

QUESTIONS AND ANSWERS FOR THE 14th LANDWARD OIL AND GAS LICENSING ROUND

Questions raised by potential applicants concerning this Round for answer by DECC should be emailed to oilandgaslicensing@decc.gsi.gov.uk. DECC will aim to post the question and answer within five working days on this page.

Questions will only be answered in this way, to ensure that the same information is available to everyone at the same time in the interests of a transparent and fair process.

This Q&A document is arranged into general topics, but subsequent questions will be added to the bottom of the document, and the version date updated accordingly, so keep checking back for updates to this document on the website.

Q: How is the application process different from the 13th Round?

A: All the information will be digitally received using the Portal-based LARRY system.

DECC have modified the previous marks scheme, which compares competing applications, to ensure a fair and transparent process to award licences to the applicants best suited to progress shale exploration and development. More marks are available for studies and data collection relevant to shale and commitments to drill horizontal wells or hydraulic fracturing.

New elements of company experience and capability are added, assessing the applicant companies' geotechnical team and the companies' experience hydraulic fracturing and developing shale resources. The pace at which activity will progress and their readiness to drill given the UK regulatory regime and supply chain constraints is considered and finally, because the impact on UK energy mix is significant, DECC will also assess strategic rationale in making awards.

The financial and technical parts of the assessment have remained the same – the requirements for an environmental awareness statement however have more detail in line with the mitigation measures adopted in the SEA .

Q: What is different in the licence terms of 14th Rnd Licences?

Under the New Model clauses the three-term structure will be unchanged, in which the Work Programme must be completed in the Initial term if the licence is to continue into a Second Term. A Field Development Plan must be approved before the end of the Second Term if the licence is to continue into a Third Term. The term lengths will change very slightly: 6+5+20 becoming 5+5+20.

The requirement for a 50% surrender acreage before a Second Term will remain, but will be modified by options to define Retention and Development Areas. A licensee may at any time propose to DECC the creation of a Retention Area, with proposals for the work it plans to do there; and when DECC approves an FDP it will also create a related Development Area for each one. Retention and Development Areas will also attract a reduced rental rate. These two mechanisms will allow licensees to keep more acreage and at lower cost than is allowed by the current Model Clauses. In order to ensure that the Retention and Development Areas concepts do not open the door to land-banking by licensees, during the Third Term DECC will have the power to remove acreage outside of a licensee's Retention and Development Areas so that it can be offered for relicensing.

In the new model clauses for the 14th Round, there is an exception to the confidentiality clause, so that DECC will only be required to respect six months' confidentiality for reports "containing data in respect of the geology, operations or results associated with hydraulic fracturing of shale or other strata encased in shale". The licence terms specify four years as the confidentiality period for all other information supplied to DECC under the licence, which will continue to be collected by UKDEAL/UKOGL/BGS and distributed through DECC's data release agents as before.

Also there will now be a non-exclusive Exploration Licence available for the onshore area, so that new seismic data can be acquired over open acreage once planning approval is obtained.

GENERAL QUESTIONS

Q1: What will constitute a Landward PEDL licence?

A : A licence can be a single 10x10km block (named using the OS grid reference), a part of a block or one or two whole or part blocks (as long as these are contiguous in a north-south or east-west direction – i.e. do not only touch at the corner). If a larger area is to be offered, it will be offered in multiple licenses, each with a maximum size of two blocks.

Q2: Is there a maximum number of onshore blocks that can be applied for in a single application?

A: There is no upper limit to the amount of onshore acreage (contiguous or otherwise) that can be applied for or awarded. Any number of blocks can be applied for in one application. Work programmes can be joined over contiguous blocks, but only a maximum of two blocks. For example, if 10 blocks are applied for, there must be five separate Work Programmes (each covering two blocks). An applicant who is aiming at a large shale or CBM area should describe its plans for the area as a whole, but must present separate Work Programmes. Each of these Work Programmes will be judged both on its own merits and as part of the larger whole (for which it may receive 'strategic' marks). The strategic marks may be decisive in DECC's award of a large area in several licences to a single applicant (though each Work Programme must be acceptable by itself, with a minimum of a drill or drop well commitment).

