

WOOD REVIEW CALL FOR EVIDENCE

**Call for Evidence Workshop Presentation
Pre-Read**

Agenda

Session	Topic	How it will be covered
1.	Context	Wood Review summary Work done to date Areas for debate today and forward plan Q&A
	Break	10:25-10:40
2.	MER UK	Overview Breakouts around key questions Feedback
	Lunch	12:10-12:55
3.	Powers and sanctions	Overview Breakouts around key questions Feedback
	Break	14:55-15:10
4.	OGA governance and cost recovery	Governance overview Plenary question and feedback session Cost recovery overview Breakouts around key questions and feedback session
5.	Wrap up	Q&A Summary and closing remarks

Workshop objectives

- To seek views and evidence from Industry on how the Wood Review recommendations should best be implemented
- To gain evidence on the detail of each recommendation to enable Government to deliver legislation that allows the OGA to be a competent, robust and influential regulator, able to effectively implement MER UK
- Ensure a wide range of stakeholders are fully engaged and consulted on the issues raised in the call for evidence and are appropriately sighted on policy development and subsequent legislation

These workshops are a demonstration of Governments commitment to the tripartite approach

Other channels to feedback into the call for evidence process

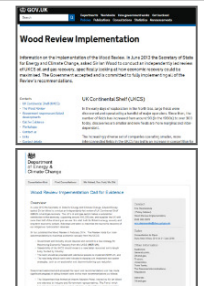
The call for evidence will close on 31 December 2014

There are a number of channels through which you can respond

Online



- Wood Review implementation group page for further information
<https://www.gov.uk/government/groups/wood-review-implementation-team>
- Formal consultation page
<https://econsultation.decc.gov.uk/decc-executive/wood-review-implementation-call-for-evidence>



Email



woodreviewimplementation@decc.gsi.gov.uk

Writing



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Area 3B, DECC
3 Whitehall Place
London
SW1A 2AW

Please note we will not be able to grant any extensions beyond this date

Session 1 | Context

Wood Review Summary

Key Wood Review recommendations to maximise recovery from UKCS

Government and industry to develop and commit to a new strategy for Maximising Economic Recovery from the UKCS (MER UK)

MER UK

1

Create a new arm's length body charged with effective stewardship and regulation of UKCS hydrocarbon recovery, and maximising collaboration across the Industry

Effective stewardship and regulation

2

Wood Review

4

Sector strategies

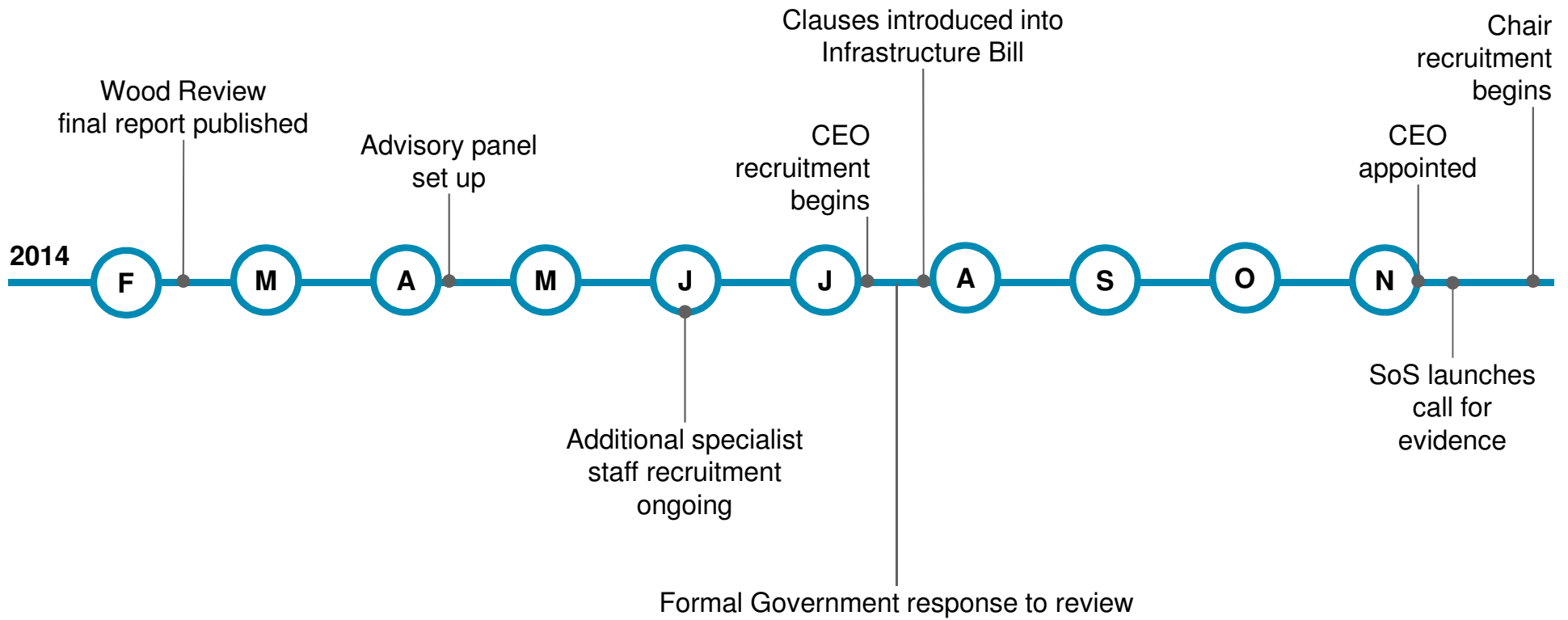
Develop and implement important sector strategies

