

# DECOMMISSIONING OFFSHORE (OIL AND GAS) INSTALLATIONS AND PIPELINES

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.og.decc.gov.uk/consultations/index.htm

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## Why is DECC conducting this Consultation?

Offshore (oil and gas) installations and pipelines have an important role in supplying the nation's current and future energy needs and meeting our objectives for security of supply. Exploitation of the offshore energy resource also brings with it international obligations to decommission installations and pipelines at the end of their life in order to ensure safety of navigation, whilst taking account of fishing and protection of the marine environment. 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.

Section 29 of the Act provides that the Secretary of State can require a person(s) to submit an abandonment programme, commonly referred to as a decommissioning programme, setting out the measures proposed to be taken in connection with the abandonment of offshore (oil and gas) installations and pipelines. In addition, it allows the Department to charge a fee to a person submitting such a programme in respect of its expenditure on decommissioning functions carried out under Part 4 of the Act. The Secretary of State also has a power to charge a fee in respect of a proposal to revise an abandonment programme (section 34(4)). The Department therefore proposes to charge Industry a fee when submitting programmes or requesting the revision of programmes, to recover its costs of carrying out functions in relation to the decommissioning of offshore (oil and gas) installations and pipelines, and has outlined several options regarding the proposed charging mechanism in this consultation.

The aim of this consultation is to formally seek views from stakeholders e.g. offshore oil and gas operators and other companies with an interest in decommissioning offshore (oil and gas) installations and pipelines and other interested parties. The Department would also be interested to hear whether you have a preference from the list of options or equally whether you wish to propose an alternative option(s).

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## **General Information**

#### Purpose of this consultation

Consultation on charging a fee in respect of offshore (oil and gas) installations and pipelines decommissioning programmes under the Petroleum Act 1998.

Issued: 30 March 2011

Respond by: 22 June 2011

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Consultation reference: URN D10/797 - Decommissioning Offshore (Oil and Gas) Installations

and Pipelines

#### **Territorial extent:**

The offshore oil and gas regime is generally a reserved matter for Wales, Scotland and Northern Ireland (although certain of the Secretary of State's functions under Part 4 of the Petroleum Act 1998, including the power to make regulations under section 39(1), can only be exercised in relation to Wales and Scotland following consultation with the Welsh and Scotlish Ministers respectively). It is proposed that the Regulations would apply to all of the UK territorial waters and to the United Kingdom Continental Shelf.

#### How to respond:

Your response will most useful it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Please send your response (preferably in electronic format) by 22 June 2011 to:

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#### **Additional copies:**

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Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

#### Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want information that you provide to be treated as confidential please say so clearly in writing when you send your response to the consultation. It would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

We will summarise all responses and place this summary on our website at <a href="https://www.decc.gov.uk/en/content/cms/consultations/">www.decc.gov.uk/en/content/cms/consultations/</a>. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

#### **Quality assurance:**

This consultation has been carried out in accordance with the Government's Code of Practice on consultation, which can be found here: http://www.bis.gov.uk/files/file47158.pdf

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

DECC Consultation Co-ordinator 3 Whitehall Place London SW1A 2AW

Email: consultation.coordinator@decc.gsi.gov.uk

## **Executive Summary**

- **2.1** This consultation relates to proposed changes to the statutory decommissioning regime for offshore (oil and gas) installations and pipelines. In this document, "offshore (oil and gas) installations" refers to installations used or intended to be used for carrying on of petroleum exploration and exploitation activities and for gas storage and unloading, but not to carbon storage installations. It is a fundamental principle of the decommissioning regime that a person who is responsible for developing or operating an offshore installation/pipeline should also be responsible for decommissioning at the end of its useful life. The Department therefore intends to charge Industry a fee for approving and revising offshore (oil and gas) decommissioning programmes rather than passing the costs onto the taxpayer which is in line with the 'polluter pays' principle of environmental law and will also enable full cost recovery.
- **2.2** Part 4 of the Petroleum Act 1998 (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 Petroleum Act 1998 ("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. It also makes provision about the approval, rejection and revision of programmes. A person who submitted an abandonment programme that has been approved is under a duty to carry it out. Part 4 also makes provision for financial security to be provided in respect of the performance of obligations under an approved programme.
- **2.3** Sections 29 and 39 of the Act also allow the Department to charge a fee in respect of its expenditure under Part 4 when a person submits an abandonment programme. The Secretary of State also has a power to charge a fee in respect of a proposal to revise an abandonment programme (section 34(4)).
- **2.4** The Department 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 by a person for the revision of an approved programme. The charging mechanism will allow the Department to recover its expenditure for the exercise of its functions under Part 4 of the Act . The Department will not be seeking to make a profit from such a charge but merely recover its costs in carrying out those functions.
- **2.5** Guidance Notes for decommissioning offshore (oil and gas) installations and pipelines under the Petroleum Act 1998 are available at: <a href="https://www.og.decc.gov.uk/regulation/guidance/decommission.htm">https://www.og.decc.gov.uk/regulation/guidance/decommission.htm</a>