Q3: What if we don't want all of the area of the 10km x 10km blocks we are applying for?

A: Applicants must apply for all the unlicensed acreage within a block. However, if an applicant wants only a part of that acreage this should be clearly stated in Part 2 of the application and the coordinates of the area to be licensed inserted in the comments area on the Application Form in the Appendix. DECC will then consider awarding a licence over that area only. All details of the areas applied for are kept confidential until the licence awards are announced.

Q4: If a company submits an application, is there a mechanism by which, or is it acceptable for, that company to withdraw that application prior to the blocks being offered?

A: Applicants may withdraw an application prior to offer of award and this would not be held against the applicant in any way. There would however be no refund of the application fee.

Q5: Will this licensing round include shale gas and oil?

A: Yes. A PEDL licence grants exclusive rights "to search and bore for and get petroleum" in all the various stages of the full development cycle of oil and gas exploration, appraisal; production and eventually abandonment of the wells, however a PEDL licence grants no permission for specific operations. Alongside conventional onshore oil and gas exploration and development, the licence covers exploration and development of tight gas, coalbed methane (CBM), mine vent gas, oil shale and shale gas. A PEDL licence does not allow for underground coal gasification (UCG) or CO2 sequestration. DECC will only consider an application to drill after the operator has planning permission from the local minerals planning authority (MPA), or the local planning authority (LPA), has all the necessary permits from the relevant environmental agency are in place and the Health and Safety Executive (HSE) has had notice of and is satisfied with the well design. See the Regulatory Road Map <https://www.gov.uk/government/publications/regulatory-roadmap-onshore-oil-and-gas-exploration-in-the-uk-regulation-and-best-practice>

LARRY QUESTIONS

Q6: Do we have to use the online system or can we submit our application on paper as we have done in previous Landward licensing rounds?

A : Applicants must use the LARRY system, which enables DECC to preserve a digital record of the application and reduces the burden on the applicant to make multiple colour copies of the applications.

There is a help line open during working hours for confidential help on how to sign up for the oil portal and use the LARRY System (tel: 0300 068 5793 or ukop@decc.gsi.gov.uk).

Q7: How do I submit the Work Programme and Technical Competence aspects through LARRY, and am I restricted by number of pages or size of files?

A: The Work Programme part of the Application follows the Prospect information area within LARRY. You do not need to put any parts of the Application Form (e.g. Prospect Summary Sheets and Work Programme Summary Sheets) in with the uploaded Appendix B Technical Information; we will access them from LARRY.

The Appendix B Technical Information should be uploaded to LARRY (see below for acceptable file types). Individual uploaded files are limited to 50 megabytes, but you may upload more than one file. We suggest that you start assembling and loading all the documents well in advance of the closing date so that any technical difficulties can be addressed early. Revisions can easily replace uploaded documents.

As stated in paragraph 2 of the Technical Information Guidance, we do not wish to be prescriptive, but a fit-for-purpose application should be a report at most 50 pages long. Applicants should therefore consider what is appropriate to present the information to provide the rationale for the application.

The required documentation on Technical Competence should be uploaded as a separate file, suitably labelled, in the Appendix B section of LARRY (including CVs of key technical staff and management). However, if the application is for shale, a summary of the proposed Operators and other applicants key technical staff shale experience, hydraulic fracturing and development experience in shale plays can also be added to the Appendix B.

[LARRY file types accepted: *.pdf; *.doc; *.docx; *.txt; *.rtf]. We request that .pdf files are not locked, so that text can be selected.

Q8: Could you explain the security of the site for submitting applications for the 14th Round. I have read the information on the site and it states that the site is highly secure and of course it is using SSL. I have no particular cause for concern but can you provide me with any information that explains how the Operator's information is kept confidential once it is on the site?

A: The 14th round application system is integrated with the UK Oil Portal which has a proven security model that is audited annually and is the subject of annual penetration tests.

