



HM Treasury

# **Maximising economic recovery:**

consultation on a cluster  
area allowance

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HM Treasury

# Maximising economic recovery: consultation on a cluster area allowance

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July 2014

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# Preface

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<b>Subject of this consultation:</b>	Introducing a new cluster area allowance.
<b>Scope of this consultation:</b>	This consultation seeks views on the government's proposal for a new cluster area allowance, to support investment in the development of ultra high pressure, high temperature projects and encourage exploration and appraisal within cluster areas.
<b>Who should read this:</b>	The government would like to hear from a wide range of stakeholders including individuals, companies and representative and professional bodies. In particular, the government invites comments from companies involved in exploration for, and production of, oil and gas on the UK Continental Shelf, including those involved in the provision of financial and legal services.
<b>Duration:</b>	The consultation opens on 23 July and closes on 30 September 2014.
<b>Lead official:</b>	Nico Heslop, Environment and Transport Taxes Team, HM Treasury
<b>How to respond or enquire about this consultation:</b>	<p>Responses to this consultation can be sent by email to: <a href="mailto:clusterallowance@hmtreasury.gsi.gov.uk">clusterallowance@hmtreasury.gsi.gov.uk</a></p> <p>Alternatively, responses can be sent by post to:</p> <p>Nico Heslop Environment and Transport Taxes Team HM Treasury 1 Horse Guards Road London, SW1A 2HQ</p>
<b>Additional ways to be involved:</b>	As part of the consultation process, we would like to establish a working group of commercial, exploration, tax and finance experts to discuss technical issues raised by the consultation. If you would like to be a working group member please send a nomination, with your current position and organisation, using the correspondence details above.
<b>After the consultation:</b>	The government will publish a summary of responses to this consultation later in the year. Where appropriate, legislation will be brought forward in Finance Bill 2015.
<b>Getting to this stage:</b>	This consultation follows an announcement at Budget 2014 that the government would introduce a new allowance to support investment in ultra high pressure, high temperature oil and gas projects.
<b>Previous engagement:</b>	The government has held discussions with industry since Budget 2014, which have helped to inform development of the proposal set out in this consultation document.



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# Foreword

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The government's aim for the UK's oil and gas resources is simple: to maximise the benefits they can bring to our economy.

While this of course means continuing to ensure a fair return to the nation through taxation, it also means supporting investment in projects which generate jobs, supply a large portion of the UK's primary energy needs and help sustain a world-class supply chain which exports around the globe. It means treating the North Sea as a hugely important economic asset, even as it becomes less of a tax asset.

Sir Ian Wood's recent review into ways of maintaining UK oil and gas production clearly set out the size of the prize that still remains in the North Sea. But as the basin matures, the oil and gas remaining is becoming increasingly difficult and expensive to extract. Projects are often in very deep waters, or require new technologies.

The industry's ingenuity and creativity is helping to secure its long-term future, by identifying ways to extract these hard to reach hydrocarbons. And the government must rise to the same challenge – to support the development of more complex and high cost projects.

That is why we are consulting on a new approach to support ultra high pressure, high temperature projects. It builds on the onshore allowance, introduced at Autumn Statement 2013, which has already started to support investment in onshore oil and gas projects. We have worked closely together across HM Treasury, HM Revenue and Customs and the Department of Energy and Climate Change to ensure the tax aspects of this proposal align with the licensing regime to create a strong mechanism to support investment that would otherwise not happen.

Our proposed approach, which aims to encourage exploration and appraisal around big development projects, has already been described as a potential "game changer" by industry. Not only will it support producers, but by securing a pipeline of projects, it can help enhance the UK supply chain's global capabilities in this high technology sector.

The UK can afford to provide this support, helping to maximise the value of our oil and gas resources, because of the size and diversity of our economy. We are able to adopt a long-term approach, which comes at a short-term cost to the Exchequer, because of our broad shoulders. The UK working together offers the strongest basis from which to sustain production and investment in the North Sea.

