

Hornsea Offshore Wind Farm

Project Two

Applications for production licences, general guidance, DECC 2014

Appendix Y to the Response submitted for Deadline VII

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APPLICATIONS FOR PRODUCTION LICENCES

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GUIDANCE FOR APPLICANTS

Companies who want to participate in the exploitation of the UK's oil & gas resources need (among other things) a Production Licence from DECC. Most licences are applied for, and issued, in regular Licensing Rounds.

This note is intended to be used as guidance for applicants and sets out how to complete, support and submit an application. The website (<https://www.gov.uk/oil-and-gas-licensing-rounds>) carries pointers to other useful information, including general information about the Licensing system and the availability of technical data.

This note offers general guidance about DECC policy and a high-level look at the process. It begins with a quick introduction, which is followed by a series of sections that go into more detail. There are separate guidance notes about environmental, technical and financial aspects of DECC's decisions. If you have any further queries, or need clarification of anything discussed here, there is a list of Contacts at the end.

- 1) Anyone who wants to explore for, drill for or extract oil or gas in the UK (except onshore Northern Ireland) must hold a licence issued under the Petroleum Act 1998 by the Secretary of State for Energy and Climate Change.
- 2) Applications for such licences can only be made in response to a formal invitation from DECC. We post these invitations in the Official Journal of the European Union, and advertise them prominently on the gov.uk website¹. Usually we issue general invitations in Licensing Rounds (onshore and offshore as announced), but exceptionally we may invite out-of-round applications for a very small area in response to a request from a company (for example on grounds of genuine urgency). The invitation will specify the acreage and the types of licence that are being offered.
- 3) Applications are made through DECC's Portal system called LARRY (the **L**icence **A**pplications **R**epository). Applicants will first need to get a Portal account, which is a quick and easy process. There is guidance² about gaining access to LARRY, elsewhere on this website.
- 4) There is an Application fee.
- 5) Depending on the type of licence applied for, DECC may assess the Applicant's operating competence (technical and environmental) and its financial capacity to carry out the Work Programme. Applicants who fall short of our criteria cannot be considered for the award of a licence.
- 6) DECC usually interviews applicants about their technical understanding of the acreage and the Work Programme offered (we always do so where there is competition for the same acreage). After interview, we mark each application against a Marks Scheme.
- 7) The Secretary of State has discretion in deciding whether or not to issue a licence; and if so, to whom and on what conditions. Usually a licence will be awarded to the Applicant with the highest mark. However, occasionally the Secretary of State may judge that the achievement of his policy will be best served by awarding the licence to a different applicant (see [How decisions are reached](#)). The guiding principle in reaching a decision will be the policy of maximising successful and expeditious exploration and exploitation of the UK's oil and gas resources.

¹ <https://www.gov.uk/oil-and-gas-licensing-rounds>

²

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/273693/LARRY_Industry_Guidance_v1.0.pdf

TYPES AND TERMS OF LICENCES

In spite of their name, Production Licences cover exploration, appraisal and production. Production Licences now come in five types, one of which is for the onshore and four for the offshore. The four types of offshore licence are designed to cater for different types of company and different situations.

8) Production Licences cover exploration and appraisal as well as production. Each one covers a relatively small area.

9) There are five types of Production Licence:

- The “Traditional” Seaward Production Licence;
- The “Promote” Seaward Production Licence;
- The “Six-Year Frontier” Seaward Production Licence;
- The “Nine-Year Frontier” Seaward Production Licence; and
- The Landward Production Licence (more properly called the Petroleum Exploration and Development Licence).

10) They are described more fully elsewhere on the [gov.uk](http://www.gov.uk) website¹ and in the Technical Guidance document².

11) The terms and conditions of the Licences on offer are set out in Regulations, though DECC is free to offer licences on modified terms in particular cases. For Landward licences, it is the Petroleum Licensing (Exploration and Production) (Seaward and Landward Areas) Regulations 2004 (352/2004)³, as amended by the Petroleum Licensing (Exploration and Production) (Seaward and Landward Areas) (Amendment) Regulations 2006 (784/2006)⁴; and for seaward licences, it is the Petroleum Licensing (Production) (Seaward Areas) Regulations 2008 (225/2008)⁵. In both cases there were further amendments in the Energy Act 2008⁶.

12) The rentals schedules of each type of licence are attached at Annexe 1.

13) Where a licence is held by more than one company, each one bears full joint-and-several liability to the Secretary of State.

14) Companies who only wish to carry out offshore seismic surveys and not to drill might consider applying for an Exploration Licence⁷. This Licence only permits surveying and very shallow boreholes, not deep drilling, appraisal or production, and does not confer any exclusive rights over any area. On the other hand, each one covers the entire UKCS (outside the areas covered by existing Production Licences), and is cheaper and simpler to get than a Production Licence.