3

Additional powers

The new body should take additional powers as outlined in the Wood Review to facilitate implementation of MER UK

Key milestones delivered to date



Purpose of the call for evidence

- To ensure the OGA is a competent and influential regulator we will need to provide it with the tools and capabilities to be effective, and to work with and influence the oil and gas sector in order to implement MER UK effectively
- This call for evidence asks all interested parties to support our policy-making by providing views and evidence as to how the Wood Review recommendations should be implemented
- We have a genuinely open mind on the questions which will be discussed today and which are contained in the call for evidence document
- It is very important that where possible, you provide examples of real-world scenarios and evidence which would assist us in developing robust and practical policy
- It is not our intention to re-open questions or the recommendations contained in Sir Ian Wood's Report

Scope of the call for evidence

In scope

We are seeking views on the following areas

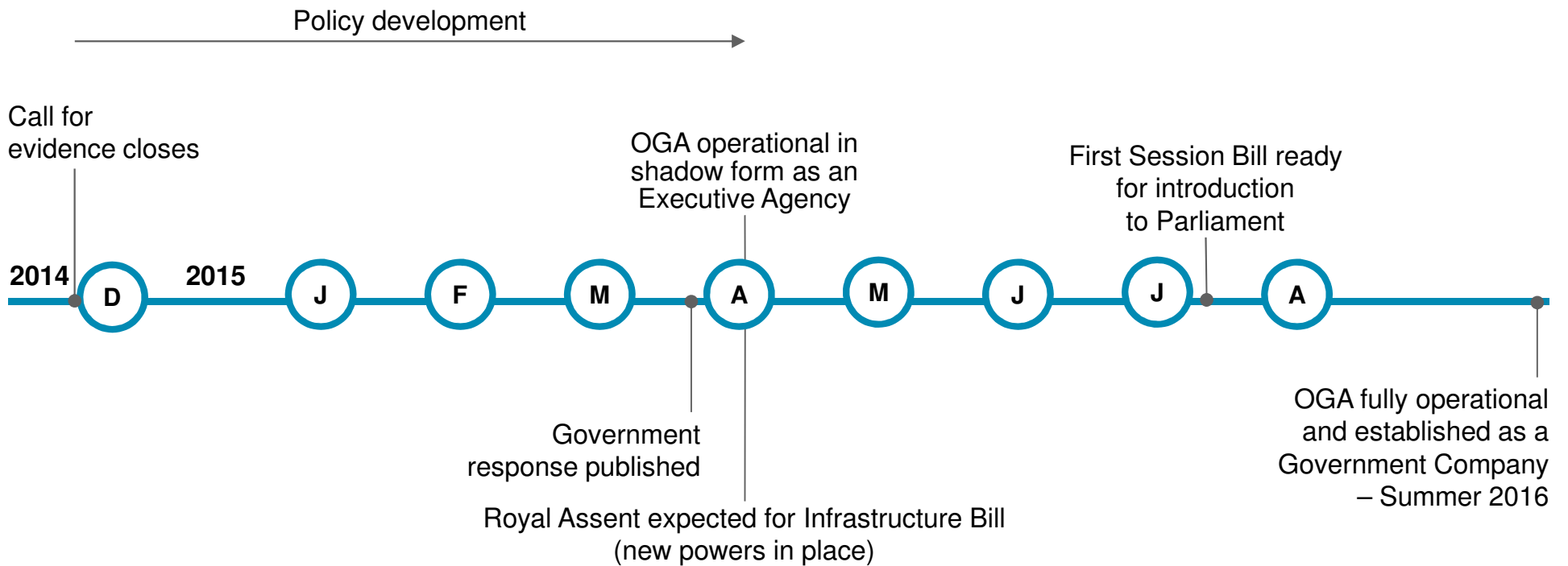
- The Maximising Economic Recovery Strategy
- The OGA's new powers and sanctions regime, including
 - Access to data
 - Access to consortia meetings
 - Dispute resolution process
 - Sanctions regime
- Governance of the OGA and interaction with industry, including the cost recovery regime

