

DECC'S RESPONSE TO THE CONSULTATION ON CHARGING A FEE IN RESPECT OF OFFSHORE (OIL AND GAS) INSTALLATIONS AND PIPELINES DECOMMISSIONING PROGRAMMES UNDER THE PETROLEUM ACT 1998



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The consultation and Impact Assessment can be found on the Department's Main Consultations
webpage and the Oil & Gas Consultations webpage at:

<http://www.decc.gov.uk/en/content/cms/consultations/consultations.aspx>

<https://www.oq.decc.gov.uk/consultations/index.htm>

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DECC's Response to the Consultation on charging a fee in respect of offshore (oil and gas) installations and pipelines decommissioning programmes under the Petroleum Act 1998

1.0 Introduction

1.1 The consultation on charging a fee in respect of offshore (oil and gas) installations and pipelines decommissioning programmes under the Petroleum Act 1998 was launched on 30 March 2011 and closed on 22 June 2011 (details at:

<http://www.decc.gov.uk/en/content/cms/consultations/consultations.aspx>).

1.2 The offshore oil and gas industry operates under a statutory decommissioning regime: the Petroleum Act 1998 ("the Act") (as amended by the Energy Act 2008) for offshore (oil and gas) installations and pipelines. The Act sought to ensure that companies which established offshore (oil and gas) installations and pipelines carry out the decommissioning of those facilities and neither the responsibility nor the cost of that work should fall to the taxpayer.

1.3 Part 4 of the Act (Sections 29-45) sets out statutory provisions for the decommissioning of offshore (oil and gas) installations and pipelines. Under the terms of Part 4 of the Act, the Secretary of State may require a person, or persons jointly, to submit a decommissioning programme for the offshore (oil and gas) installations and pipelines. Sections 29 and 39 of the Act also allow DECC to charge a fee in respect of its expenditure under Part 4 when a person submits a decommissioning programme. The Secretary of State also has a power to charge a fee in respect of a proposal to revise a decommissioning programme (section 34(4)).

1.4 DECC is seeking to make changes to the operation of this decommissioning regime and proposes to charge a fee on the submission of offshore (oil and gas) installations and pipelines decommissioning programmes and in respect of any proposal for the revision of an approved programme. The principle aim of the proposals is to allow DECC to recover its expenditure for the exercise of its functions under Part 4 of the Act . DECC will not be seeking to make a profit from such a charge but merely recover its costs in carrying out those functions.

1.5 Prior to the consultation DECC considered the merits of four charging scheme options based on either 1) 'Type of Facility'; 2) 'Field Production'; 3) 'Man Hours Spent' or 4) 'Flat Rate Fee'. The consultation sought views on these options and also asked whether stakeholders had a preference or equally whether they wished to propose an alternative option(s).

1.6 This report covers the significant consultation responses received and DECC's replies to them.

2.0 Summary of Consultation Responses

2.1 Responses to the consultation were received from Atlantic Petroleum, Bridge Energy UK Limited, Chevron North Sea Limited, CNR International (U.K.) Limited, Exxon Mobil, Marathon Oil, Oil & Gas UK, Oil and Gas Independents Association (OGIA) and Total E&P UK Limited. While some consultees would prefer not to pay a fee when submitting or proposing a revision of decommissioning programmes, from those responses which expressed a preference, the majority of stakeholders have indicated that their preferred charging scheme method is one based on the 'Type of Facility'. This is also DECC's preferred charging method. The second stakeholder preference is the 'Flat Rate Fee' option. Therefore a charging scheme based on the 'Type of Facility' taking into the account the principles of the 'Flat Rate Fee' option will be taken forward by DECC for further development.

Key issues raised

2.2 Costs should be met by licence fees.

The Offshore Decommissioning Unit ("ODU") within DECC carries out decommissioning functions as described by Part 4 of the Act . Section 29 of the Act allows the ODU to charge a fee in respect of its expenditure on decommissioning functions. Recovery of these costs can only be met by exercising powers under Part 4 of the Act and cannot be met by licensing fees which are administered under a separate charging regime within DECC.

2.3 Central Government should continue to fund the costs of the Offshore Decommissioning Unit rather than being financed by Industry.

Exploitation of the offshore energy resource brings with it UK and International obligations to decommissioning installations and pipelines at the end of field life. The offshore oil and gas industry operates under a statutory decommissioning regime - Part 4 of the Act. The ODU within DECC carries out decommissioning functions as described by Part 4 of the Act. Section 29 of the Act allows the ODU to charge a fee in respect of its expenditure on decommissioning functions. The ODU therefore intends to exercise this power to enable DECC to carry out and maintain those functions.

DECC will continue to seek effective and balanced decommissioning solutions, which are consistent with our obligations and have a proper regard for safety, the environment, other legitimate users of the sea, economic considerations and social considerations. DECC will continue to ensure that the functions of Part 4 of the Act are open and transparent and decommissioning programmes take into account comments from interested parties including key stakeholders, statutory consultees and a public consultation process.

2.4 Any fees should be easy to administer.

DECC agrees that a charging regime should be transparent, equitable and relatively simple to adopt therefore minimising administration costs.

2.5 Confirmation that the proposals are to recover costs and not establish a profit centre.

DECC is not seeking to make a profit from such an activity but merely recover its costs in carrying out the functions described in Part 4 of the Petroleum Act 1998.

2.6 Implementation timescales for charging scheme.

It is DECC's intention that the legislative proposals should come in to effect during late 2011/early 2012.

2.7 Any costs should be on a flat rate basis.

A charging scheme based on the 'Type of Facility' taking into the account the principles of the 'Flat Rate Fee' option will be taken forward by DECC for further development. DECC intends to adopt three charging bands based on the type of facility. A) Derogation candidates/large platforms (concrete installation/steel installation with a jacket weight greater than 10,000 tonnes); B) Other platforms with a jacket weight less than 10,000 tonnes, and also including floating facilities and subsea installations; C) Pipelines. Band A) would attract the highest fee, Band B) an intermediate fee and Band C) lowest fee. If an Operator is submitting both an installation and pipeline decommissioning programme the total fee would therefore be Band A) or Band B) plus Band C). The Department also intends to apply a higher fee within Band A) and Band B) if there are multiple (two or more) installations within an installation decommissioning programme. These will be classified as Band A1) and Band B1) respectively. For clarity there will be only one sub band within Band A and B.

The approval/revision process is consistent and the services are fairly standardised. Charges for these services will be made on a daily full cost rate with a view to ensuring that the customer pays a fee to cover the cost of dealing with the specific approval or revision of a decommissioning programme (i.e. is charged a bespoke amount on a case by case basis based on the Unit's best estimate of the full cost incurred).

2.8 Submission of a decommissioning programme - payment of a fee should be made once only.

The Department's intention is that such a fee should apply once only in respect of each decommissioning programme submission.

2.9 Revisions of a decommissioning programme - a fee should only be payable if there is a material change to a programme.

Following current practice DECC will wherever possible deal with any minor changes to a decommissioning programme via an exchange of correspondence. A fee would only be payable if there was a material change to a decommissioning programme which required a formal revision under Section 34 of the Act.

3.0 Next Steps

3.1 DECC plans to seek Parliamentary approval for its cost recovery proposals in the Autumn with a view to them entering into force during late 2011/early 2012.

4.0 DECC contact

4.1 Any queries on this report should be addressed to Kevin Munro
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