Subject to the outcome of this consultation and the Parliamentary process, when Regulations are made to implement the proposals set out in this consultation document, the Department will update the Guidance Notes to reflect this.

**2.6** The purpose of this twelve-week Consultation (closing on 22 June 2011), is to seek views of relevant stakeholders on the proposals to charge a fee in respect of offshore (oil and gas) installations and pipelines decommissioning programmes. All comments received on this consultation will be taken into consideration during the process of finalising the preferred option. The Department would also be interested to hear whether you have a preferred option or equally whether you wish to propose an alternative option(s).

- **2.7** The consultation is expected to be of interest to businesses responsible for the development and operation of offshore (oil and gas) installations and pipelines, as they will be responsible for submitting the decommissioning programmes.
- **2.8** The offshore oil and gas regime is generally a reserved matter for Wales, Scotland and Northern Ireland (although certain of the Secretary of State's functions under Part 4 of the Petroleum Act 1998, including the power to make regulations under section 39(1), can only be exercised in relation to Wales and Scotland following consultation with the Welsh and Scotlish Ministers respectively). It is proposed that the Regulations would apply to all of the UK territorial waters and to the United Kingdom Continental Shelf.

## **Consultation questions**

#### **Consultation Question**

1. Do you have any comments on the Department's proposals to charge a fee for approval and revision of offshore (oil and gas) installations and pipelines decommissioning programmes under the Petroleum Act 1998.

#### Consultation Question

2. Do you have a preferred charging scheme method from the list of options as discussed at section 4.11.

#### **Consultation Question**

3. Do you have an alternative option(s) that you wish the Department to consider.

### Main document

## Proposal to charge a fee in respect of offshore (oil and gas) installations and pipelines decommissioning programmes

#### **Basic Explanation**

- **4.1** The decommissioning provisions in the Act reflect the Government's view taking into account our international obligations that a person who constructs, extends, operates or uses an offshore installation/pipeline should be responsible for ensuring that the infrastructure is decommissioned at the end of its useful life, and should be responsible for meeting the costs of decommissioning (the "polluter pays" principle). Ensuring that decommissioning projects are carried out by the responsible persons on time and effectively is also of interest to other users of the seas such as fishermen and to The Crown Estate (as both a landowner and owner of rights).
- **4.2** Our international obligations to decommission disused installations are set out in Annex C. They have their origins in the United Nations Convention on the Law of the Sea (UNCLOS). This requires abandoned or disused installations or structures to be removed, to ensure safety of navigation, taking into account generally accepted international standards. International Maritime Organization (IMO) standards were adopted in 1989.
- **4.3** Relevant work has also been undertaken under the OSPAR Convention, which guides international cooperation on the protection of the marine environment of the North-East Atlantic. OSPAR Decision 98/3 sets out binding requirements for the disposal of disused offshore oil and gas installations.
- **4.4** Part 4 of the Petroleum Act 1998 (Sections 29-45) sets out statutory provisions for the abandonment of offshore (oil and gas) installations and pipelines. It was amended by the Energy Act 2008 so that an 'installation' as defined in section 44 of the Petroleum Act 1998 now includes an installation used for the purposes of gas storage and unloading activities, as well as installations used for petroleum exploration and exploitation activities. The proposals set out in this consultation are intended to apply to all installations within the meaning of section 44. The Energy Act 2008 also makes provision for Part 4 to apply to the decommissioning of carbon storage installations (i.e. installations used in connection with carbon capture and storage (CCS)), but at this stage in the development of CCS activities the Department does not propose to charge fees in relation to decommissioning programmes relating to carbon storage installations.
- **4.5** Under the terms of Part 4 of the Petroleum Act 1998 ("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. It also makes provision about the approval, rejection and revision of programmes. A person who submitted an abandonment programme that has been approved is under a duty to carry it out. Part 4 also makes provision for financial security to be provided in respect of the performance of obligations under an approved programme.
- **4.6** Section 29 of the Act also allows the Department to charge a fee in respect of its expenditure under Part 4 when a person submits an abandonment programme. The Secretary of State also has a power to charge a fee in respect of a proposal to revise an abandonment programme (section 34(4)).