Out of scope

- The HMT Fiscal Review will not be covered during these discussions
- Some decisions have been dictated by Government rules or political decisions and therefore we have no flexibility to change position. This applies to the following
 - Activities which will incur a direct charge as opposed to those covered by the levy
 - The final corporate structure of the body – a Government Company
 - The Wood Review clauses contained in the Infrastructure Bill – we will of course discuss provisions relating to obligations and secondary legislation which stems from these clauses

Government has accepted the Wood Review recommendations in full so seeks evidence solely related to how these should be implemented

Key next steps



Session 2 | MER UK

MER UK strategy

Infrastructure Bill

- Clause 30 establishes the “principle objective” as: “*Maximising the economic recovery of UK petroleum, in particular through – development, construction, deployment and use of equipment used in the petroleum industry (including upstream petroleum infrastructure)*”
- It applies to: “*Holders of petroleum licences; operators under petroleum licences; owners of upstream petroleum infrastructure; persons planning and carrying out the commissioning of upstream petroleum infrastructure*”

<http://www.publications.parliament.uk/pa/bills/lbill/2014-2015/0045/15045.pdf>

Infrastructure Bill [HL]	
[AS AMENDED IN GRAND COMMITTEE]	
CONTENTS	
PART 1	
Infrastructure: investment and construction	
Appointments as highway authorities	
1	Appointments of strategic highway authorities
2	Other and highway in an appointment
Finance	
3	Local investment strategy
4	Finance and guidance
5	Rate
6	Transfer of highways
7	Transfer of infrastructure
Ownership	
8	Working
9	Minister
Transfer of property etc	
10	Transfer schemes
11	Transfer of property etc
Finance	
12	Financial assistance
Supplement and general	
13	Transfer of additional functions
14	Consequential and transitional provisions etc
15	Interpretation of Part 1



MER UK strategy

- This will be a separate document, setting out how the Principle Objective is to be met. This will not be prescribed in primary legislation (but approved by Parliament in a process similar to secondary legislation)
- The strategy, developed in collaboration between Government, the OGA and industry must be produced within a year of these provisions coming into force



Sector strategies

- These will be developed by the OGA (in conjunction with industry)
 - Exploration
 - Asset Stewardship
 - Regional Development
 - Infrastructure
 - Technology
 - Decommissioning

Delivering MER UK

How will we deliver MER UK together



- ✓ A new **holistic approach** needs to be adopted to maximise economic recovery in the UKCS
- ✓ MER UK strategy requires **tripartite working** between the OGA, HM Treasury and Industry to maximise the significant economic and energy security opportunities still offered by the UKCS
- ✓ To ensure the OGA is a competent and influential regulator we will need to provide it with the **tools and capabilities** to be effective, and to work with and influence the oil and gas sector in order to implement MER UK effectively
- ✓ The **strategy** will be developed by the OGA and will take some time to complete

