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STATUTORY INSTRUMENTS

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**1996 No. 2946**

**PETROLEUM**

**The Petroleum (Production) (Seaward Areas)(Amendment) Regulations 1996**

*Made - - - - 21st November 1996*  
*Laid before Parliament 25th November 1996*  
*Coming into force - - 16th December 1996*

The Secretary of State, in exercise of the powers conferred by section 6(1) of the Petroleum (Production) Act 1934<sup>(1)</sup> and now vested in him<sup>(2)</sup>, hereby makes the following Regulations:—

**Commencement and citation**

1. These Regulations may be cited as the Petroleum (Production) (Seaward Areas) (Amendment) Regulations 1996 and shall come into force on 16th December 1996.

**Interpretation**

2. In these Regulations, “the Principal Regulations” means the Petroleum (Production) (Seaward Areas) Regulations 1988<sup>(3)</sup>.

**Principal Regulations**

3. The Principal Regulations shall have effect subject to the amendments set out in regulations 4 to 8 below.

4. In regulation 2 of the Principal Regulations (interpretation)—

- (a) omit the definitions of “invited application” and “non-invited application”;
- (b) insert after the definition of “low water line”—

““tranche” has the meaning assigned thereto in regulation 7(2).”

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(1) 1934 c. 36; section 1 and 2(1) of that Act were amended by section 18 of the Oil and Gas (Enterprise) Act 1982 (c. 23) and section 19(1) of the Petroleum Act 1987 (c. 12) so that the 1934 Act applies (retrospectively) to petroleum beneath the territorial waters of the United Kingdom; section 6 was extended by section 1(3) of the Continental Shelf Act 1964 (c. 29).  
(2) S.R. & O 1942/1132; the Ministry of Fuel and Power Act 1945 (c. 19); S.I. 1969/1498, 1970/1537.  
(3) S.I. 1988/1213, relevant amending instruments are 1990/1332 and 1995/1435.

## Invited applications

5. In regulation 7 of the Principal Regulations—
- (a) for paragraph (1) substitute—
- “(1) Subject to paragraph (5) below, every application for a production licence pursuant to these Regulations shall relate to —
- (a) a block, or
- (b) a tranche
- described in a notice published in the Official Journal or to a number of blocks or tranches so described”;
- (b) in paragraph (2), for the words from “areas (in these Regulations referred to as “blocks”)” to the end, substitute—
- “(a) areas to which reference numbers shall be assigned (in these Regulations referred to as “blocks”),
- (b) groups of contiguous blocks to which reference numbers shall be assigned (in these Regulations referred to as “tranches”), or
- (c) both blocks and tranches to which reference numbers shall be assigned, in respect of which the Secretary of State is prepared to receive applications for production licences.”;
- (c) in paragraph (3), after the words “the blocks” insert “or tranches”.

## Fees

6. In regulation 9 of the Principal Regulations(4) —
- (a) omit paragraph (1);
- (b) in paragraph (2)—
- (i) omit the word “invited”;
- (ii) for the sum “£3,700”, substitute “£2,820”.

## Form of application

7. In Schedule 3 to the Principal Regulations (form of application for a licence)—
- (a) for paragraph 5 substitute—
- “5. In the case of an application for a production licence:—
- (a) reference number(s) of—
- (i) the block(s)
- (ii) the tranche(s) or
- (iii) the blocks and tranches in respect of which the application is made and, if the application is made by tender, the consideration by way of initial payment which the applicant is prepared to offer for each such block or tranche(A);
- (b) an analysis of the geology of the area to which the application relates, identifying, in particular, petroleum prospects;
- (c) the technical data on which the analysis of the geology is based;

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(4) regulation 9 of the Principal Regulations was amended by [S.I. 1990/1332](#), regulation 2.