**4.7** In light of current economic conditions and the recent Government Spending Review it is essential that DECC recovers costs wherever possible. The Department is therefore intending to make changes to the operation of this decommissioning regime and proposes to charge a fee when a person submits a programme or request a revision to an offshore (oil and gas) installations and pipelines decommissioning programmes. The Department therefore intends to implement a charging regime to recover its expenditure in carrying out functions under Part 4 of the Act, and has set out a number of possible options to enable full cost recovery. The Department would not be seeking to make a profit from such a charge but merely recover its costs in carrying out those functions. As the Department facilitates the decommissioning programme process it would therefore seem fair that the companies leading to this expenditure should make a contribution to such costs and enable DECC to maintain those functions.

More detailed information concerning the possible charging scheme options are contained in Sections 4.11 - 4.12 below.

#### Offshore Decommissioning Unit

- **4.8** The Offshore Decommissioning Unit ("ODU") of the Energy Development Unit in DECC administers the provisions of Part 4 of the Petroleum Act 1998 (Section 29-45). Section 29 of the Petroleum Act 1998 ("the Act") enables the Secretary of State (through ODU) to serve notices requiring the recipient(s) to submit a costed decommissioning programme for his approval at such time as he may direct. Notices under Section 29 of the Act are issued following field development approval ODU then continues to monitor the position during field life and will, taking into account changes in ownership, issue further notices and consider withdrawal of notices, where appropriate. A notice under Section 29 of the Act is an essential first step in the process to ensure that the recipient(s) is liable to submit and carry out a decommissioning programme at a later date. ODU currently employs ten staff who administer the provisions of Part 4 of the Petroleum Act 1998 from development approval, during production and also the consideration and implementation of decommissioning programmes. The costs of operating ODU for the 2010/2011 financial year are in the region of £700,000 to £800,000. However, this figure is likely to rise in future years given the anticipated increase in the number of programmes which ODU expect to be submitted for consideration.
- **4.9** The Department therefore intends to use its powers under Sections 29 and 34 of the Act to charge a one-off fee payable on submission of a decommissioning programme or on receipt of a request for the revision of a programme. Section 39 of the Act enables the Secretary of State to make regulations and provision as to the determination of the amount of any fees that are payable.
- **4.10** Current DECC figures indicate there are over 500 installations and around 3300 pipelines on the UKCS which will be decommissioning during the next 30-40 years with estimated decommissioning costs between £24-£30Bn. ODU expects to deal with around 100 decommissioning programmes during the next ten year period. Latest Industry figures suggest that the cost of producing decommissioning programmes, including associated environmental and technical studies, will be around £350M over the next 30 year period.

#### **Charging scheme options**

#### 4.11 Fee payable on submission of decommissioning programme

The Department is currently considering the merits of the following four charging options and would be interested to hear your views on them. The Department is particularly interested in establishing whether you have a preference from the four options or equally whether you wish to propose an alternative option(s). Following internal review DECC's current preference is option 1 as it would be equitable, costs to the companies will reflect the use of Departmental resource, it minimises administrative costs, and would also be relatively simple to adopt. Past history also indicates that larger facilities/projects take up a greater staffing resource.