It is not our intention to determine the details of the strategy but we want to start this process now to ensure the OGA has the right powers to be able to implement the strategy


To secure these powers within legislation, we need to set the parameters now and welcome views on what the strategy should contain

MER UK Principles and desired outcomes

Principles

Tripartite arrangement	Government (DECC and HM Treasury – the OGA – and Industry will work together to maximise the economic recovery of oil and gas from the UKCS
Collaboration	Operators and license holders explore all commercially acceptable avenues for collaborating (within competition law) on maximising economic recovery in their fields
Regulation	The OGA will work as convener, facilitator and coach in motivating, encouraging and promoting behaviour consistent with MER UK
Fiscal framework	HMT will retain control of the fiscal framework but will work with the OGA to ensure that tax and regulatory systems work together to support the MER UK strategy. DECC will proactively maintain open lines of reporting with the OGA
Sector strategies	The strategy will include all stages of the basin's development – Exploration, Development, Production and Decommissioning

Outcomes

- 
- Revitalising exploration in the UKCS
 - Effective asset stewardship
 - Better collaboration
 - Deployment of the newest and most effective technologies
 - Reducing costs across the basin

Questions

Are there any areas missing/any areas of particular importance that have been overlooked

Will these principles enable the OGA to fulfil its obligation

What are the key challenges of implementation



Session 3

Powers and sanctions

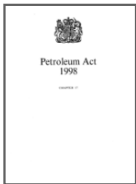
Powers

Key existing legislation

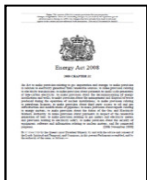
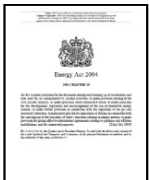
- The Petroleum Licensing Regulations 2008



- Petroleum Act 1998



- Energy Acts



- Others...

Existing DECC powers

Non exhaustive

- Require, approve and serve a field development programme (FDP)
- Require unitisation
- Place specifications on pipeline authorisations and require pipeline modifications
- Approve and remove an operator
- Consent to assignment of any right granted by license
- Allow rights of access
- Require and disclose data
- Specify training requirements
- Charge fees for consents and authorisations
- Settlement of disputes relating to infrastructure access
- Grant license on terms SoS sees fit
- Revoke license (partial or full)

Current challenges/limitations

Lack of industry collaboration

Across the UKCS, unnecessarily confrontational commercial negotiations are delaying developments: missing opportunities for collaboration and creating hostilities between companies that foster more behaviour of the same type. This cycle will need to be broken if MERUK is to be successful

Lack of timely and transparent data

Access to high quality data encourages exploration activity and improves the outcomes of that activity. Current data release arrangements are not ensuring that all released data is made available promptly, in a form and at a price that will foster MERUK