¹ <https://www.gov.uk/oil-and-gas-petroleum-licensing-guidance#types-of-licence>

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/15171/4228-guidance-technical.pdf

³ <http://www.legislation.gov.uk/uksi/2004/352/contents/made>.

⁴ <http://www.legislation.gov.uk/uksi/2006/784/contents/made>.

⁵ <http://www.legislation.gov.uk/uksi/2008/225/contents/made>

⁶ <http://www.legislation.gov.uk/ukpga/2008/32/contents>

⁷ See <https://www.gov.uk/oil-and-gas-petroleum-licensing-guidance#types-of-licence>

THE APPLICANT

An application can come from a single company or from a group of companies. The companies may be either British or foreign, but there are minimum residence requirements.

Only companies with the necessary financial and technical capacity can be considered for award of Landward, Traditional, or Frontier licences. Each application must therefore be supported by evidence that the Applicant meets the minimum criteria. In the case of a Promote Licence, the criteria are not applied before award; but they will be applied before the end of two years, at which point they are applied in full.

15) An application may be made by a single company, or by a group of companies (provided they have the same equity interests throughout). In this Note, references to ‘the Applicant’ cover both situations unless clearly stated otherwise, and references to ‘the Company’ refer to a single company making an application, whether on its own or as part of an applicant group.

16) There are two considerations that determine what can be put together into a single application:

- the list of companies, their proposed equity interests, and the Operator must be the same throughout any single application; and
- any single application may only seek a single type of Licence (Landward, Traditional, Promote or Frontier (of either type)).

The fact that geographically separate areas could not be covered by a single licence does not mean they cannot be combined on the same application.

17) For instance, suppose Company A and Company B want to make a joint application with Company A as operator, each proposing to take a 50% interest in any licences awarded; and they seek a Traditional Licence over one block in the Northern North Sea and another over a block in the Southern Basin. They can apply for both blocks on the same application (because both licences would be of the same type, the companies would have the same equity interests in both and the operator would be the same). However, if they wanted a third Traditional Licence but with a 70:30 equity split, or if they also wanted to apply for a Promote Licence, they would have to make separate applications.

18) Traditional, Frontier (both types) and Landward applicants must demonstrate to the Department that, if awarded a Licence, they will have the technical¹ and environmental² competence to operate to the necessary standards. There is detailed guidance in separate documents.

19) All companies must demonstrate their financial viability. In addition, companies applying for anything other than a Promote Licence must demonstrate the financial capacity to carry out the licence’s Work Programme. That capacity must be clearly available to the Applicant at the time of application, and not be subject to uncertain future events like share issues. There is detailed guidance in a separate document³.

20) Companies applying for Promote licences have to demonstrate financial viability but they do not have to demonstrate a minimum level of technical competence, environmental or financial capacity. However a ‘Promote Licensee’ will not be allowed to drill until it has demonstrated that it meets those criteria, and the licence will expire at its second anniversary if the Licensee has not done it by then.

¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/15171/4228-guidance-technical.pdf

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/15173/4225-guidance-environmental.pdf

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/15172/4229-guidance-financial.pdf

21) To be awarded a licence, a company must be registered in the UK, either as a company or as a branch of a foreign company¹. The application must include the Registered Name, Address and Number of each company that is to hold the licence.

22) Applicants should be clear exactly which company they want to hold the licence, and ensure that those are the companies that apply for it. If DECC is prepared to offer a licence, we will only award it to the company that applied and not to any other; not even a sister company. Where the applicant decides he wants a licence to be held by an affiliate of the applicant, he should accept the application and then seek consent to assign it afterwards.

23) The residence requirements may change later if a licensee seeks to begin production.

ACREAGE

At any licensing opportunity, whether it be a Licensing Round or an Out-of-Round invitation, DECC will invite applications for a specified list of blocks and part-blocks. We cannot consider applications for other acreage at that time.

There is no limit to the amount of acreage that can be applied for, but there may be limits to the amount of acreage that DECC will offer to an applicant.

24) The boundary between the Landward and Seaward regimes is the High Water Mark, except that areas above Bay Closing Lines (sometimes called “watery areas”) fall under the Landward regime.

25) DECC has divided the UK’s acreage into ‘blocks’. Onshore blocks are 100km² in area; seaward blocks vary in size from c.190km² in the far north to c.250km² in the far south. A Map associated with each individual Round shows the acreage available.

26) Applications are made for the whole area of a ‘Block’ that was included in DECC’s invitation. Some blocks are already licensed in part, and in those cases we could, of course, only consider issuing a licence for the remaining, unlicensed, parts. If you don’t want the whole unlicensed part of a block, make clear in your application which parts you do want, so that we can consider awarding a Licence over just that part of the block. DECC will in any case review the acreage and may only award part of a block to the successful applicant, if that is all he has plans for.