**Priti Patel MP**  
Exchequer Secretary to the Treasury

**Matt Hancock MP**  
Minister of State for Energy



# 1

## Introduction

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**1.1** At Budget 2014, the government announced that it would introduce a new allowance to support investment in ultra high pressure, high temperature oil and gas projects.

### Structure of the document

**1.2** The remainder of the document is set out as follows:

- Chapter 2 explains the background to this proposal;
- Chapter 3 sets out the government's objectives for the new allowance;
- Chapter 4 outlines the government's proposed approach to the new allowance;
- Chapter 5 provides an assessment of the impacts of the new incentive; and
- Chapter 6 summarises the consultation questions and explains the consultation process.

### Stage of consultation

**1.3** The proposals set out in this document are at stage 1 (setting out objectives and identifying options) and stage 2 (determining the best option and developing a framework for implementation including detailed policy design) of the government's framework for tax consultation (<https://www.gov.uk/government/publications/tax-consultation-framework>).

#### **Box 1.A: How to respond to the consultation**

Please send comments by 30 September 2014 to:

Nico Heslop  
Environment and Transport Taxes Team  
HM Treasury  
1 Horse Guards Road  
London, SW1A 2HQ

Email: [clusterallowance@hmtreasury.gsi.gov.uk](mailto:clusterallowance@hmtreasury.gsi.gov.uk)

Phone: 020 7270 1082



# 2

## Context

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**2.1** This year marks the 50<sup>th</sup> anniversary of the Continental Shelf Act and of the UK's first offshore licensing round. Over the past 50 years, the UK's oil and gas industry has produced around 42 billion barrels of oil equivalent (boe).<sup>1</sup>

**2.2** There are still significant opportunities remaining - with up to 21 billion boe still to recover.<sup>2</sup> These resources offer huge potential for the UK economy. The industry, which currently makes a considerable contribution to the economy – directly and indirectly supporting around 450,000 jobs,<sup>3</sup> providing around 40% of the UK's primary energy needs<sup>4</sup> and paying £4.7bn in corporate taxes in 2013/14<sup>5</sup> – will continue to play an important role for decades to come.

**2.3** However, the government acknowledges that as the UK's oil and gas basins get older, companies are working in a higher risk environment. Increasingly, opportunities are smaller, technically challenging or both. Companies are working with ageing infrastructure and face significant competition for capital from basins overseas.

**2.4** That is why the government is working to ensure the UK remains an attractive place to invest as the nature of the basin changes. It commissioned Sir Ian Wood to review the regulatory system and is currently implementing his recommendations, including through the establishment of a new regulator, the Oil and Gas Authority.

**2.5** The government has also made changes to the fiscal regime. It has introduced new and extended field allowances to support investment in economic but commercially marginal projects and has provided certainty on decommissioning tax relief – worth upwards of £20bn – through the introduction of decommissioning relief deeds. In addition, the government has just started a wholesale review of the oil and gas tax regime to ensure it remains fit for purpose as the basin matures.<sup>6</sup>

**2.6** At Budget 2014, the Chancellor also announced the introduction of a new allowance to support investment in ultra high pressure, high temperature (HPHT) oil and gas projects. Such ultra HPHT projects are concentrated in the central North Sea, which is the part of the UK Continental Shelf with the greatest future potential for both oil and gas.<sup>7</sup> Building on Sir Ian's recommendations, the allowance would be designed not just to support big development projects, but also to encourage exploration and appraisal in the surrounding area (or "cluster"). Companies would sign up to cluster area plans, designed to help achieve the maximum economic recovery of oil and gas in designated clusters.