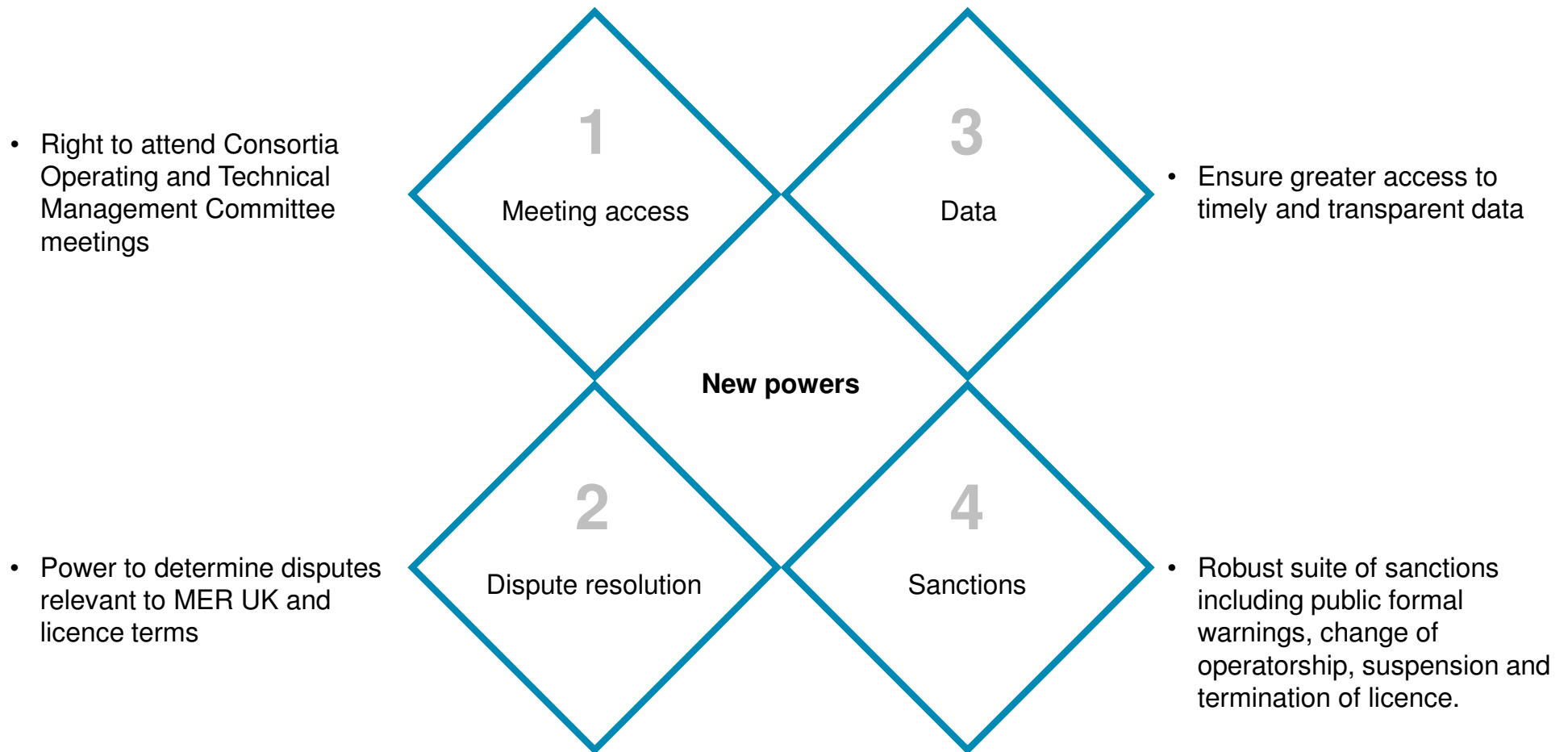
Access to meetings

Through the tax system HMG has an obvious interest in how joint ventures are managed and in future will have an interest in understanding how individual members of joint ventures are complying with their MERUK obligations. Accessing JV meetings is an efficient way of achieving this

Current sanctions inflexible and often disproportionate

In many cases the only sanction available to the regulator is revocation of the license. This is rarely proportionate and, even if it is, may not provide a MERUK outcome or be in the interests of UK taxpayers...

Proposed powers for the OGA



Meeting access

Rationale

- Wood Review: The OGA should have the right to attend meetings as an observer
- Meeting attendance would better inform the OGA of the state of play within the UKCS, in particular the challenges faced by industry, informing its Exploration Strategy and other sector strategies
- The OGA would also be on hand to attend meetings to provide advice and insight to companies
- Operational and Technical Management Committee Meetings will provide insight to technical challenges
- Higher level meetings may provide insight into more strategic levels