When someone makes an application they become the lead applicant and the application is protected by their user id and a password. They can then give access to anyone else who can see or contribute to the application; e.g. a finance or environment person. They access the system via their own id and password, they also need to know the application key and licensee of the actual application. You cannot use a software generator to look for application keys. It is impossible to see any other application for which you do not have authority to view.

Within DECC, Only the LARRY support IT staff may view the application to assist loading until the Round closes.

Q9: If we wish to pay the Application fee by International money transfer instead of Credit Card, how do we do this using LARRY?

A: As you submit your application through LARRY, you'll be asked for payment details and given the option of electronic payment by card or an alternative method. In both cases, we generate an invoice reference which is displayed on the screen (it starts with "EDU"). Please use this invoice reference as the reference on your bank transfer.

When you choose "Alternative Payment Method", you'll be asked to complete details regarding your chosen method of payment. These, combined with the invoice reference will be used to help us reconcile your payment against your LARRY application.

Q10: How can a partner review the Appendix B files uploaded by the Operator onto LARRY?

A: The way to view applications if you are not the Operator is via the Finance Information screen. Once you have added your Organisation and valid Application Key you will receive a 'View Application' link this will allow you to view the application in a read only format.

Q11: We plan to submit one application for blocks in different areas, but it is not yet clear what the composition of the group will be. Can we change this by block?.

A: No, there must be a separate application for each final group, so you may wish to draft applications including blocks which are likely to have the same group, so that if one partner drops out of an area at the last minute, you won't have to start over drafting the Appendix B and other documents and re-loading to LARRY. However, every application will be charged a separate £1400 fee.

Q12: Where on LARRY can comments be made regarding any uncertainties in the method of calculation of reserves or alternate hydrocarbon type for Prospects?

A: The box entitled "Estimated Technical Chance of Success/Other information or comments" immediately below the Volumetrics section of the Application Form may be utilised for such uncertainties. In addition, this can be addressed within the Appendix B text. For shale applications, in-place resource assessments are acceptable.

Q13) Is there a handling charge for making a payment to DECC via BACSS/CHAPS on LARRY?

A: There isn't usually a handling charge for transactions within the UK. International transfers however usually incur a small handling fee.

Q14) Does payment require to be in DECC's account before the deadline to validate the submittal?

A: LARRY applications can't be submitted without either making an electronic payment (in which case the invoice reference is handled automatically), or promising to make a payment via another method (i.e. cheque/BACS). We allow for any delay in processing by the DECC account handlers.

Q15) What unique ID should be provided associated with the BACS?CHAPS payment to assist in cross referencing?

A: In either case LARRY assigns an invoice reference which is displayed on the payment invoice screen. Payments should be made quoting this reference.

OPERATOR COMPETENCY

Q16: Does a company that has previously qualified as an Exploration Operator in a previous Round (or on assignment of an existing Licence) have to submit again comprehensive documentation to demonstrate competence as an Operator?

A: DECC would expect companies to demonstrate their competence as per the Guidance

http://og.decc.gov.uk/en/olgs/cms/explorationpro/operatorship/onshore_ops/onshore_ops.aspx

but we do not wish to be too prescriptive on the absolute amount of information required in different situations. Clearly a new entrant or small company with little onshore experience should expect to come under greater scrutiny and will have to provide more information than an established onshore operator with a good record.

Operatorship approval is made on a case by case basis and if a company is well established or has recently been granted operatorship in an area, and there have been no material changes, then our requirements could probably be met by a rather shorter summary document. If more information is need to meet the minimum criteria, then DECC will ask for it.

However for shale applications, Operator Competency is considered beyond the requirement to meet minimum criteria, and marks are available for the applicants geotechnical experience, and experience in hydraulic fracturing and shale development. Information regarding the applicants operating experience and experience of key staff should be presented.

Q17: To what extent does the operator's management structure, decision making authority and technical capability have to be UK based at the time of application?

A: None is needed to make an application, but we will only award a licence to a UK-registered company or a UK-registered branch of a foreign company. (see DECC web site for [Onshore Operatorship Requirements](#)). If Marks are considered for shale applications we will likely reward higher marks to a company which has all their people in place. For for new entrants, it would be reasonable for applicant groups to define the planned organisational structure of the company, and people who would be working in key positions if they were awarded a licence, as it will be some time between time of application and offer of awards.