**2.7** This consultation looks at the detailed design of the new cluster area allowance. The government's proposal, outlined in chapter 4, builds on the structure of the new onshore

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<sup>1</sup> DECC figure

<sup>2</sup> DECC figure

<sup>3</sup> Oil & Gas UK estimate

<sup>4</sup> DECC figure

<sup>5</sup> HMRC figure

<sup>6</sup> <https://www.gov.uk/government/consultations/review-of-the-oil-and-gas-fiscal-regime-a-call-for-evidence>

<sup>7</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/326980/Pie\\_Charts\\_Showing\\_Potential\\_for\\_UK\\_Reserves\\_Growth\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/326980/Pie_Charts_Showing_Potential_for_UK_Reserves_Growth_2014.pdf)

allowance, introduced at Autumn Statement 2013 and enacted in Finance Act 2014. It recognises the significant capital cost of ultra HPHT projects. By setting the level of allowance as a proportion of capital expenditure, the allowance is focused on a key economic feature of projects, rather than on their physical characteristics which have previously been used as a proxy for costs. It automatically accommodates cost inflation and would provide companies with a greater degree of transparency and predictability around the tax treatment of their projects.

**2.8** The consultation will run alongside the initial call for evidence on the overall oil and gas tax regime. The evidence gathered through this consultation, and the conclusions reached, will help inform the long-term plan for the fiscal regime that will come out of the wider review.

## Oil and gas taxation – the current regime

**2.9** The “ring fence” fiscal regime applies to the exploration for, and production of, oil and gas in the UK and UK Continental Shelf (UKCS) and comprises three taxes as summarised in Box 2.A.

### Box 2.A: The ring fence tax regime

- **Ring Fence Corporation Tax (RFCT)** - This is calculated in the same way as the mainstream corporation tax applicable to all companies but with the addition of a “ring fence” and the availability of 100% first year allowances for virtually all capital expenditure. The ring fence prevents taxable profits from oil and gas extraction in the UK and UKCS from being reduced by losses from other activities or by excessive interest payments. The current main rate of tax on ring fence profits, which is set separately from the rate of mainstream corporation tax, is 30%.
- **Supplementary Charge (SC)** - This is an additional charge, currently set at a rate of 32%, on a company’s adjusted ring fence profits (which exclude any deduction for finance costs).
- **Petroleum Revenue Tax (PRT)** - This is a field-based tax charged on profits from oil and gas production from individual oil fields which were given development consent before 16 March 1993. The current rate of PRT is 50%. PRT is deductible as an expense in computing profits chargeable to RFCT and SC.

The overall effect of the fiscal regime is a marginal tax rate of:

- 81% on profits from PRT-paying fields; and
- 62% for other fields.

These rates are reduced on any portion of profits covered by field allowances.

**2.10** The aim of the oil and gas fiscal regime is to maximise the economic recovery of the UK’s oil and gas reserves while ensuring a fair return for the nation. To help achieve this aim, the government provides support through field allowances for some projects that are economic but would otherwise be commercially marginal given current tax rates. Fields that qualify for allowances obtain relief on the 32% supplementary charge for a certain amount of their profits. They still pay ring fence corporation tax on this portion.

**2.11** Providing support for challenging ultra HPHT projects is therefore consistent with the government’s approach under the existing regime.

# 3

## The government's objectives

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**3.1** The government is committed to maximising the benefits of the North Sea for the UK economy. An important part of this is the objective, set out by Sir Ian Wood, of maximising economic recovery.<sup>1</sup> The government has previously introduced field allowances which offer support to some technically and commercially challenging projects, which are economic but would otherwise be commercially marginal at prevailing tax rates.

**3.2** The government proposes a similar approach for ultra high pressure, high temperature cluster areas. The government will adopt an approach that:

- supports the development of ultra HPHT projects and incentivises the most efficient development of processing hubs and offtake routes;
- encourages exploration and appraisal within “cluster areas” – to give companies an incentive to think further than existing fields to nearby discoveries and prospects, consistent with maximising economic recovery principles;
- is flexible enough to respond automatically to changes in investment costs, to prevent frequent legislative adjustments, while providing investors with early certainty about eligibility for the allowance which they can factor into their long-term investment decisions;
- uses existing mechanisms for delivering relief as far as possible; and
- ensures a fair return for the nation, is not open to abuse and is affordable.