Meeting access Questions

**Where are decisions being made,
pertinent to MER UK, where meeting
access may be required**



Dispute resolution Rationale

- Lack of collaboration and significant number of disputes and disagreements on commercial and technical issues. This causes delays, poorer recovery and in some cases results in stranded assets, all of which will impact on MER UK
- The Wood Review challenged industry to come up with their solution to simplify the complexity and reduce the time required in legal and commercial negotiations
- The Wood Review recommended OGA should be provided with a power to resolve disputes by making a non-binding recommendation to the parties, who could be subject to sanctions for a breach of MER UK, or other licence clauses, if they failed to accept the opinion
- It is usual for dispute resolution processes to be set out in statute – OFCOM and DECC’s third party access
- Government is minded to provide the OGA with the power to define the detail of the process for referring and determining disputes, including the use of independent assessors, but the overall dispute resolution scheme will be defined in legislation with key powers and parameters
 - **Scope of the scheme**; types of dispute covered; parties able to initiate/use the process
 - **Referral requirements**; must be able to evidence a dispute and that reasonable steps have been taken to resolve the dispute
 - **Powers to require information**; from the parties in dispute and any party that holds relevant information
 - **Time limits**; for providing information and for the OGA to provide a determination
 - **Available sanctions**; for non compliance with the process and for non compliance with an opinion when inconsistent with MER UK and/or licence terms

To gain evidence and views to scope the scheme

Dispute resolution Questions

What are specific difficulties with the legal and commercial processes and how should these be addressed

What are the most common types of disputes that the scheme should cover

Do you agree with the suggested powers and parameters for the dispute resolution scheme and should any others be included



Data Rationale

- Wood Review *“The ready access to timely data is a prerequisite for a competitive market.”*
- OGA Exploration strategy will need to be informed by access to well and seismic data and encourage appropriate data sharing within regional development plans
- It has been suggested that current rules and guidelines are not widely understood by all players and there is no single place where they are held
- Not all rules on sharing of data are enforced: good behavior is not rewarded and poor behavior is not sanctioned
- More readily accessible data will lower the cost of exploration, furthering MER UK

Understand the benefits and implications of better data sharing to inform draft legislation

Data

Current and proposed landscape

Data Type	Current		Proposed	
	Period after collection it must be reported by industry to DECC	Time period data is held by DECC before publishing	Period of reporting by industry to DECC	Time period data is held by DECC before publishing
Speculative seismic	4 weeks <i>Notify of survey with quality checked header within three months of it being acquired</i>	Should be released after 10 years	No change	10 years
Proprietary seismic	4 weeks <i>Notify of survey with quality checked header within three months of it being acquired</i>	3 or 4 years, currently published directly	No change	3 years
Reservoir models	4 weeks	Not published	4 weeks	Not published
Exploration well data	4 weeks in license <i>PON 9 says meta data 3 months and all uploaded within a year</i>	3 or 4 years	4 weeks	3 years
Development well data	Reported 1 month in arrears	3 or 4 years	No change	3 years
Production data	Monthly	3 months at aggregated field level	No change	3 months, individual well data reported
Asset performance	Annual	Not published	Annual	3 years
Production efficiency	Annual	Not published	Annual	3 years
Recovery efficiency	Annual	Not published	Annual	3 years

Data Questions

How can the burden of reporting be minimised

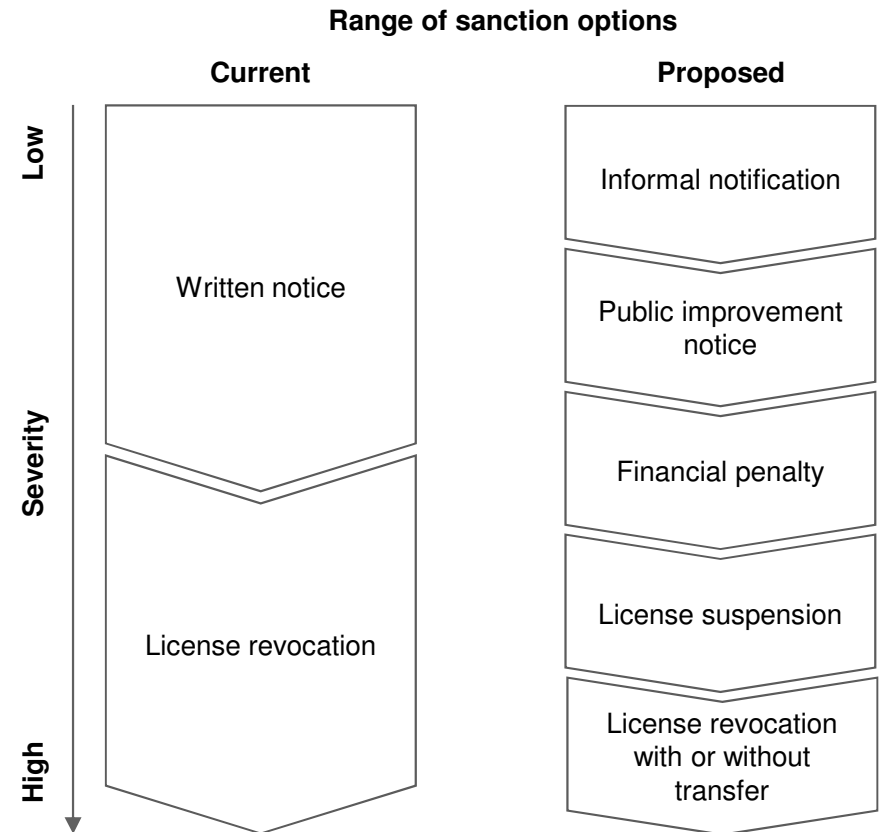
Are there any unforeseen consequences of enforcing the current law on publishing speculative seismic data after ten years