**Option 1: Type of facility:** 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 subsea installations (manifold, well head protection structure/s etc.); c) Pipelines. Band a) would attract the highest fee, Band b) an intermediate fee and Band c) lowest fee. If the 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 for Band a) and Band b) if there are multiple platforms within an installation programme.

Derogation candidates: See also Annex C. In most cases the general rule under OSPAR Decision 98/3 will provide for full removal for re-use, recycling or final disposal of the installation on land. In the more complex cases relating to concrete installations and to steel jackets with a jacket weight greater than 10,000 tonnes a full assessment of the options in accordance with Annex 2 to OSPAR Decision 98/3 must be undertaken by the Operator so that DECC may judge whether there is a case for seeking a derogation from the general rule of the Decision.

**Option 2: Field Production:** three categories based on level of production (e.g. 0–49 million barrels of oil equivalent "mmboe", 50-149.99mmboe, 150mmboe upwards) with an associated lower, medium and higher fee. Although transparent and relatively straightforward to implement DECC recognises the need to consider the implications of an asset transfer during or towards the end of field life. For example, should DECC charge the current operator a fee based on total production during field life or on production since they acquired the asset. If DECC adopts the latter approach how would it manage any potential shortfall in fee receipts.

**Option 3: Man hours spent:** Amount of DECC resource used in relation to a particular installation/pipeline. Charge will be calculated by reference to time expended carrying out functions regarding the installation/pipeline. Although the fee would be case specific it is recognised this option would place a burden on administration and could therefore increase overall costs.

**Option 4: Flat Rate Fee:** Based on historical evidence estimate the number of decommissioning programmes that are likely to be approved in the next year. Divide ODU costs by programme approval estimate. Or, estimate number of programmes likely to be approved over a set period (e.g. next 5 years). Divide total ODU costs for next five years by likely number of programme approvals for the same period.

#### 4.12 Fee payable on receipt of a request for a revision of a programme.

As mentioned earlier 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). Given that the staffing resource to undertake this activity is broadly similar in most cases the Department intends to charge a smaller flat rate fee to carry out this function.

#### 4.13 Impact Assessment (IA)

As outlined earlier the anticipated cost to the offshore oil / gas industry is likely to be £800,000 for the 2011/12 year. It is anticipated there will be no transitional or recurring annual costs to DECC. Further information including the Impact Assessment can be found at Annex B and has also been published 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.og.decc.gov.uk/consultations/index.htm

## What happens next?

- **5.1** The deadline for responses to this consultation is **22 June 2011**.
- **5.2** It is the Government's intention to lay new regulations to charge a fee in respect of offshore (oil and gas) installations and pipelines decommissioning programmes under the Petroleum Act 1998 before Parliament (after taking into account consultation responses) as soon as possible following the closure of this consultation.
- **5.3** Decisions resulting from this consultation will be made public with a summary of views expressed and reasons for the decisions finally taken. The summary of responses, and the Government's response, will be published on the Department's website within three months of the close of this consultation. If you would like to be notified by e-mail when these are published please indicate this in your response.
- **5.4** The final version of the abovementioned regulations as laid before Parliament will be published on the Department's website. Our current intention is that the legislative proposals should come into force on **1 Oct 2011**.

#### Annex A

The Consultation Code of Practice: The Seven Consultation Criteria

#### The Consultation Code of Practice

#### The Seven Consultation Criteria

#### Criterion 1 When to consult

Formal consultation should take place at a stage when there is scope to influence the policy outcome.

#### **Criterion 2** Duration of consultation exercises

Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.

#### **Criterion 3** Clarity of scope and impact

Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.

#### **Criterion 4** Accessibility of consultation exercises

Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

#### Criterion 5 The burden of consultation

Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.

#### **Criterion 6** Responsiveness of consultation exercises

Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.

#### **Criterion 7** Capacity to consult

Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

The complete code is available at: <a href="http://www.bis.gov.uk/files/file47158.pdf">http://www.bis.gov.uk/files/file47158.pdf</a>.

