



North Sea
Transition
Authority

Innovate Seaward Production Licences: Guidance on Phase Transition in the Initial Term

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Enquiries to:
North Sea Transition Authority
21 Bloomsbury Street
London
WC1B 3HF

Email: correspondence@NSTAuthority.co.uk

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Introduction

1. The Oil and Gas Authority ('**OGA**') is now operating as the North Sea Transition Authority ('**NSTA**') and will be referred to as the NSTA in this document. The OGA remains the legal name of the company, and all licences and other legal documentation will continue to refer to the OGA.
2. The Innovate Seaward Production Licence ('**Innovate Licence**') structure was introduced by the OGA in the 29th Offshore Licensing Round but only fully implemented in the 30th Offshore Licensing Round¹. Licences have been awarded in this format since. The Innovate Licence replaced the previous seaward production licence types such as 'Traditional' (generally with a four-year initial term), 'Frontier', and 'Promote'.
3. The general terms and conditions of the Innovate Licence are set out in the *Petroleum Licensing (Production) (Seaward Areas) Regulations 2008* as amended by the *Petroleum and Offshore Gas Storage and Unloading Licensing (Amendment) Regulations 2017* – the **Innovate Model Clauses**.
4. The Innovate Licence comprises three Terms:
 - **Initial Term** for carrying out the Exploration Work Programme
 - **Second Term** for appraisal and obtaining Development and Production Consent² (including the submission of a Field Development Plan)
 - **Third Term** for development and production.
5. The Initial Term can comprise either one, two or three Phases, each with its own Work Programme:
 - **Phase A** is a period for carrying out geotechnical and other studies, and obtaining and/or reprocessing geophysical data;
 - **Phase B** is a period for undertaking new shoot seismic surveys and acquiring other geophysical data; and
 - **Phase C** is for drilling a well.
6. The Innovate Licence can be applied to any offshore area and gives the applicant greater flexibility in defining the content of the Initial Term work programme ('**Work Programme**') and the duration of the Initial Term Phases.
7. When applying for an Innovate Licence with an Initial Term³, the applicant can elect to start the Initial Term at any Phase - A, B or C and, if starting with Phase A or B, with a sequential combination of Phases A+B+C, A+C or B+C. The only requirement is that every Initial Term must include a Phase C.
8. This document provides general guidance on the matters to be considered in relation to the continuation – or, in this guidance, 'transition' - of the

¹ The Licence Model clauses were modified for the 29th Round but only fully updated from the 30th Round onwards

²

https://www.nstauthority.co.uk/media/6099/fdp_guidance_requirements-document-oct_update-2019v2.pdf

³ In certain circumstances, an applicant may wish to apply for a 'straight to second term' licence, if it is considered that there is no need for additional exploration work.

Innovate Licence through the Initial Term Phases.

9. This guidance summarises a number of the obligations on a licensee and the NSTA's expectations and processes for Initial Term Phase transitioning as set out in the Innovate Model Clauses⁴ and a number of published NSTA guidance and other documents, including:
- General and Technical Guidance issued at the opening of Offshore Licensing Rounds⁵
 - Stewardship Expectation SE02-Delivering Exploration and Appraisal Work Programmes ('SE02')⁶
 - Guidance on the management of offshore licence work programme commitments⁷
 - Financial Guidance⁸
 - The OGA Strategy⁹

but does not replace the Innovate Model Clauses, guidance or other documents. Licensees must ensure that they are aware of the obligations and other expectations on them whether under the terms of such documentation or otherwise

10. The NSTA is not bound by this guidance and where it departs from this guidance it will explain why. This guidance is not a substitute for any regulation or law and is not legal advice.
11. The guidance will be kept under review and may be revised as appropriate in the light of further experience and developing law and practice, and any changes to the NSTA's powers and responsibilities. If the NSTA changes this guidance in a material way, it will publish a revised document

⁴ Petroleum Licensing (Production) (Seaward Areas) Regulations 2008 as amended by the Petroleum and Offshore Gas Storage and Unloading Licensing (Amendment) Regulations 2017
⁵ <https://www.nstauthority.co.uk/media/5889/technical-guidance-32nd-seaward-licensing-round-june-2019.pdf>