Should different considerations apply to 2D, 3D and 4D data



Sanctions Rationale

- The current sanctions are neither robust nor proportionate
- Currently, not all requests made in line with existing government powers are followed
- Sanctions currently target all parties of a joint venture, even if only one is at fault
- A robust and proportionate sanctions regime is necessary to ensure the success of MER UK



Inform sanctions policy to be established in legislation

Sanctions

Financial penalties

Rationale

- Serve three purposes: to strip profits gained through wrongdoing, to discourage bad behavior and to punish
- Financial penalties must be proportionate, taking into account a number of factors
- Sufficient magnitude to discourage poor behavior but capped appropriately so as not to irrevocably damage a company
- Should take into account the nature and seriousness of a breach

Sanctions Framework

Nature	Severe (3) <ul style="list-style-type: none"> • Authorised person has been uncooperative during investigation • Breach was intentional, negligent, reckless • Breaches continued after notification of non-compliance • Breach formed a pattern of misconduct or resulted from systemic failures 			
	Escalated (2) <ul style="list-style-type: none"> • Minimal/Some cooperation from authorised person with regulatory investigation • Breach as intentional, negligent or reckless but minor in nature • Breaches continued after notification of non-compliance • Breach may have formed a pattern of misconduct or resulted from systemic failures 			
	Basic (1) <ul style="list-style-type: none"> • Authorised person has cooperated fully with regulatory investigation • Breach was not intentional, negligent or reckless • Breach has ceased after authorised person notified of non-compliance • Breach did not form a pattern of misconduct or result from systemic failures 			
	Low (2) <ul style="list-style-type: none"> • Inconvenience but no/minimal loss, detriment, impact or risk to other operators or the MER UK Strategy 	Medium (4) <ul style="list-style-type: none"> • Moderate loss, detriment, impact or risk to other operators or the MER UK Strategy • Potential for moderate loss, detriment, impact or risk to other operators or the MER UK Strategy 	High (6) <ul style="list-style-type: none"> • Significant loss, detriment, impact or risk to consumers/other persons or bodies • Potential for significant loss, detriment, impact or risk to other operators or the MER UK Strategy Wide scale detriment 	

Seriousness

Sanctions Questions

Are these sanctions sufficient

**What safeguards are necessary
within the sanctions regime**

**What should be the factors
considered on nature
and seriousness**

**How should a cap on financial
penalties work**



Session 4

OGA Governance and cost recover

OGA Governance

OGA governance structure

We need to create an effective Oil and Gas Authority governance structure with

- An empowered Executive with day-to-day operational independence
- A board which acts as the final arbiter by providing checks and balances on executive actions and is supported by the necessary committees
- A board with relevant regulatory and industry experience to provide the necessary challenge and assurance to Ministers (as is common practice in other regulating bodies)
- An appropriate consultative and reporting mechanism to ensure industry views are considered
- The right combination of controls included in legislation and company constitutional documents