- (d) the work programme for evaluating the potential petroleum production from the area to which the application relates which the applicant would be prepared to undertake in the initial term of the licence applied for;
- (e) evidence of the applicant's technical and financial capacity to undertake that work programme, including the number of staff the applicant intends to assign for that purpose and any relevant technical qualifications held by those staff;
- (f) an explanation of the way in which the work programme provided in accordance with sub-paragraph (d) above takes account of the analysis of the geology;
- (g) evidence that either—
  - (i) the proposed operator is a member of the Offshore Pollution Liability Association Limited, or any body which may after the date upon which these Regulations come into force assume responsibility for the functions currently carried out by the Offshore Pollution Liability Association Limited; or
  - (ii) the applicant will be able to meet the costs of any damage which may be caused through drilling or production operations;
- (h) a statement of the general environmental policy of the proposed operator in respect of activities licensed in seaward areas by the Secretary of State in accordance with section 2 of the Petroleum (Production) Act 1934 together with—
  - (i) a summary of his management systems for the implementation of that policy, and
  - (ii) a summary of how those management systems will be applied to the work programme provided in accordance with sub-paragraph (d) above.”;
- (b) after paragraph 7(d) insert—
  - “(dd) where the applicant is or has a subsidiary (as defined in sections 736 and 736A of the Companies Act 1985<sup>(5)</sup>), a diagram identifying any companies of which it is a subsidiary and any subsidiaries it has;”
- (c) in paragraph 9(1), for the words “three copies”, in both places where they appear, substitute “two copies”;
- (d) in paragraph 9(1)(b), for the words “(as defined by section 681(4) of that Act)” substitute “as defined by subsections (1) and (2) of section 660G<sup>(6)</sup> of that Act”;
- (e) after paragraph 9(2) insert—
  - “(3) Where the most recent audited accounts of a body corporate whose accounts are required to accompany an application are in respect of a period ending on a date more than twelve months before the date of the application, there shall also accompany the application two copies of a balance sheet showing the state of the body corporate's affairs as at the latest date within that twelve months period in respect of which a balance sheet can be made available.”;
- (f) in paragraph 11, for the words “Department of Energy” substitute “Department of Trade and Industry”;
- (g) in Part VI, for the words —

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<sup>(5)</sup> 1985 c. 6; section 736 was amended and section 736A was inserted by the Companies Act 1989 (c. 40), section 144(1).

<sup>(6)</sup> section 660G was inserted into the Income and Corporation Taxes Act 1988 (c. 1) by paragraph 1 of Schedule 17 to the Finance Act 1995 (c. 4).

“To Licensing Branch Oil and Gas Division Department of Energy London SW1” substitute—

“To Oil and Gas Directorate Department of Trade and Industry 1 Victoria Street London SW1H 0ET”;

- (h) in note (A)—
  - (i) after the words “one block” insert “or tranche”;
  - (ii) after the words “that blocks” insert “or tranches”.

### **Model clauses for production licences**

**8.** In Schedule 4 to the Principal Regulations (model clauses for production licences in seaward areas)—

- (a) in model clause 1—
  - (i) in the definitions of “block” and of “the Minister”, for the word “Energy” substitute “Trade and Industry”;
  - (ii) for the definition of “initial term” substitute—

““initial term” and “second term” have the meanings respectively assigned thereto by clause 3 and “third term” has the meaning assigned thereto by clause 4(4);”;

- (b) in model clause 2, for the words “Department of Energy” substitute “Department of Trade and Industry”;
- (c) for model clause 3 (term of licence) substitute—

“**3.** This licence unless sooner determined under any of the provisions hereof shall be and continue in force for the term of three years next after (hereinafter called the “initial term”); but if the terms and conditions of this licence are duly performed and observed and, in particular, if the work programme described in Schedule 4 to this licence has been duly performed and the Licensee has submitted a programme for further exploration in accordance with clause 3A(1) of this licence, it may be continued for a further term of six years (hereinafter called the “second term”); and if the terms and conditions of this licence continue to be duly performed and observed and, in particular, if a programme for further exploration in the second term served or approved by the Minister or determined in consequence of a reference to arbitration in accordance with clause 3A(4) has been duly performed, it may be continued for a further term of fifteen years as provided by clause 4 of this licence; and, if the terms and conditions of this licence continue to be duly performed and observed, thereafter as provided by clause 5 (and subject to the provisions of clause 6) of this licence for a further maximum period of twenty-four years.”;

- (d) after model clause 3, insert—

#### **“Option to continue licence into second term**

**3A.—(1)** At any time not later than three months before the expiration of the initial term the Licensee paying the payments and royalties hereinafter provided and observing and performing the terms and conditions herein contained may submit to the Minister a programme for further exploration for petroleum in the second term.

(2) Any programme submitted in accordance with paragraph (1) above shall be such a programme for further exploration in the second term as any person, who, if he—

- (a) were entitled to exploit the rights granted by this licence;

- (b) had the competence and resources needed to exploit those rights to the best commercial advantage; and
- (c) were seeking to exploit those rights to the best commercial advantage, could reasonably be expected to carry out during the second term.

(3) Within one month of receipt of a programme submitted in accordance with paragraph (1) above, the Minister shall serve a notice in writing on the Licensee either—

- (a) if he is of the opinion that the programme submitted does not meet the requirements of paragraph (2) above (hereinafter called “the relevant requirements”), stating that that is his opinion and reasons for it; or
- (b) stating that he approves the programme.