27) Licensing Rounds commonly cover specified areas; and within each area only certain types of licence may be available. DECC will decide which areas to offer after considering a number of factors; for example: restrictions imposed by a Strategic Environmental Assessment or the requirements of other government departments; demand from industry; our own ability to cope with anticipated demand. The invitation will make clear which acreage, and which kinds of licence, are available.

28) There is no upper limit to the amount of acreage you can apply for, but with Promote or Frontier applications there are limits to the amount of acreage that DECC will award to a single applicant. In these cases there will be a maximum award equivalent to:

- four contiguous blocks per Promote Licence, up to an aggregate total of ten blocks per applicant per round;
- ten contiguous blocks per Six-Year Frontier Licence or Nine-Year (West of Scotland) Frontier Licence, with an aggregate total of forty blocks per applicant per round; and
- ten contiguous blocks per Traditional Licence, with no aggregate limit.

For these purposes, the limits apply cumulatively – e.g. eight half-blocks would count the same as four whole blocks. The aggregate limit for each licence type applies to applicant groups as a whole – we won’t try to apply it to single companies that happen to be members of several different applicant groups.

29) DECC will not award acreage where the applicant has no plans to explore and exploit. However, DECC will consider awarding a Frontier Licence over a large area if, say, the applicant’s proposed

¹ See <https://www.gov.uk/oil-and-gas-petroleum-licensing-guidance#criteria-to-become-a-licensee>

work programme requires that large area for a regional seismic survey; and DECC may consider awarding a large area for shale gas or CBM if the applicant satisfies us that it has clear achievable plans to explore and exploit the whole area.

30) DECC may not be prepared to license a very small or very irregular area.

WORK PROGRAMMES

The Applicant must propose a Work Programme, which is the minimum amount of exploration work that the Applicant must carry out, if it should be awarded a licence, if the licence is not to expire at the end of its Initial Term.

The agreed Work Programme will form an important part of the Licence itself, and the Licence will expire at the end of the Initial Term if the Work Programme has not been completed by then. Along with the technical work already carried out, it is one of the main factors that DECC will use to judge between competing applications.

31) The Applicant proposes a Work Programme as part of the application, which is likely to be discussed at interview. A Work Programme consists of one or more elements of exploration work. The Licensee may make 'firm' or 'contingent' commitments to the Secretary of State to carry out some or all of these elements.

32) If DECC subsequently offers a licence, part of the offer will specify the Work Programme that DECC is willing to accept. It may not be the same as was proposed by the applicant. The agreed Work Programme will be set out in full in the Production Licence.

33) In certain special cases, the applicant sees no need for any exploration work. That may happen if the plans are to develop a discovery that is already known, or to redevelop an old field on which production has stopped. In such cases, the licence would have neither Initial Term ('straight to Second Term') nor Work Programme. Even so, such applications should set out the applicant's plans to develop the existing discovery or redevelop the old field; DECC would wish to discuss them at interview and take them into account in its decision.

APPLICATION FEE

There is an Application Fee to cover the Department's costs. DECC can accept payment electronically or by cheque.

34) The application fee is £2,100 for Seaward Production Licences and £1,400 for (Landward) Petroleum Exploration and Development Licences. The figures are defined in secondary legislation¹.

35) LARRY provides a secure method for payments. There is guidance on payment methods elsewhere on the site².

¹ See the Petroleum (Production) (Seaward Areas) Regulations 1988 (1988/1213) and the Petroleum (Production) (Landward Areas) Regulations 1995 (1995/1436).

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/268585/decc-ac_details.pdf

HOW DECISIONS ARE REACHED

The Secretary of State has full discretion to make decisions on applications for Production Licences, but will always make them in line with published policies and objectives. Where there is competition for the same acreage between applicants, all of whom meet the Department's financial and technical criteria, the decision will be based largely on the marks awarded to the applications.

36) The Secretary of State's policy objective in a Licensing Round is to maximise successful and expeditious exploration and exploitation of the UK's oil and gas resources, and all decisions will be made in pursuit of that policy. The Petroleum Act 1998 gives the Secretary of State discretion in deciding whether or not to issue a licence; and if so, to whom and on what conditions.

37) The first stage of the decision is to measure the applicant against the Department's financial criteria and standards of operatorship. Only those who pass can be considered for award of a Production Licence.

38) Where two or more applicants who have applied for the same acreage all meet the Department's financial criteria and standards of operatorship, the Department's geoscientists will make a recommendation of award after evaluating the respective geotechnical submissions. (In practice, DECC will start arranging interviews without waiting to see the results of the financial and operatorship checks, so being invited to interview does not imply that those criteria have been satisfied.) The assessors will base their decisions on the technical understanding demonstrated by the Applicant, the generation of valid prospectivity derived from evaluation of available data, the quality of the work that it has already carried out, and the proposed Work Programme. Applications will be marked against these criteria according to a predefined Marks Scheme, and award will normally be made to the Applicant with the highest marks.