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<sup>1</sup> In simple terms, maximising economic recovery means ensuring that all resources are recovered where the benefits of recovery outweigh the costs, in such a way as to maximise value in current terms for the UKCS overall.





# 4

## Cluster area allowance

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**4.1** At Budget 2014 the government announced that it would introduce a new allowance to support investment in ultra high pressure, high temperature oil and gas projects. This chapter seeks the views of interested parties on a proposal to provide support through a cluster area allowance.

### Proposed approach

**4.2** The cluster area allowance would operate similarly to existing field allowances, by exempting a portion of a company's profits from the supplementary charge – reducing the effective tax rate on that portion from 62% to 30% at current tax rates.

**4.3** The amount of profits exempt from the supplementary charge would be based on a proportion of the capital expenditure a company incurs in relation to a cluster. This would include exploration and appraisal costs, but would exclude decommissioning costs. This is similar to the approach the government adopted for the onshore allowance which was announced at Autumn Statement 2013.<sup>1</sup>

**4.4** All cluster areas will be expected to have some element of ultra HPHT potential. However, the allowance would be generated by any qualifying expenditure in relation to the cluster – regardless of whether the target field, prospect or discovery is known or expected to be ultra HPHT.

**4.5** Companies would start to generate and hold the allowance as soon as they incurred qualifying capital expenditure in relation to a cluster. Costs incurred prior to the actual or deemed determination of a cluster would not contribute to the generation of their allowance for that cluster.

**4.6** The amount of allowance activated (i.e. made available to offset against profits) in any accounting period would be no more than the amount of the company's share of production income from the field in which it incurred the expenditure. However, the government proposes to allow companies to elect to transfer generated allowance between their projects in the same cluster. This would allow allowance generated by spend on unsuccessful exploration or appraisal, for example, to be activated by the production income of a successful project within the cluster. It is proposed that, as with the onshore allowance, this would be only after a period of three years from when the expenditure was incurred.

**4.7** As with the onshore allowance, the government does not propose introducing a five-year minimum activation period, which is a feature of other field allowances.

**4.8** Any activated allowance not used to reduce the supplementary charge otherwise payable by a company in a particular accounting period would be carried forward and would be available for use in the next accounting period.

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/264650/PU1580\\_\\_final\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/264650/PU1580__final_.pdf)

**4.9** The allowance, when activated, would be available to be used against all of a company's adjusted ring fence profits. It would not be restricted to set off against profits from the cluster.

**Question 1:** Would the proposed approach achieve the government's objectives set out in paragraph 3.2?

**Question 2:** Are there alternatives or variations to the proposed approach that would better meet the government's objectives?

**Question 3:** Is the definition of qualifying expenditure sufficiently clear and is the scope wide enough?

**Question 4:** Will the allowance introduce any additional administrative burdens for businesses? If so, are there options the government could consider to reduce this burden?

**Question 5:** Do you agree that the current HMRC legislative framework to protect the Exchequer is sufficiently robust for the cluster area allowance? Do you think there are any additional measures that would be helpful in this regard?

## Level of allowance

**4.10** At Budget 2014, the government confirmed that the level of allowance would be at least 62.5% of the qualifying capital expenditure a company incurs in relation to a cluster. For example, if a company incurs £100m of qualifying expenditure in a cluster area, it would generate allowance of at least £62.5m. Therefore, £62.5m of a company's adjusted ring fence profits would be exempt from the supplementary charge, once the allowance had been activated by production income – resulting in tax relief of £20m at current tax rates.

**4.11** While the government has confirmed that the level of allowance will be at least 62.5%, this consultation document does not propose a specific proportion of capital expenditure that would set the final level of allowance. The final level of allowance will be announced alongside the final policy design in the autumn.

**4.12** In setting this level, the government will consider the objectives set out in paragraph 3.2. Respondents are asked to provide information on the economics of projects within potential cluster areas to inform the government's decision on the appropriate level.