(4) Where notice in respect of a programme for further exploration is served upon the Licensee in pursuance of paragraph (3)(a) of this clause he shall either—

- (a) within 28 days beginning with the date of service of the notice refer to arbitration, in the manner provided by clause 43 of this licence, the question of whether the programme satisfies the relevant requirements; or
- (b) within a reasonable period beginning with that date submit to the Minister a further programme which satisfies the relevant requirements, and where it is determined in consequence of any reference to arbitration in pursuance of sub-paragraph (a) of this paragraph that the programme in question does not satisfy the relevant requirements, the Licensee shall submit to the Minister as soon as possible after the date of the determination a further programme which satisfies such requirements.

(5) If the Licensee either—

- (a) fails to perform the duty imposed on him by sub-paragraph (4)(b) above; or
- (b) where he is required to submit a further programme following the conclusion of an arbitration, fails to submit a programme which satisfies the relevant requirements,

the Minister may if he thinks fit, instead of revoking this licence in consequence of the failure, serve on the Licensee such a programme as the Minister considers that the Licensee should have submitted to him in respect of the period to which the rejected programme related.

(6) The Licensee shall carry out during the second term any programme either—

- (a) served upon him by the Minister in accordance with sub-paragraph (5) above; or
- (b) submitted by him pursuant to this clause as to which either—
  - (i) the Minister serves a notice in writing on him stating that he approves the programme; or
  - (ii) it is determined in consequence of any reference to arbitration in pursuance of this licence that the programme satisfies the relevant requirements,

and any programme approved by the Minister in pursuance of this clause shall be deemed for the purposes of this licence to satisfy the relevant requirements.”;

(e) in model clause 4 (option to continue licence as to part of the licensed area)—

(i) in paragraph (1)—

- (a) for the words “initial term” substitute “second term”;
- (b) after the words “the terms and conditions herein contained” insert “and having drilled at least one well in the area described in Schedule 1 to this

- licence on the date it was granted (hereinafter called “the initial licensed area”),”;
- (ii) for paragraph (2)(a) substitute—
- “(a) describe the continuing part which, unless the Minister has otherwise agreed in writing before the date on which notice is given by the Licensee to the Minister in accordance with paragraph (1) above, shall be—
- (i) one third of the initial licensed area or, if greater, 120 sections, if the Licensee has since the grant of the licence drilled one well in the initial licensed area;
- (ii) two thirds of initial licensed area, or, if greater, 120 sections, if the Licensee has since the grant of the licence drilled two or more wells in the initial licensed area;”;
- (iii) in paragraph 2(b), for the words “initial term” substitute “second term”;
- (iv) in paragraph (3), for the words “to be surrendered” substitute “to be retained”;
- (v) in paragraph (4)—
- (i) for the words “twelve years” substitute “fifteen years”;
- (ii) for the words “the second term” substitute “the third term”;
- (f) in model clause 5—
- (i) for the heading substitute “**Continuance of licence after the third term;**”
- (ii) for the words “the second term” in each place where they appear substitute “the third term”;
- (iii) in paragraphs (4) and (5), for the words “eighteen years” substitute “twenty-four years”;
- (g) in model clause 6 (power further to extend term of licence)—
- (i) for the words “eighteen years” substitute “twenty-four years”;
- (ii) for the words “the second term” substitute “the third term”;
- (h) in paragraph (1)(b) of model clause 8 (areas surrendered) omit the words “subject to clause 4(2)(a) hereof,”;
- (i) in model clause 12 (provisions supplementary to clauses 10 and 11) omit paragraphs (1) (b), (3), (9) and (10);
- (j) in model clause 38 (right of distress), omit the words “the power of distress and”.

Department of Trade and Industry  
21st November 1996

*Fraser of Carmyllie,*  
Minister for Energy,

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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations amend the Petroleum (Production) (Seaward Areas) Regulations 1988 (“the Principal Regulations”) which relate to applications for offshore petroleum exploration and production licences and the clauses to be incorporated in such licences.

The amendments contained in regulations 5 and 6 of these Regulations enable the Secretary of State to offer for licence tranches of blocks as well as or in addition to individual blocks and reduce the fee payable upon application for a production licence.

Regulation 7 of these Regulations extends the particulars required to support an application for a licence.

Regulation 8 amends the model clauses for incorporation into petroleum production licences. The principal changes are to provide that—

- (a) the licence may continue for four consecutive terms of 3, 6, 15 and 24 years;
- (b) extension of the licence beyond the initial term of 3 years is dependent upon provision of a programme for further exploration;
- (c) unless the Secretary of State otherwise consents, the licensed area retained by the Licensee into the third term is dependent upon the number of wells drilled during the initial and second terms.