39) In some cases, the Secretary of State may consider that additional factors that are not covered by, or amenable to, the Marks Scheme are relevant to the achievement of his policy. Examples could include:

- the Applicant's track record on the completion of Work Programmes;
- the Applicant's track record of performance, such as activity on suspended wells or fallow blocks and discoveries;
- cases where direct comparison between competing applications is difficult, such as those where the geographical coverage and geological focus is different, or where competing Work Programmes offer a choice between a prospect-specific investigation and a wider area investigation.

40) In some cases, DECC may accommodate such factors by:

- suggesting a "marriage" between competing applicants;
- splitting applications for competing acreage so that each applicant receives the areas that it is focused on; or
- awarding a licence to a company that did not score the highest marks.

41) DECC may suggest a marriage between competing applicants where their interests, expertise, etc, are complementary but they cannot be separated geographically. However it remains up to the companies to make the marriage and agree on terms. Part of the process will be to agree on a Work Programme, which must be acceptable to DECC. If companies are unable or unwilling to marry, DECC will choose the winner from among them.

42) Where a Traditional or Frontier applicant fails to meet DECC's technical, environmental or financial criteria, the Department will not offer a Promote licence instead.

43) DECC may discuss landward applications with the Coal Authority, especially those from applicants who are proposing coal-related projects.

44) DECC may refuse to consider applications where material information has been withheld.

45) Applications will be marked purely against criteria related to the Petroleum Act 1998. DECC will not award marks for CCS, methane storage or any other proposed non-licensable plans.

46) DECC may wish to satisfy itself of the applicant's awareness of further regulatory and legal barriers beyond the award of a Petroleum Act licence.

TRANSPARENCY

Applicants may need to include commercially-sensitive information in their applications, such as financial forecasts and proprietary data. DECC will handle any such information in accordance with the Freedom of Information Act 2000 and other relevant law, which take full cognisance of issues of transparency and confidentiality.

47) For reasons of policy, we treat applications as confidential until we can announce the Secretary of State's decision. After that we publish the winning applicants' names and marks, and, when a licence has been executed, we publish the licence document itself. We will also notify the losing applicants of their marks for each Block. We are happy to talk to each Applicant to discuss its application in more detail. In the case of applications for Landward Licences, after six years we also make publicly available the technical components of each application.

48) Departmental policy is to maximise the availability of useful information about the UKCS. The Secretary of State will require the submission of a short report when the licence terminates, summarising the work done, prospectivity identified, and associated reserve estimates for the licensed area. DECC will publish this report.

49) DECC expects that in due course it will publish a list of the names of all applicants for Production Licences in the course of each year from 2014 onwards, among other information whose publication is required by the Extractive Industries Transparency Initiative Standard.

50) For the purposes of the Data Protection Act 1998, DECC will hold contact details, including individuals' names and email addresses, and use them in communications relating to the application and to any Licence issued as a result of it. In the case of successful applications this information will be made publicly available by DECC. For example, we will publish companies' contact details on our website, and we will supply them to companies or individuals wishing to contact the Applicant. Anyone who wishes to object to any of these uses should make clear their objections, and the grounds for them, in their application.

OUT-OF-ROUND APPLICATIONS

The vast majority of applications are taken in regular Licensing Rounds. Exceptionally, DECC may accept a suggestion from a company that there are grounds for a one-off ("out-of-round") application for a specific piece of acreage. Once that decision has been made, an Out-of-Round application is handled in the same way as during a Licensing Round.

51) This Guidance Note also applies to Out-of-Round applications, which are special cases covering a specific portion of acreage. There are two differences between a Licensing Round and an Out-of-Round Invitation; the process is initiated at a company's request, instead of being triggered by DECC's own timetable, and the Secretary of State will only invite applications for a very small area – typically a single block.

52) A company wishing to pursue the Out-of-Round route must first convince DECC that an Out-of-Round Invitation is justified; i.e. that there are clear reasons why it should not have to wait for the next opportunity in a Licensing Round.

53) If the Department is convinced, we will usually invite applications in a similar way to that of a Licensing Round. Therefore the first step for any company is to contact Jen Brzozowska, making a case for an Out-of-Round invitation.

54) Out-of-Round applications are considered for specific and imminent opportunities, so only Traditional Licences and PEDLs, not Frontier (either type) or Promote Licences, would be appropriate.

GENERAL ISSUES

All the following points apply to all kinds of application unless indicated otherwise.

55) In accordance with the Report submitted by the Progressing Partnerships Working Group to PILOT on 4 January 2002, DECC will not approve Joint Operating Agreements made under Seaward Production Licences (whether Frontier (either type), Traditional or Promote) issued in the 20th Round or later if they include pre-emption provisions, except in special circumstances where the Applicant has made a convincing case for such provisions before award (and in such cases, it may count against the application where there is a choice between competed bids). Where DECC does accept a special need for pre-emption provisions, only pre-emption provisions of the form attached at Annexe 2 will be approved. This does not apply to landward licences.

