proposed clarification that the cost effective decommissioning of infrastructure should not prejudice the re-use or re-purposing of all viable options for that infrastructure's continued use.

OGA Plans

Proposed clarification that relevant persons must demonstrate to the OGA that their alternative OGA Plan meets the Strategy obligations.



(4 of 4)

Collaboration

Proposal to move the collaboration requirement from Behaviours and Actions section to Supporting Obligations.

21. Relevant persons must:

a. collaborate and co-operate with:

- i. other relevant persons;
- ii. persons seeking to acquire an interest or invest in offshore licences or infrastructure in a region; and,
- iii. persons providing goods or services relating to relevant activities in order to support the delivery of such activities on time and on budget; and,

b. co-operate with the OGA.

Timing

Minor change to clarify that all obligations must be complied within a timely fashion

Cost Efficiency

Proposed revisions emphasise: full lifecycle costs include both decommissioning and the re-use and/or re-purposing of infrastructure; costs should be incurred in the most cost-efficient way; and inclusion of cost efficiency benefits assessments as part of CCS considerations.

Actions where relevant parties decide not to ensure MER

Clarification that relevant persons seeking to divest a licence or infrastructure should provide all relevant information and data to bona fide persons.

Proposed clarification that, where relevant persons are required to secure investment, that may include allowing others to undertake such investment as a sole risk project.

32. No obligation imposed by or under this Strategy permits or requires any conduct which would otherwise be prohibited by or under:

- a. any legislation, including legislation relating to competition law, health, safety or environmental protection;
- b. licence obligations; or
- c. the common law, including the OGA's duty to act reasonably.

Proposed revisions

“**Economically recoverable**” in relation to petroleum means those resources which could be recovered at an expected (pre-tax) market value greater than the expected (pre-tax) resource cost of their extraction, where costs include both capital and operating costs (including carbon costs) but exclude sunk costs and costs (such as interest charges) which do not reflect current use of resources. In bringing costs and revenues to a common point for comparative purposes a 10% real discount rate will be used;

“**Region**” means any area within relevant UK waters or in which infrastructure relating to exploration and production of petroleum from relevant UK waters is, or is planned to be, located;

Proposed new definitions

“**Carbon capture and storage project**” means any project relating to the capture, transportation or storage of carbon dioxide (including if only at the appraisal stage), or where there is a reasonable prospect of any such project being developed;

“**Net zero target**” means the net UK carbon account for the year 2050, as set out in section 1 of the Climate Change Act 2008 (as amended);

“**Relevant activities**” means the activities and/or actions as the context provides which relevant persons are obliged by section 9C of the Petroleum Act 1998 to exercise in accordance with this Strategy;

“**required actions**” are the actions set out in paragraphs 23 to 30

“**subsurface facilities**” include wells, reservoirs and fields

We have included an initial, high-level assessment of the potential impacts on business from the implementation of the proposed revisions to the Strategy.

The proposed revised Strategy sets out a number of new or amended Obligations that would apply to all situations which may occur in the UKCS.

Please respond to the consultation with as much detail if you think the revisions will lead to material costs or result in material benefits to relevant persons or others.

Next Steps

Please can you submit your formal response to [consultation](#) to strategyconsultation@ogauthority.co.uk by **29 July 2020**

The OGA to present the revised Strategy to the BEIS Secretary of State in the autumn.



Plenary discussion 2

Feedback on other proposed changes