⁶ https://www.nstauthority.co.uk/media/6034/NSTA_se2_ework_programmes_july_2019.pdf

⁷ <https://www.nstauthority.co.uk/media/4526/firm-wells.pdf>

⁸ <https://www.nstauthority.co.uk/media/5003/financial-guidance-august-2018.pdf>

⁹ The revised Strategy - [the-OGA-strategy.pdf](https://www.nstauthority.co.uk/media/5003/the-oga-strategy.pdf) (nstauthority.co.uk) - came into force on 11 February 2021

Basic Principles

12. The following principles form the foundation of the NSTA's approach to Initial Term Phase transitions:

- The Work Programme for the current Phase is a *firm* commitment, unless otherwise specified in Schedule 3 of the Licence. Licensees should refer to SE02 which supports the obligations set out in the OGA Strategy¹⁰ and describes how a licensee/operator may meet such obligations.
- Licensees have a contractual obligation (under the Licence) to complete the Work Programme for the current Phase before either transitioning into the following Phase or allowing the licence to automatically cease and determine. If the committed Work Programme is not fulfilled by the end of the Phase (or other earlier deadline), the NSTA has a number of regulatory powers available to it, to address any non-compliance, such as licence revocation and sanctions. See "[Guidance on the management of offshore licence work programme commitments¹¹](#)" (**'Work Programme Guidance'**) for further details.
- In order to transition into the next Phase, the licensee must make a *firm* commitment to undertake the work programme for the following Phase,

before transitioning into that Phase; otherwise, the Licence will automatically cease and determine at the expiry of the current Phase.

- As laid out in SE02, licensees are expected to notify the NSTA, in writing, at least three months before the end of the current Phase of their intention to either continue into the next Phase or allow the Licence to automatically cease and determine - provided in either case that the current work programme has been completed as referred to above in this paragraph 11.
- For licences transitioning into Phase C, Licensees are expected to have completed a 'Well Investment Engagement' with the NSTA (see SE02) at least three months before the end of the current Phase.
- As laid out in SE02, licensees who do not wish to continue into Phase C are nonetheless also expected to have completed a Well Investment Engagement with the NSTA before the current Phase expiry (or earlier relinquishment). This is to enable the NSTA to update its prospect database and to ensure proper Stewardship of the licence before determination.

¹⁰ <https://www.ogaauthority.co.uk/media/7105/the-oga-strategy.pdf>

¹¹ <https://www.nstauthority.co.uk/news-publications/publications/2021/updated-guidance-on-the->

[management-of-offshore-licence-work-programme-commitments-rev-20/](#)

Initial Term Phase Transitions

13. SE02 expects that the licensee will inform the NSTA at least three months before the end of the current Phase of the Initial Term, of their intention to continue into the next Phase (or into the Second Term) or allow the licence to determine.

Licences Transitioning from Phase A into Phase B

14. In accordance with the Innovate Model Clauses and SE02, for licences transitioning from Phase A into Phase B, the licensees are required to:

- i. confirm the Phase A work programme has been completed.
- ii. commit in writing, before the end of Phase A, to complete before the expiry of Phase B the Phase B work programme, thus converting the Phase B work programme into a *firm* commitment, and to provide details of work plans and timing. Licensees are expected to do so at least three months before the end of Phase A.

15. If the Phase B work programme includes a contingent obligation and the Licensees consider it is no longer necessary to carry out that contingent work as the conditions have been met, the Licensees should write to the NSTA at least three months before the end of Phase A to seek the NSTA's agreement. Note: it is at the NSTA's discretion whether it agrees the contingent Phase B

work programme need not be carried out.

16. If the NSTA agrees that the contingent Phase B work programme need not be carried out, the Licence will be allowed to continue into Phase B.

17. If the NSTA considers that the contingent Phase B work programme is required, the Licensee can either undertake before the end of Phase A to carry out the Phase B work programme and the Licence will be allowed to continue into Phase B, or elect not to continue into Phase B and allow the licence to automatically cease and determine at the end of Phase A.

18. If the Phase A work programme is not fulfilled before the end of Phase A (or any earlier specified deadline), the NSTA has a number of regulatory powers available to it to address any non-compliance, such as licence revocation and sanctions. See the Work Programme Guidance for further details.