56) Following industry representations at PILOT (previously the Oil & Gas Industry Task Force), DECC will not issue a Licence covering separate (non-contiguous) areas (a 'Multiblock Licence'). For these purposes, two areas that join corner-to-corner are considered to be separate.

57) A Production Licence does not grant carte blanche to carry out all petroleum-related activities from then on. Some activities, such as drilling, are subject to further individual controls by DECC, and a licensee of course remains subject to controls by other bodies such as the Health and Safety Executive. Furthermore, the award of a landward licence (PEDL) in no way waives the requirement for the Licensee to get any necessary permission from landowners, planning authorities, etc. It is the licensee's responsibility to be aware of, and comply with, all regulatory controls and legal requirements. DECC cannot offer advice on regulation outside its remit, nor on legal issues, but to offer a starting point there is some guidance of the areas that we are aware of on the gov.uk website¹.

58) Any production licence issued will carry conditions about data management and preservation, and DECC takes them very seriously. There are Release procedures and Guidelines relating to well data, new geophysical surveys, etc. Guidance can be found on the gov.uk web site².

59) Applicants should note:

- the provisions of the **Utilities Contract Regulations 1996** (S.I. 1996/2911), which require that companies observe the principles of non-discrimination and competitive procurement in awarding certain contracts; and
- the initiative to preserve historically-important records which goes by the name of '**Capturing the Energy**' and which DECC fully supports. Details can be found on the 'Capturing the Energy' website at www.capturing-the-energy.org.uk; and you can contact 'Capturing the Energy' by email to info@capturing-the-energy.org.uk.

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² See <https://www.gov.uk/oil-and-gas-digital-data-exchange-format> , <https://www.gov.uk/oil-and-gas-petroleum-operations-notices#pon-9> (seaward) and <https://www.gov.uk/oil-and-gas-petroleum-operations-notices#pon-9b> (landward).

ANNEXE 1: RENTALS

Traditional Seaward Production Licence's rental schedule

(1) On the Commencement Date, and on each subsequent anniversary of the Start Date to fall during the Initial Term, the Licensee shall pay the Minister £150 multiplied by the Area Factor.

(2) On each subsequent anniversary of the Start Date to fall after the Initial Term, the Licensee shall pay the Minister sums calculated as the following amounts multiplied by the Area Factor:

- (a) On the 1st such anniversary: £300;
- (b) On the 2nd such anniversary: £1200;
- (c) On the 3rd such anniversary: £2100;
- (d) On the 4th such anniversary: £3000;
- (e) On the 5th such anniversary: £3900;
- (f) On the 6th such anniversary: £4800;
- (g) On the 7th such anniversary: £5700;
- (h) On the 8th such anniversary: £6600;
- (i) On the 9th such anniversary, and every subsequent anniversary: £7500.

(3) The Periodic Payments shall be subject to variation in accordance with the following provisions:

- (a) The Periodic Payments shall be increased or subsequently reduced in line with movements in the Index of the Price of Crude Oil acquired by Refineries (published in the Digest of UK Energy Statistics) if the Minister so determines. The Minister shall give notice of any such determination ("biennial determination") not less than one month before the date on which such payment falls due, and shall specify in the notice the increase or reduction in the amount payable. Movements in the Index shall be calculated by reference to a comparison between the arithmetic mean of the Index levels for the two latest calendar years for which figures are available at the time when the determination is made, and the arithmetic mean of the Index levels for the two latest calendar years before the Start Date. In the event that the Index of the Price of Crude Oil acquired by Refineries ceases to be

published the Minister may substitute arrangements for redetermination of periodic payments having substantially similar effect to those set out above based on such other comparable Index as he may determine.

(b) The increase or reduction specified in a biennial determination shall be payable or take effect on the anniversary of the Start Date next following the date of the relevant determination.

(c) No biennial determination shall have effect so as to reduce the Periodic Payments below the levels set out in sub-paragraph (2) above.

(d) The Minister shall not make a biennial determination increasing or reducing the amounts payable where that increase or reduction would be 5% or less of the levels set following the previous biennial determination.

(4) Where a Promote Period is specified at Schedule 5 of the Licence each Periodic Payment to fall during that period shall be reduced by 90%.

(5) In this Schedule:

"Commencement Date" means the date specified in clause 3(1) of the Licence;

"the Initial Term" means the period specified as such in Schedule 5 of the Licence on the date that the Licence was granted;

"Periodic Payments" means the payments set out at paragraph (1) above; and

"the Area Factor" means the number of square kilometres comprised in the Licensed Area at the date On which the Periodic Payment in question becomes due.