**Question 6:** Can you provide evidence on the potential economics of specific projects you have considered in areas with ultra HPHT discoveries or potential? This could include (but is not limited to):

- the likely capital expenditure and operating expenditure profiles of projects;
- the likely production and production income profiles;
- exploration and appraisal costs and the number of wells companies plan to drill;
- whether you factor exploration and appraisal risk and life of well/well failures into your economics and, if so, how; and
- whether you expect to have other ring fence profits over the next five years, if you plan to invest over that timeframe.

## Scope and cluster determinations

### Proposed cluster area definition and components

**4.13** The government proposes that a cluster area would be a geologically linked and geographically discrete set of leads, prospects, appraisal potential, near field potential and fields. The focus of this consultation is on clusters comprising areas with an undeveloped ultra HPHT discovery with nearby undrilled potential and prospects.

#### **Box 4.A: Proposed cluster area components**

The government proposes that a cluster area:

- contains an undeveloped ultra HPHT discovery;
- could extend into unlicensed acreage;
- would be defined as a 3D volume (i.e. it would have a top and/or bottom). Existing non-ultra HPHT fields above a new cluster area would most likely be excluded from this 3D volume;
- may contain undeveloped potential that is not expected to be ultra HPHT; and
- may contain more than one discrete field.

A cluster area is not a hub that joins several disparate geographically separate discoveries.

### Cluster area determinations

**4.14** A new cluster area would be determined by the Department of Energy and Climate Change (DECC) using a similar process to oil field determinations which are made under Schedule 1 to the Oil Taxation Act 1975. Initial suggestions for new cluster areas (and proposals for subsequent changes) could come from DECC or industry.

**4.15** As with field determinations, determination of cluster areas would be subject to consultation with affected licensees (if any). All cluster area proposals would also be published for representations to be received. The process would be iterative and consultative.

**4.16** An existing cluster area could be refined as the geological understanding of the area progressed. However, any allowance generated would not be withdrawn, even if it was generated by spend relating to a part of the cluster that was subsequently excluded from the area.

### Cluster area plan

**4.17** Each cluster area is expected to have an agreed plan to maximise economic recovery from within the cluster. The plan would be agreed by all parties within a cluster area and by the government. It would show how the cluster area would be explored, appraised and developed. All existing licence obligations and commitments, timings and contingencies would remain in place and become part of the plan.

**4.18** The cluster area plan would be:

- timed: with a work programme to explore, appraise and develop the cluster area; and

- phased: with defined gates documenting criteria to progress to the next phase. The criteria that are defined in each gate would be agreed in the same way as contingent work programmes are agreed for licences or Fallow B rescue plans. The emphasis here is on the cluster area owners working with DECC, within an agreed framework that can be altered with mutual agreement as new geological evidence develops from the work being undertaken within the cluster area, or as economic circumstances change.

**4.19** Under this approach, if it is agreed with DECC that the criteria of a particular gate are met, there would be an obligation to progress to the next phase. If it is agreed with DECC that the criteria are not met, then that element of the cluster area plan would be revised to account for the new geological understanding of that part of the cluster area. If the agreed criteria are met but the companies decide not to proceed with a work element, then the whole cluster area plan is potentially in default.

**4.20** To help reach agreement on a viable plan, and to meet the objectives for the allowance, the government believes it would be desirable for each cluster area to have the following characteristics:

- commercial alignment among licensees in a cluster area, such that any differences in equity interests will not adversely affect exploration, appraisal and development work;
- unified mapping and no equity drilling (e.g. sole-risking);
- full data sharing between all licensees in a cluster area;
- one agreed operator per cluster area, unless compelling reasons are presented for multiple operators; and
- shared, agreed exploration and production concepts, plans and timings.

### **Agreed cluster areas**

**4.21** Once a cluster area has been determined by DECC, the cluster area allowance becomes effective. Qualifying spend incurred after the actual or deemed determination date would generate an allowance.