Q18: In the case of a potential new entrant operator wishing to apply for a Licence, can the associated application for exploration operatorship be made after the Round bid submission date but before the offer of award?

A: No, but we would accept that some elements might not in practice be in place before licence award e.g. some key staff may not have been recruited, or contractual, funding or insurance arrangements may yet to be finalised. However, these would be checked by DECC before drilling operations are consented to.

MARKS SCHEME AND TECHNICAL QUESTIONS – APPENDIX B

Q19: Does a work programme which includes reprocessing data outside of the block you're applying for count i.e. if a 3D is 300km² in total and only 200km² falls on the block, does the 100km² that falls outside the block count in the marks scheme?

A: An appropriate block specific 'Geotechnical Work Programme' may well require data to be acquired and utilised from outside the block. In coming to a view on marks to be awarded for Geotechnical Work Programme, the need for and provision of relevant data and information from outside the target block will be a consideration.

Q20: How will marks be awarded for drilling commitments in applications where a company proposes more than one block in a single licence?

A: Drilling commitment marks are split across the blocks within the potential licence. DECC will do this in a manner that best reflects where identified prospectivity exists and/or in a manner that helps preserve integrity of prospectivity if competed.

Q21: Can DECC confirm that in the case of a two-contiguous block single licence application, a drill or drop work programme commitment is applicable to the licence as a whole and that each component block does not require its own drill or drop well commitment?

A: In the case of a two-contiguous block single licence application, a drill or drop work programme commitment will be applicable to the licence as a whole and will be marked as described in the guidance notes. It is possible to apply for two contiguous blocks as two separate licences - in this case each licence area will have its own drill or drop work programme commitment, but unless the drill or drop decision is to be made within 2 years, there is no difference in marks. No more than one drill or drop well can be on each block.

Q22: How will DECC consider overlapping applications for conventional oil and gas, coalbed methane or shale gas where the technical understanding, work programme considerations and areas needed for economic materiality can be quite different?

A: DECC's marks scheme allows us to evaluate the merits of applications aimed at different kinds of potential. Where they overlap, DECC will seek an optimal solution in light of its published objectives. When multiple blocks with shale prospectivity are applied for, marks will be available for the strategic rationale of the entire application and how the work programme will accelerate shale exploration and development. Because the applicants aiming at different potential are not really in competition, splitting the block or occasionally a marriage (see General Guidance section on 'How decisions are reached') may satisfy both applicants.

Q23: If a prospect straddles more than one Block (whether open or not), do we put Reserves etc for the whole prospect on the Prospect Summary sheet?

A: We would expect companies to explain and justify the whole prospect and therefore request that reserves be shown for both on and off-block portions. Utilise the form for either, but state in the comments box and in the Appendix B what is being shown, and provide in text form the % of on or off-block Reserves.

Q24: If an applicant is undertaking a specific piece of work which is relevant to the application but that piece of work cannot be completed in time to be included in the submission on the due closing date, can it be introduced into the application at the interview?

A: If, following the submission of an application on or before the closing date for applications, information subsequently becomes available between that date and the date of the interview that is wholly material to the application then DECC will not necessarily preclude it being raised at the interview. However, whether to allow the inclusion of such information will be addressed on a case by case basis.

Q25: During the Round interview, is there a process whereby negotiation of a proposed bid level can take place?

A: No, applicants should submit work programmes commensurate with identified prospectivity and the Guidance notes point out that DECC will not reward wells that duplicate (in a way that a failure would effectively condemn) the geological target of other wells in the same work programme or are not likely to be drilled. It is up to the applicant to present what it considers an appropriate work programme and DECC will not enter into discussions as to what level of bidding might be competitive enough to win the acreage.

Q26: If a company applies for blocks during this Round but realises at the end of a regional synthesis that an additional contiguous block was worth adding to the present application, but they were unable to do so by the Round closing date, would the DECC consider an out-of-round award?