19. Note that paragraphs 6 and 7 of the OGA Strategy¹² set out the Supporting Obligations regarding exploration activities and states in relation to an obligation to carry out a work programme:

- **paragraph 6-** *“The licensee of an offshore licence who has made a firm commitment to carrying out a work programme in respect of that licence must not surrender the licence or allow it to expire without first having*

¹² <https://www.ogauthority.co.uk/media/7105/the-oga-strategy.pdf>

- *completed the work programme as set out in the licence*"; and
- **paragraph 7-** *“Where the obligation in paragraph 6 does not apply because paragraph 33 applies, the licensee must:*
 - a. *inform the NSTA as soon as it becomes aware that this is the case; and*
 - b. *carry out a work programme of the same or a similar nature to the one set out in the licence or such other work programme as the licensee shall agree, with the NSTA, enables the Central Obligation to be met.”*

20. These obligations are subject to the Safeguards in the Strategy, including **paragraph 33** which states: *“No obligation imposed by or under this Strategy requires any person to make an investment or fund activity (including existing activities) where they will not make a satisfactory expected commercial return on that investment or activity”.*

Licences Transitioning from Phase A or B into Phase C

- 21.** In accordance with the Innovate Model Clauses and SE02, for licences transitioning from Phase A or B into Phase C, licensees:
- i. Are expected to confirm the current Phase work programme has been completed.
 - ii. Are expected, at least three months before the end of the current Phase,

to have completed a Well Investment Engagement with the NSTA.

- iii. Are expected, at least three months before the end of the current Phase, to commit in writing to the Phase C work programme, which must be completed before the expiry of Phase C, thus converting it into a *firm* Well Commitment. Details of plans and timings should be provided.
- iv. Must demonstrate financial capacity to complete the work programme (see the NSTA’s published Financial Guidance¹³).
- v. Must appoint, and have approved by the NSTA, a licence operator (application for approval submitted via the Energy Portal¹⁴).

22. Prior to drilling a well, licensees are also required to appoint a well operator to conduct the planning or execution of well operations in line with the **OSD Guidance**¹⁵ (regulation 5 of the Offshore Petroleum Licensing (Offshore Safety Directive) Regulations 2015). Note: licence operatorship and well operatorship are different, and both need to be in place to drill a well.

23. If the current Phase work programme is not fulfilled within the scheduled Phase time period, the NSTA has a number of regulatory powers available to it to address any non-compliance, such as licence revocation and sanctions. See the Work Programme Guidance for further details. Also see paragraphs 17 and 18 regarding the OGA Strategy obligations.

¹³ <https://www.nstauthority.co.uk/media/5003/financial-guidance-august-2018.pdf>

¹⁴ <https://www.nstauthority.co.uk/exploration-production/exploration/exploration-operatorship/>

¹⁵ <https://www.nstauthority.co.uk/licensing-consents/licensing-system/offshore-safety-directive/>

Other Matters

- 24.** There is no mandatory surrender of any part of the licensed area when transitioning between Phases. However, the NSTA will seek to discuss the licensee's progress at the time of request, including the potential surrender of acreage other than that actively being worked.
- 25.** There is a requirement for a mandatory relinquishment (usually 50% of the licensed area) to continue from the Initial Term into the Second Term.
- 26.** A well may be drilled earlier than specified in the Licence work programme. To drill a well in Phase A or B the licensee:
 - i. Is expected to confirm that the current Phase work programme has been completed or will be completed by the end of the current Phase.
 - ii. Is expected to have completed a Well Investment Engagement with the NSTA.
 - iii. Must demonstrate financial capacity to complete the work programme (see Financial Guidance).
 - iv. Must appoint, and have approved by the NSTA, a licence operator (application for approval submitted via the Energy Portal).
 - v. Must appoint a well operator to conduct the planning or execution of well operations in line with the [OSD Guidance](#) issued from time to time (regulation 5 of the Offshore Petroleum Licensing (Offshore Safety Directive) Regulations 2015). Note: licence operatorship and well operatorship are different, and both need to be in place to drill a well.