6-Year Frontier Licence's rental schedule

(1) On the Commencement Date, and on each anniversary of the Start Date during the term of the Licence, the Licensee shall pay the Minister sums calculated as the following amounts multiplied by the Area Factor:

- (a) On the Commencement Date: £15;
- (b) On the 1st anniversary of the Start Date: £15;
- (c) On the 2nd anniversary of the Start Date: £15;
- (d) On the 3rd anniversary of the Start Date: £150;
- (e) On the 4th anniversary of the Start Date: £150;
- (f) On the 5th anniversary of the Start Date: £150;
- (g) On the 6th anniversary of the Start Date: £300;
- (h) On the 7th anniversary of the Start Date: £1,200;
- (i) On the 8th anniversary of the Start Date: £2,100;
- (j) On the 9th anniversary of the Start Date: £3,000;
- (k) On the 10th anniversary of the Start Date: £3,900;
- (l) On the 11th anniversary of the Start Date: £4,800;
- (m) On the 12th anniversary of the Start Date: £5,700;
- (n) On the 13th anniversary of the Start Date: £6,600;
- (o) On the 14th anniversary and on every subsequent anniversary of the Start Date: £7,500.

(2) The Periodic Payments shall be subject to variation in accordance with the following provisions:

(a) The Periodic Payments shall be increased or subsequently reduced in line with movements in the Index of the Price of Crude Oil acquired by Refineries (published in the Digest of UK Energy Statistics) if the Minister so determines. The Minister shall give notice of any such determination ("biennial determination") not less than one month before the date on which such payment falls due, and shall specify in the notice the increase or reduction in the amount payable. Movements in the Index shall be calculated by reference to a comparison between the arithmetic mean of the Index levels for the two latest calendar years for which figures are available at the time when the determination is made, and the arithmetic mean of the Index levels for the two latest calendar years before the Start Date. In the event that the Index of the Price of Crude Oil acquired by Refineries ceases to be published the Minister may substitute arrangements for redetermination of periodic payments having substantially similar effect to those set out above based on such other comparable Index as he may determine.

(b) The increase or reduction specified in a biennial determination shall be payable or take effect on the

anniversary of the Start Date next following the date of the relevant determination.

(c) No biennial determination shall have effect so as to reduce the Periodic Payments below the levels set out in the Schedule above.

(d) The Minister shall not make a biennial determination increasing or reducing the amounts payable where that increase or reduction would be 5% or less of the levels set following the previous biennial determination.

(3) In this Schedule:

“Periodic Payments” means the payments set out at paragraph (1) above; and

“the Area Factor” means the number of square kilometres comprised in the Licensed Area at the date on which the periodic payment in question becomes due..

9-Year (West-of-Scotland) Frontier Licence’s rental schedule

(1) On the Commencement Date, and on each anniversary of the Start Date during the term of the Licence, the Licensee shall pay the Minister sums calculated as the following amounts multiplied by the Area Factor:

- (a) On the Commencement Date: £15;
- (b) On the 1st anniversary of the Start Date: £15;
- (c) On the 2nd anniversary of the Start Date: £15;
- (d) On the 3rd anniversary of the Start Date: £15;
- (e) On the 4th anniversary of the Start Date: £15;
- (f) On the 5th anniversary of the Start Date: £15;
- (g) On the 6th anniversary of the Start Date: £150;
- (h) On the 7th anniversary of the Start Date: £150;
- (i) On the 8th anniversary of the Start Date: £150;
- (j) On the 9th anniversary of the Start Date: £300;
- (k) On the 10th anniversary of the Start Date: £1,200;
- (l) On the 11th anniversary of the Start Date: £2,100;
- (m) On the 12th anniversary of the Start Date: £3,000;
- (n) On the 13th anniversary of the Start Date: £3,900;
- (o) On the 14th anniversary of the Start Date: £4,800;
- (p) On the 15th anniversary of the Start Date: £5,700;
- (q) On the 16th anniversary of the Start Date: £6,600;
- (r) On the 17th anniversary, and on every subsequent anniversary, of the Start Date, £7,500 multiplied by the Area Factor.

(2) The Periodic Payments shall be subject to variation in accordance with the following provisions:

- (a) The Periodic Payments shall be increased or subsequently reduced in line with movements in the Index of the Price of Crude Oil acquired by Refineries (published in the Digest of UK Energy Statistics) if the Minister so determines. The Minister shall give notice of any such determination (“biennial determination”) not less than one month before the date on which such payment falls due, and shall specify in the notice the increase or reduction in the amount payable.

Movements in the Index shall be calculated by reference to a comparison between the arithmetic mean of the Index levels for the two latest calendar years for which figures are available at the time when the determination is made, and the arithmetic mean of the Index levels for the two latest calendar years before the Start Date. In the event that the Index of the Price of Crude Oil acquired by Refineries ceases to be published the Minister may substitute arrangements for redetermination of periodic payments having substantially similar effect to those set out above based on such other comparable Index as he may determine.