A: DECC will not allow 14th Round applicants to extend the area they have applied for after the closing date of the Round. The 'Out of Round' (OOR) process is a completely separate process where an applicant company would need to convince DECC that there are clear reasons why such acreage should not wait until the next licensing Round, for example if it was holding up a field development.

Q27: Given that DECC sometimes awards blocks on a split basis where there are competing bids for the same block targeting different prospects, can blocks be split on a stratigraphic rather than areal basis? Could an applicant highlight that it is only interested in deeper horizons, for example, and be awarded a licence for just the deep horizons if another applicant is only interested in shallow prospects within the same block?

A: No, We do not offer stratigraphic or depth split licences largely because of the operational difficulties this might create e.g. when the deeper licence group wishes to drill through the overlying licence. However an applicant could highlight their interest in certain depth related horizons (but please bear in mind our marks scheme rewards understanding and work programmes which address the whole block applied for - both by area and stratigraphically) and, as part of our desire to ensure prospectivity is addressed at all levels, we may choose to offer marriages in situations where competing applicants have different focus (see General Guidance – How Decisions Are Reached). We would expect the resulting work programme to address prospectivity at the different horizons and we cannot see any reason, in principle, why once a licence is awarded, companies might not apply for consent to depth split any issued licence through the creation of commercial sub-areas.

Q28: Does one need to include study costs relating to G&G work (seismic interpretation/processing, geological analysis etc) as well as their commitments concerning wells and seismic in the Work Programme?

A: No. In general we would not expect a study to constitute a significant part of the total cost, for example when compared to drilling costs, but if it were to cost more than 10% of the total then it should be included.

Q29: How would DECC mark an application which has already acquired the relevant seismic survey (for example) and is now only offering a small amount of extra work before making a drilling decision against another bid that is offering more work - i.e. still has to acquire and interpret the seismic survey - but is significantly behind in the work process?

A: The 'Marks Scheme' (in **Technical Guidance**) describes and shows what marks (maximum) are available for coverage/use of existing geotechnical data as compared to data which will be acquired as part of the work programme. Applicants whose analysis has fully utilised relevant high quality existing data sets, which are optimal for studying the full potential, will no doubt be able to present more credible geotechnical understanding with a better evaluation of all prospectivity, and will therefore be more advanced as regards making a sensible drilling decision.

Such cases would most likely receive higher overall marks than an applicant who has done little technical work to date.

Q29: How would DECC consider and mark applications where a prospect straddles a block boundary into acreage already licensed to the same applicant group, and would due credit be given to an existing work programme on the licensed part of the shared prospect? In the event of offer of award might it be possible to somehow harmonise or merge the awarded block and its work programme with the already licensed acreage?

A: Situations like this require careful case by case consideration and as a general principle DECC believes the best way to ensure developments happen in a timely fashion is for commercial interests to be aligned across prospects. We do not therefore see the breaking up of individual prospects as a desirable outcome.

This policy might in some cases (particularly where a firm well is already planned on the licensed part of a prospect and which is in our view the optimal way forward) support the case for an application from the same group as holds the adjacent licence. We will not agree to inappropriate work programmes or set up unnecessary licences and therefore if we chose to split off part of the block with the shared prospect then we will consider merging this licence or harmonising licence terms with the existing adjacent licence. .

GENERAL QUESTIONS

Q30: Are the regulations for drilling for shale gas or CBM more onerous than those for conventional oil and gas?

A: The Regulations are the same, but the risks and hazards above ground and those associated with the subsurface aspects of the operations are different and operators will consequently have to do more work to meet their requirements. The guidelines for shale drilling onshore are described in the UKOOG document -

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/185935/UKOOGShaleGasWellGuidelines.pdf

In addition, the PON9b describes what technical data must be supplied to DECC <https://www.gov.uk/oil-and-gas-petroleum-operations-notices#pon-9b>

A Regulatory Road Map (Intended as a first point of reference to understand the permitting and permissions process for exploratory work in oil and gas development, onshore in the UK) can be found here:

<https://www.gov.uk/government/publications/regulatory-roadmap-onshore-oil-and-gas-exploration-in-the-uk-regulation-and-best-practice>

NEW QUESTIONS RAISED IN THE 14TH ROUND

Q31: How will environmental habitats assessment be undertaken for the round?