**4.22** In addition, the cluster area effectively becomes a retention area beyond any existing field determinations, as long as the cluster area plan is being followed and the area is being developed, appraised and explored. The retained areas within a cluster area beyond existing field determinations will not be classed as fallow. DECC will undertake to issue deeds as appropriate to extend licences as any licensing issues arise, while keeping within the provisions of the Hydrocarbons Licensing Directive (94/22/EC).

**4.23** Licence interests in the cluster area, and any existing cluster plan commitments, would be transferable between co-venturers. However, new licensees would need to sign up to the cluster area plan. Any licensee selling an interest in a licence area would have to make any purchaser aware of the cluster area plan and timing.

**Question 7:** Do you agree with the proposed definition of a cluster? If not, please provide evidence to support your case.

**Question 8:** Do you agree with the proposal for how a cluster area would be determined?

**Question 9:** Do you foresee any problems with achieving sufficient commercial alignment to allow cluster areas to be effective and for a cluster area plan to be agreed with DECC?

**Question 10:** Do you think the elements and structure of the cluster area plan are achievable? If not, please provide examples of potential difficulties from examples in your portfolio.

**Question 11:** Will full data sharing create data and report licensing issues with data providers such as members of the International Association of Geophysical Contractors (IAGC)?

**Question 12:** What sanctions should be available for government (e.g. licensing or fiscal) in the event that companies do not adhere to an agreed cluster area plan?

**Question 13:** What criteria do you think should be used in deciding that a cluster area plan has not been adhered to?

**Question 14:** Do you think the existing parameters for ultra HPHT are sufficient (with oil at a pressure of more than 862 bar and a temperature of more than 166 Celsius in the reservoir formation)? Are there projects that are HPHT, but not expected to be ultra HPHT, that would benefit from the cluster allowance? If so, please provide reserves/resources and actual/expected temperatures and pressures.

## Split between participants

**4.24** Most existing field allowances for new fields are divided between participants in a field in proportion to each company's share of equity in the field. Given the structure of the cluster area allowance, the government proposes that each participant in a cluster would generate their own allowance based on the capital expenditure they incur. Under this approach, a participant that did not incur any capital expenditure would not generate any allowance. This is the approach adopted for the onshore allowance.

**Question 15:** Do you agree that the allowance should be split between participants in a project based on actual expenditure incurred by each participant? If not, what do you consider to be a more appropriate method to split the allowance between participants?

## Transitional arrangements

**4.25** The government proposes that any ultra HPHT projects that receive development consent prior to 1 January 2017, but after the cluster area allowance is in force, could elect to receive either the existing ultra HPHT allowance or cluster area allowance. From 1 January 2017, the current ultra HPHT allowance would not be available.

**4.26** The cluster area allowance will be the only allowance available within a defined cluster area. Projects within a cluster would therefore not be eligible for the existing ultra HPHT allowance, the small field allowance or the brown field allowance.

**Question 16:** Do you think these transitional arrangements are appropriate? If not, please indicate what you think would be suitable arrangements, providing evidence to support this.



# 5

## Summary of impacts

**5.1** The following is a consultation stage Tax Impact Assessment of the impact of providing fiscal incentives for cluster areas with ultra HPHT potential. We welcome any comments on our assessment of the impacts. These will feed into the Tax Information and Impact Note to be published alongside draft legislation in the autumn.

<b>Exchequer impact</b>	Since this consultation document does not propose a specific level of allowance, it is not currently possible to estimate the Exchequer impact. The government will be using data gathered through the consultation to determine the appropriate level of allowance to achieve the government's objectives and to identify the Exchequer impact.
<b>Economic impact</b>	The proposals outlined are expected to increase investment in ultra high pressure, high temperature projects and on exploration in cluster areas. This investment would create jobs, increase the domestic production of hydrocarbons and bring benefits to the UK supply chain.
<b>Impact on individuals and households</b>	Any resulting increase in production would contribute to the UK's security of energy supply.
<b>Equalities impacts</b>	The proposal is considered to have no differential impact on any equality groups.
<b>Impact on businesses and Civil Society organisations</b>	The administrative impacts on companies from the proposals are anticipated to be negligible, but the consultation seeks views on this.
<b>Impact on HMRC or other public sector delivery organisations</b>	The additional costs for HMRC in implementing these proposals are anticipated to be negligible.
<b>Other impacts</b>	<u>Sustainable development, wider environment and health:</u> While the changes are expected to increase the production of hydrocarbons, the UK has a strong regulatory system which provides a comprehensive and fit for purpose regime for this activity. <u>Small firms impact:</u> The administrative impacts on small companies are expected to be negligible.