#### Annex B

Impact Assessment (see separate stand alone document)

#### **Annex C**

#### **International Regime and Obligations**

#### United Nations Convention on the Law of the Sea

- The UK's international obligations on the decommissioning of offshore installations have their origins in the United Nations Convention on the Law of the Sea (UNCLOS), 1982.
   The Convention entered into force in 1994 and the UK acceded to it in 1997.
- 2. Article 60 of UNCLOS sets out countries' requirements in respect of abandoned or disused installations or structures in the exclusive economic zone.

"Any installations or structures which are abandoned or disused shall be removed to ensure safety of navigation, taking into account any generally accepted international standards established in this regard by the competent international organization. Such removal shall also have due regard to fishing, the protection of the marine environment and the rights and duties of other States. Appropriate publicity shall be given to the depth, position and dimensions of any installations or structures not entirely removed."

#### **International Maritime Organization standards**

- 3. The competent international organization for the purposes of Article 60 of UNCLOS is the International Maritime Organization (IMO). The IMO adopted, in 1989, 'Guidelines and Standards for the Removal of Offshore Installations and Structures on the Continental Shelf and in the Exclusive Economic Zone'. The UK is therefore required, under UNCLOS, to take these IMO standards into account in removing abandoned or disused installations and structures in the exclusive economic zone.
- 4. The IMO standards require abandoned or disused offshore installations or structures, on any continental shelf or in any exclusive economic zone, to be removed, except in certain specified circumstances. Removal should be performed as soon as reasonably practicable after abandonment or permanent disuse of the installation or structure. Removal should be performed in such a way as to cause no significant adverse effects upon navigation or the marine environment.

## OSPAR Convention for the Protection of the Marine Environment of the North-East Atlantic

5. In 1992 a new convention, the Convention on the Protection of the Marine Environment of the North East Atlantic ("the OSPAR Convention"), was agreed. This regional convention, which

applies to specific sea areas of the North East Atlantic, including the North Sea and parts of the Arctic Ocean, replaced and updated the 1972 Oslo Convention on the Protection of the Marine Environment by Dumping from Ships and Aircraft and the 1974 Paris Convention on the Prevention of Marine Pollution from Land-Based Sources. The OSPAR Convention came into force in 1998.

- In July 1998 at the First Ministerial meeting of the OSPAR Commission, a new regime for the decommissioning of disused offshore installations was established under the new Convention. Ministers adopted a binding Decision to ban the disposal of offshore installations at sea.
- 7 Pipelines are not covered by OSPAR Decision 98/3. There are no international guidelines on the decommissioning of disused pipelines.

#### The Main Features of OSPAR Decision 98/3

- 8 Under the terms of Decision 98/3, which entered into force on 9 February 1999, there is a prohibition on the dumping and leaving wholly or partly in place of offshore installations. The topsides of all installations must be returned to shore. All installations with a jacket weight less than 10,000 tonnes must be completely removed for re-use, recycling or final disposal on land.
- The Decision recognises that there may be difficulty in removing the 'footings' of large steel jackets weighing more than 10,000 tonnes and in removing concrete installations. As a result there is a facility for derogation from the main rule for such installations. It has been agreed that these cases should be considered individually to see whether it may be appropriate to leave the footings of large steel installations or concrete structures in place. Nevertheless, there is a presumption that they will all be removed entirely and exceptions to that rule will be granted only if the assessment and consultation procedure, which forms part of the OSPAR Decision, shows that there are significant reasons why an alternative disposal option is preferable to re-use or recycling or final disposal on land.
- The derogation provision for the footings of large steel installations applies only to those installed before 9 February 1999. All steel installations placed in the maritime area after that date must be totally removed. It should also be noted that the Ministerial 'Sintra' statement which accompanied Decision 98/3 made clear that new concrete installations would be used only when it is strictly necessary for safety or technical reasons.
- The Decision provides for review by the OSPAR Commission at regular intervals, to consider in the light of experience and technical developments whether the derogations from the general ban on dumping continue to be appropriate. The first such review was conducted in 2003 and concluded that insufficient decommissioning experience existed to justify changing the derogation criteria. Nevertheless, there is a clear intent within the Decision to reduce the scope of possible derogations and it can be expected that future derogation cases presented to OSPAR will be judged against the advances in technology or contractor capabilities that may have been achieved at the time. A further review of the Decision will be undertaken in 2013.

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