A: After the applications are received, DECC will screen each block before awards are made and where necessary conduct an appropriate assessment. Where the assessment indicates a threat to conservation status of any protected site, DECC will consider what amendments to the licence area, or conditions attached to the Licence, are necessary to ensure compliance with the EU requirements.

Q32: I understand that there are three sections required for the Environmental Awareness Statement: legislative awareness, awareness of the specific environmental concerns of the area and proposed mitigation measures for identified hazards. As a rough guide as to how much detail is necessary at the licence application stage, how long should this document be (words/pages)?

The length of the document will depend very much on the circumstances of the area in question. In most cases, we would not expect a lengthy document, and a few pages are likely to be sufficient. However, where the area contains or adjoins recognised conservation resources or assets (National Parks, AONBs, EU designated sites, SSSIs, etc.), more detail and coverage will be expected – as indicated in the guidance, the EASs should be particularly detailed and comprehensive where the area applied for is in or adjacent to any National Park or AONB. It would not be realistic to indicate an appropriate length for such cases – too much will depend on the particular circumstances – but we would not expect an EIA-like document running to hundreds of pages in any instance.

The most important part of the Statement is the demonstration that the applicant fully understands the environmental (and where relevant, heritage) sensitivities relevant to the area applied for, and we would expect this section to be the fullest and most detailed. The discussion of mitigation should demonstrate that suitable options, including avoidance of operations at sensitive locations, are available to address the identified sensitivities, but detailed mitigation proposals are not required.

Q33: What is the timescale for considering Licence applications after the 28th October and announcing the awards?.

A: It is not possible at this stage to provide a specific indication of the possible timing. This is partly because we do not know how many applications will be submitted. After the round closes, DECC geotechnical assessors will review the application documents, and are invited for an interview to answer technical and work programme questions. Only after all the interview the applicants. In addition the requirements of the Habitats Regulations will need to be addressed for the areas applied for. Subject to Ministerial decisions, however, it is expected that the winning applicants will be notified early in 2015.

Q34: Why are there no promote applications for the onshore round? Does this not discriminate against new companies with ideas for prospects? Companies with enough finance may not have enough ideas and the companies with ideas may not have enough finance.

A: Promote Licences are a specific response to a specific need felt by the offshore industry, brought to DTI's attention by the offshore industry. DECC believes that the initial stages of shale gas exploration need to be carried out by well-resourced companies with both expertise and financial strength, so there is no corresponding option in onshore rounds.

Q35: For onshore applications with regard to the group's technical and financial competency, is it just the operator that requires fully manned technical and proven competency?

A: Only the operator has to meet the technical, and environmental competency requirements, however we recognise that there may be technical expertise shared from non-operating companies which can also contribute to the overall competency.

Financial capacity is considered separately for each company in the group.

Q36: I realise DECC needs to ensure proper exploration process and companies meeting and complying with agreed work programmes. However for the partners in an applying group is it just financial viability required?

A: See previous answer.

Q37: If so is the level of financial viability required just enough to fully finance that company's share of the work programme?

A: Yes

Q38: Would it be better and acceptable to form a new separate company that would apply for acreage and manage the exploration phase of seismic and well planning instead of applying as a group?

A: It is common practice for companies to apply together rather than to create a Special-Purpose Vehicle. DECC would be prepared to consider the latter, but would require evidence such as binding guarantees of fully-committed support from the companies who create it.

Q39: When there are a number of contiguous blocks in one application with several work programmes, do we need to complete individual Environmental Awareness Statements for each separate work programme or would just one be acceptable that covers all the blocks in the application?

A: The purpose of the Environmental Awareness Statement is to identify the specific sensitivities of the particular blocks being applied for. Therefore a single Environmental Awareness Statement for two contiguous blocks with one work programme is satisfactory as long as it addresses all the relevant sensitivities in both blocks, or one per block is fine.

It should be remembered that an application cannot be for more than two contiguous blocks. Any separate application needs to set out its own work programme, and an appropriate Environmental Awareness Statement.