# 6

## Consultation process

The government welcomes views on the following questions:

**Question 1:** Would the proposed approach achieve the government's objectives set out in paragraph 3.2?

**Question 2:** Are there alternatives or variations to the proposed approach that would better meet the government's objectives?

**Question 3:** Is the definition of qualifying expenditure sufficiently clear and is the scope wide enough?

**Question 4:** Will the allowance introduce any additional administrative burdens for businesses? If so, are there options the government could consider to reduce this burden?

**Question 5:** Do you agree that the current HMRC legislative framework to protect the Exchequer is sufficiently robust for the cluster area allowance? Do you think there are any additional measures that would be helpful in this regard?

**Question 6:** Can you provide evidence on the potential economics of specific projects you have considered in areas with ultra HPHT discoveries or potential? This could include (but is not limited to):

- the likely capital expenditure and operating expenditure profiles of projects;
- the likely production and production income profiles;
- exploration and appraisal costs and the number of wells companies plan to drill;
- whether you factor exploration and appraisal risk and life of well/well failures into your economics and, if so, how; and
- whether you expect to have other ring fence profits over the next five years, if you plan to invest over that timeframe.

**Question 7:** Do you agree with the proposed definition of a cluster? If not, please provide evidence to support your case.

**Question 8:** Do you agree with the proposal for how a cluster area would be determined?

**Question 9:** Do you foresee any problems with achieving sufficient commercial alignment to allow cluster areas to be effective and for a cluster area plan to be agreed with DECC?

**Question 10:** Do you think the elements and structure of the cluster area plan are achievable? If not, please provide examples of potential difficulties from examples in your portfolio.

**Question 11:** Will full data sharing create data and report licensing issues with data providers such as members of the International Association of Geophysical Contractors (IAGC)?

**Question 12:** What sanctions should be available for government (e.g. licensing or fiscal) in the event that companies do not adhere to an agreed cluster area plan?

**Question 13:** What criteria do you think should be used in deciding that a cluster area plan has not been adhered to?

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**Question 15:** Do you agree that the allowance should be split between participants in a project based on actual expenditure incurred by each participant? If not, what do you consider to be a more appropriate method to split the allowance between participants?

**Question 16:** Do you think these transitional arrangements are appropriate? If not, please indicate what you think would be suitable arrangements, providing evidence to support this.

## Submitting responses

**6.1** Please send comments by 30 September 2014 to [clusterallowance@hmtreasury.gsi.gov.uk](mailto:clusterallowance@hmtreasury.gsi.gov.uk).

**6.2** Alternatively, address responses to:

Nico Heslop  
Environment and Transport Taxes Team  
HM Treasury  
1 Horse Guards Road  
London, SW1A 2HQ

**6.3** Please be aware that responses may be shared with HM Revenue and Customs and the Department of Energy and Climate Change.

## Confidentiality

**6.4** Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1988 (DPA) and the Environmental Information Regulations 2004.

**6.5** If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this 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 as binding on HM Treasury.

**6.6** HM Treasury will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

## **Consultation principles**

**6.7** This consultation is being run in accordance with the government's Consultation Principles.

**6.8** The Consultation Principles are available here:

<https://www.gov.uk/government/publications/consultation-principles-guidance>

**6.9** If you have any comments or complaints about the consultation process please contact:

Oliver Toop  
Consultation Coordinator  
Budget Team  
HM Revenue & Customs  
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**6.10** Please do not send responses to the consultation to this address.





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