Whilst designed to maximise independence of the OGA, the Secretary of State will require powers to

- Hold the board to account
- Ensure that high-level Government policy outcomes are delivered, and in a way which represents value for money
- Direct the Board, although – as with other regulators – this will be restricted in its use and there will be safeguards
- This will be operationalised through an annual review cycle of OGA progress, priorities and budget approval, with regular quarterly reviews

OGA Governance Questions

We envisage that the OGA will be the first point of call for industry, in achieving this:

- How should industry views feed into the OGA? Should there be a formal group or mechanism, if so how what size and how should it work?
- Do you think that with the introduction of any additional mechanism there needs to be a streamlining of current engagement processes?
- How could the OGA best work for industry?



Cost recovery

Cost recovery mechanism

Rationale

Currently around 20% of costs of the equivalent team at DECC are recovered through fees (The Gas and Petroleum (Consents) Charges Regulations 2013 (SI 2013/1138))

Proposal

- We are proposing a full cost recovery mechanism for the OGA comprising of extant set of charges and a levy

How will it work

- DECC is proposing to introduce a levy to recover all costs undertaken by the OGA, which will not be recovered via charges and fees

Reasoning

- Delivering MER UK requires the OGA to be significantly better resourced than the current equivalent team at DECC
- The OGA needs the financial flexibility and delegated freedom to attract the most experienced and suitable candidates in a competitive market to improve performance across the basin
- The Wood Review noted that many regulatory bodies are fully funded by their respective industries and HMG agrees with this stance. These are: Ofgem, Ofcom and the FCA. This appears to be an appropriate funding model for the OGA

Cost recovery mechanism

Levy mechanics – Proposed in the Infrastructure Bill

- The levy will be payable only by licence holders
- The levy could be based on acreage or output
- Different levy rates could apply to different types of licence (exploration, production), different ages of licence and different terms of licence
- Some licence holders may be exempt from paying the levy
- The proposed split of activities, which will be recovered via the levy has been subject to a comprehensive case study and exhaustive discussions with Treasury and is not negotiable
- The OGA's intention is to avoid burdening industry and we will commit to keep costs and administrative burden to a minimum whilst ensuring the OGA is adequately resourced to deliver its remit

Outline levy design For discussion

- Levy to be calculated based on acreage as of a fixed point in the year
- Levy to be paid **only** by producing licence holders
- Levy to be collected via multiple payments in the year
- Amount to be raised by levy will be set out in OGA's business plan during annual review cycle for SoS's approval
- Annual levy rates to be set out in regulations and subject to Parliamentary Scrutiny

Cost recovery mechanism

Current and proposed landscape

Activities currently directly charged for under S.188 Powers

- Approval of an onshore or offshore Field Development Plan (FDP)
- Approval of an offshore Gas Storage Development Plan
- Approval of an offshore carbon dioxide Storage Permit
- Pipeline Works Authorisations
- Pipeline deposit consents
- Consent to drilling operations
- Consent to Licence Changes
- Production/Flaring/Vent consents
- Methodology proposed for the measurement of petroleum (PON6 approval)
- Extended Well Tests

Additional activities proposed to be charged for directly under S.188 Power

- Inspecting metering systems on offshore platforms and onshore production sites
- Licence extensions

Activities to be recovered by levy

- Developing UKCS Strategy (PILOT/MER UK)
- Responding to non-license related/public correspondence
- Data: Production returns and projections any enhanced data infrastructure to support enhanced transparency and access to data
- Operational Licensing Policy
- The Field Teams ((Non FDP approval work) regular and ad hoc meetings with licence holders)
- Exploration Team (e.g. Fallow Work)
- Upstream Emergency Planning
- Upstream Petroleum Infrastructure Third party access disputes resolution procedures
- Other activities not charged for directly within scope of Infrastructure Bill provisions such as operating dispute resolution regime; enforcing sanctions

Cost recovery mechanism Questions

Are there any other metrics which would be helpful in calculating the levy

Do you agree that some license holders should be exempt from paying the levy (if so, who and why?) [Exemption from the levy does not mean exemption from the extant charging regime]

How often should the levy be collected