(b) The increase or reduction specified in a biennial determination shall be payable or take effect on the anniversary of the Start Date next following the date of the relevant determination.

(c) No biennial determination shall have effect so as to reduce the Periodic Payments below the levels set out in the Schedule above.

(d) The Minister shall not make a biennial determination increasing or reducing the amounts payable where that increase or reduction would be 5% or less of the levels set following the previous biennial determination.

(3) In this Schedule:

“Periodic Payments” means the payments set out at paragraph (1) above; and

“the Area Factor” means the number of square kilometres comprised in the Licensed Area at the date on which the periodic payment in question becomes due.

Landward Production Licence’s rental schedule

(1) On the date on which the Initial Term begins (“the said date”) or upon the grant of this Licence, whichever is the later, and on subsequent anniversaries of the said date during the term of the Licence, the Licensee shall pay the Minister sums (in this Schedule referred to as “periodic payments”) calculated as follows:

- (a) on the said date, £25 multiplied by the area factor;
- (b) on the 1st anniversary of the said date, £25 multiplied by the area factor;

(c)	”	2nd	”	£25	”
(d)	”	3rd	”	£25	”
(e)	”	4th	”	£25	”
(f)	”	5th	”	£25	”
(g)	”	6th	”	£50	”
(h)	”	7th	”	£100	”
(i)	”	8th	”	£150	”
(j)	”	9th	”	£200	”
(k)	”	10th	”	£250	”
(l)	”	11th	”	£300	”
(m)	”	12th	”	£400	”

(n)	”	13th	”	£500	”
(o)	”	14th	”	£600	”
(p)	”	15th	”	£700	”
(q)	”	16th	”	£800	”
(r)	”	17th	”	£900	”
(s)	”	18th	”	£1,000	”
(t)	”	19th	”	£1,100	”

(u) on the 20th and every subsequent anniversary of the said date, £1,200 multiplied by the area factor.

(2) The periodic payments specified falling due after the sixth anniversary shall be subject to variation in accordance with the following provisions:

- (a) subject to sub-paragraph (d) below, the periodic payments shall be increased or reduced at two-yearly intervals in line with movements in the Index of the Price of Crude Oil acquired by Refineries (published in the Digest of UK Energy Statistics) if the Minister so determines. The Minister shall give notice of any such determination (“biennial determination”) not less than one month preceding the date on which such payment

falls due, and shall specify in the notice the increase or reduction in the amount payable. Movements in the Index shall be calculated by reference to a comparison between the arithmetic mean of the Index levels for the two latest calendar years for which figures are available at the time when the determination is made, and the arithmetic mean of the Index levels for 2003 and 2004. In the event that the Index of the Price of Crude Oil acquired by Refineries ceases to be published, the Minister may substitute arrangements for redetermination of periodic payments having substantially similar effect to those set out above based on such other comparable Index as he may determine;

(b) The increase or reduction specified in a biennial determination shall be payable or take effect on the anniversary of the date of commencement of this

Licence next following the date of the relevant determination.

(c) No biennial determination shall have effect so as to reduce the periodic payments below the levels set out in sub-paragraph (1) above.

(d) The Minister shall not make a biennial determination increasing or reducing the amounts payable where that increase or reduction would be 5% or less of the levels set following the previous biennial determination.

(3) In this Schedule "the area factor" means the number of square kilometres comprised in the Licensed Area at the date upon which the periodic payment in question becomes due.

