

APPENDIX II

**The role of DTI and the legal basis for fiscal measurement supervision in
the UK**

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Regulatory Framework

The principal legislation which applies to the oil and gas production industry particularly in relation to petroleum measurement is as follows.

The Petroleum (Production) Act 1934.

The Act vests ownership of the petroleum which exists in its natural condition in strata in Great Britain and beneath the territorial waters of the United Kingdom in the Crown and gives the Secretary of State, on behalf of the Crown, the exclusive right to grant licences to search and bore for and get petroleum. The Act also authorises the Secretary of State to make regulations which, inter alia, prescribe the model clauses for incorporation into such licences.

The Continental Shelf Act 1964

The Act extends the powers conferred by the 1934 Act to the United Kingdom Continental Shelf.

The Petroleum Act 1987

Sections 17 and 18 and Schedules 1 and 2 to this Act amend the measurement model clauses which were incorporated into licences in force at the time it was enacted.

The responsibility for the administration of the legislation governing the operations of the UK oil and gas industry rests with the Department of Trade and Industry.

There is no statutory obligation for measurement, but a model clause covering this requirement is included in all licence conditions. The Measurement Model Clause incorporated in Petroleum (Production) Licences states:

- 1) The Licensee shall measure or weigh by a method or methods customarily used in good oilfield practice and from time to time approved by the Minister all petroleum won and saved from the licensed area.
- 2) If and to the extent that the Minister so directs, the duty imposed by paragraph (1) of this clause shall be discharged separately in relation to petroleum won and saved –
 - a) from each part of the licensed area which is an oil field for the purposes of the Oil Taxation Act 1975,
 - b) from each part of the licensed area which forms part of such an oilfield extending beyond the licensed area, and
 - c) from each well producing petroleum from a part of the licensed area which is not within such an oilfield.
- 3) If and to the extent that the Minister so directs, the preceding provisions of this clause shall apply as if the duty to measure or weigh petroleum included a duty to ascertain its quality or composition or both; and where a direction under this paragraph is in force, the following provisions of this clause shall have effect as if references to measuring or weighing included references to ascertaining quality or composition.
- 4) The Licensee shall not make any alteration in the method or methods of measuring or weighing used by him or an appliances used for that purpose without the consent in writing of the Minister and the Minister may in any case require that no alteration shall be made save in the presence of a person authorised by the Minister.
- 5) The Minister may from time to time direct that any weighing or measuring appliance shall be tested or examined in such a manner, upon such occasions or at such intervals and by such persons as may be specified by the Minister's direction and the Licensee shall pay to any such person or to the Minister such fees and expenses for test or examination as the minister may specify.
- 6) If any measuring or weighing appliance shall upon any such test or examination as is mentioned in the last forgoing paragraph be found to be false or unjust the same shall if the Minister so determines after considering any representation in writing made by the Licensee be deemed to have existed in that condition during the period since the last occasion upon which the same was tested or examined pursuant to the last foregoing paragraph.

In order to assist licensees to gain approval of their “methods of measurement” the DTI issues guidance on petroleum measurement. The guidance is prepared through seeking the views of the oil and gas industry by consulting industry representative bodies and thereby arriving at a consensus view of “good oilfield practice”.

Where petroleum is delivered to the UK via a pipeline which serves as a common transportation route for a number of fields then the “method of measurement” will include the measurement of petroleum at the terminal serving the relevant pipeline and the allocation procedures used to determine each contributing field’s share of the petroleum used at or exported from the terminal.

In order to satisfy the Secretary of State that no unauthorised alternations to the approved method of measurement have been made, officers from the DTI may at their discretion inspect metering systems at any stage from construction through commissioning into production. Throughout the producing life of a field operators may expect that fields liable to pay Petroleum revenue Tax (PRT) or being co-produced or transported with such fields will routinely be inspected by officers of the DTI. Additional non-routine inspections may be required if circumstances warrant. Fields with no impact on Royalty or PRT are liable to be inspected on commissioning and thereafter at the discretion of the DTI on a less frequent basis than PRT-sensitive fields.