ANNEXE 2: APPROVED PRE-EMPTION PROVISIONS

Pre-Emption Arrangements

- (1) In the event that a Disposing Pre-emption Participant enters into bona fide negotiations to, or otherwise makes a bona fide decision to, transfer the whole or any part of its rights and obligations under an Existing Operating Agreement then it may serve notice of such intention on all Other Pre-emption Participants together with such further information as may be required under the Existing Pre-emption Arrangements (together the “Further Information”) to enable such Other Pre-emption Participants to assess the nature and extent of such proposed disposal and the potential exercise of their respective rights under the Existing Pre-emption Arrangements.
- (2) Within seven (7) Business Days after receipt of the Further Information each of the Other Pre-emption Participants shall elect either:
 - (a) to reserve its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to such proposed disposal; or
 - (b) to waive its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to such proposed disposal (in which event, for the avoidance of doubt, the Disposing Pre-emption Participant shall not be obliged to serve notice on such Other Pre-emption Participant pursuant to Clause 1(5));
 - (c) and shall serve notice accordingly upon the Disposing Pre-emption Participant and in default of receipt by the Disposing Pre-emption Participant of any such notice within such period of seven (7) Business Days the Other Pre-emption Participant shall be deemed to have served a notice electing to reserve its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to such proposed disposal.
- (3) For the avoidance of doubt, in the event that none of the Other Pre-emption Participants reserves (or is deemed to have reserved) its rights under Clause 1(2)(a) then the Existing Pre-emption Arrangements shall thereupon cease to apply in relation to such proposed disposal.
- (4) In the event that all or any of the Other Pre-emption Participants reserves (or is deemed to have reserved) its rights under Clause 1(2)(a) then in circumstances where the Disposing Pre-emption Participant is no longer intending so to transfer the whole or any part of its rights and obligations under the Existing Operating Agreement the Disposing Pre-emption Participant shall as soon as reasonably practicable after the occurrence of such circumstances serve on all such Other Pre-emption Participants a notice to that effect.
- (5) In circumstances where agreement has been reached (and whether or not such agreement is recorded in a fully termed sale and purchase agreement) in relation to a transfer of the whole or any part of its rights and obligations under the Existing Operating Agreement to a third party (the “Proposed Disposal”) (subject only to the rights of the Other Pre-emption Participants under the Existing Pre-emption Arrangements and such conditions as may be applicable) then the Disposing Pre-emption Participant shall as soon as reasonably practicable after the occurrence of such circumstances (and whether or not the Disposing Pre-emption Participant has previously given notice of such proposed disposal under Clause 1(1)) serve on each of those Other Pre-emption Participants which has reserved its rights under Clause 1(2)(a) or (as the case may be) all the Other Pre-emption Participants, a notice to that

effect and shall with such notice provide such information and details as may be required under the Existing Pre-emption Arrangements and, in any event, at least the main terms of such agreement (the “Agreed Terms”) and including:

- (a) the identity of such third party; and
 - (b) the effective date of the Proposed Disposal; and
 - (c) the applicable price; and
 - (d) all and any material conditions to which such agreement is subject.
- (6) Within thirty (30) days after receipt of a notice under Clause 1(5) in relation to a Proposed Disposal each of the Other Pre-emption Participants shall elect either:
- (a) to exercise its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to the Proposed Disposal; or
 - (b) to waive its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to the Proposed Disposal;
 - (c) and shall serve notice accordingly upon the Disposing Pre-emption Participant and in default of receipt by the Disposing Pre-emption Participant of any such notice within such period of thirty (30) days such Other Pre-emption Participant shall be deemed conclusively to have served a notice electing to waive its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to the Proposed Disposal.
- (7) In the event that more than one of such Other Pre-emption Participants exercises its rights under Clause 1(6)(a) in relation to the Proposed Disposal then the Disposing Pre-emption Participant shall transfer the relevant interest upon the Agreed Terms to each of such Other Pre-emption Participants in the proportions in which their respective percentage interests bear to the aggregate of their respective percentage interests or in such other proportions as such Other Pre-emption Participants shall agree between them.
- (8) In the event that one of such Other Pre-emption Participants exercises its rights under Clause 1(6)(a) in relation to the Proposed Disposal then the Disposing Pre-emption Participant shall transfer the whole of the relevant interest upon the Agreed Terms to such Other Pre-emption Participant.
- (9) In the event that none of such Other Pre-emption Participants exercises its rights under Clause 1(6)(a) then the Existing Pre-emption Arrangements shall thereupon cease to apply in relation to the Proposed Disposal.

Liabilities

Without prejudice to the applicable provisions of the Existing Operating Agreement it is agreed that the Disposing Pre-emption Participant shall be and shall remain liable to the Other Pre-emption Participants for all and any liabilities, costs and expenses of the Other Pre-emption Participants in relation to any transfer or purported transfer of the whole or any part of its rights or obligations under the Existing Operating Agreement which does not comply with the provisions of these New Pre-emption Arrangements.

ANNEXE 3: CONTACTS

DECC's London address is:

Department of Energy and Climate Change
3-8 Whitehall Place
London SW1A 2AW

DECC's Aberdeen address is:

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Aberdeen AB11 6LT

To discuss DECC's **financial appraisal**, contact Nic Rogers:

tel: 0300 068 6049;
email: nicholas.rogers@decc.gsi.gov.uk

To discuss *landward* **geological and other technical issues** (Appendix B) and the **marks scheme**, contact Toni Harvey:

tel: 0300 068 6037;
email: toni.harvey@decc.gsi.gov.uk

To discuss *seaward* **geological and other technical issues** (Appendix B) and the **marks scheme**, contact Jen Brzozowska:

tel: 0300 068 6030;
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To discuss **environmental issues** (Appendix C), contact Joe MacAllan

tel: 01224 254050;
e-mail: joe.mcallan@decc.gsi.gov.uk

For general enquiries about the **administration** of a Licensing Round, contact Ricki Kiff:

tel: 0300 068 6042;
e-mail: ricki.kiff@decc.gsi.gov.uk

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