



Department  
of Energy &  
Climate Change

# Government Response to Sir Ian Wood's UKCS: Maximising Economic Recovery Review

July 2014

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URN 14D/245

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## Ministerial Foreword



The UK should be incredibly proud of its world class oil and gas sector. It makes a substantial contribution to the economy, supporting around 450,000 jobs and currently supplies the UK with more than half of the oil and gas we use. It is vital therefore both for Britain's energy security and long-term economic outlook that we take positive steps to maximise the economic recovery of our indigenous hydrocarbon reserves. This approach remains consistent with our decarbonisation objectives. As our Carbon Plan has shown, Britain will still need significant oil and gas supplies over the next decades, while we decarbonise our economy and transition to a low carbon economy.

Yet as we plan energy policy for the next three decades, it is clear that the North Sea is entering the next phase of its development. Government has a crucial role to play in ensuring the stewardship and regulation of such an important national asset evolves with it. The outlook looks bright. Although we will never return to levels of peak production, investment levels are rising, in fact 2013 saw record capital expenditure in the region of £14.4 billion, but challenges remain. Production and exploration levels have fallen, and production efficiency has declined. It is for this reason I took the opportunity to commission Sir Ian Wood in June 2013 to undertake a comprehensive review of the regulation and stewardship of the UK's hydrocarbon reserves.

The size of the prize on offer is considerable. Sir Ian's report estimates that full and rapid implementation could deliver 3-4 billion barrels of oil equivalent more than would otherwise be recovered over the next 20 years, worth over £200bn. It is for this reason that I am committed to implementing the recommendations contained in the Review as quickly as possible.

Sir Ian made recommendations for both industry and Government and the full impact of his report will not be realised unless industry take up his challenge, in particular to increase their willingness to work together within fields and between fields to maximise economic recovery and, in support of this, to curb the overzealous legal and commercial activity which can often increase cost and make cooperation more difficult.

This Response deals largely with the steps that Government can take to realise the benefits that Sir Ian has identified and we have already achieved a great deal. It has only been a year since I commissioned the Review and less than six months since Sir Ian published his recommendations. In that time we have determined the structure of the new Oil and Gas Authority, begun recruiting a world-class CEO to lead and shape the new body, we have announced the body will be headquartered in Aberdeen and have tabled clauses for introduction into the Infrastructure Bill in order to enshrine the Maximising Economic Recovery Principles into law and to provide for a levy making power.

We will continue this momentum to build an Oil and Gas Authority, with the skills, resources and powers to deal with the challenges facing the UK's Continental Shelf (UKCS). This will empower

a confident and credible regulator who is able to influence, facilitate, mobilise, and share its learnings and capability with operators across the sector and with Industry to realise the huge but challenging benefits on offer and ensure the sustainability of the UKCS for decades to come.

A handwritten signature in black ink, appearing to read "Edward Davey". The signature is written in a cursive style with a long horizontal stroke at the end.

# Chapter 1

## Recommendation 1: Government and Industry to develop and commit to a new strategy for Maximising Economic Recovery from the UK Continental Shelf (MER UK)

- 1.1 The principal actors charged with the economic success of the UK Continental Shelf (UKCS) are the Government, in the form of the Licensing Authority, currently within the Department of Energy and Climate Change (DECC), HM Treasury who set the fiscal framework in which the industry operates, and Industry itself, primarily the Exploration and Production companies, which operate the fields, production facilities and transportation infrastructure.
- 1.2 These companies operate within laws established to ensure that oil and gas are recovered safely and with the minimum impact on the natural environment. The UKCS can rightly be proud of its world-class record on health, safety and minimising environmental impact and the Government will ensure that in implementing the recommendations made by Sir Ian, nothing is done which could compromise this going forward.
- 1.3 Each of the principal parties has always had a critical role to play in the future of the UKCS, but now, more than ever, as cost, risk and complexity increase across the UKCS, it is clear that none can succeed alone. While it is right and proper that we should have a highly competitive industry operating on the UKCS, it is central to Sir Ian's analysis that a critical success factor for the next phase of UKCS development is a step change in the way the three parties work together, and particularly among the companies operating in the basin.
- 1.4 The Government therefore strongly supports Sir Ian's call for a new tripartite approach to Maximising Economic Recovery of the UKCS (MER UK) between a new Authority (see recommendation 2), HM Treasury and Industry. The Secretary of State for Energy and Climate Change will remain a key partner in this approach through his role in setting the policy and strategic framework and objectives for the new Authority.
- 1.5 The Government also welcomes the proposal that this new tripartite approach should be underpinned by a new MER UK strategy. Sir Ian articulated a key principle which should underpin both the strategy and the tripartite approach and so guide both. His report notes:

*The Report details the key principles of MER UK central to which will be the regulator exercising its functions with a view to securing the maximum amount of economically recoverable petroleum from UK waters, and licence holders required to act in a manner best calculated to give rise to the recovery of the maximum amount of petroleum from UK waters as a whole, not just that recoverable under their own licences.*

- 1.6 Government agrees strongly with this and so intends to establish MER UK Principles in statute. It will do so via the Infrastructure Bill which is currently passing through Parliament. The proposed measures, added via Government amendment earlier in July, will place a duty on the new Authority to apply MER UK in all of its relevant statutory and non-statutory duties and, within 12 months following commencement of the Bill's measures, to set out a strategy for how it plans to implement the MER UK Principles. The measures proposed will place a corresponding duty on relevant licence holders, upstream (petroleum) infrastructure owners and operators, to act in accordance with the MER UK strategy.
- 1.7 The MER UK Principles will apply to activities at all stages of the oil and gas recovery lifecycle, starting from exploration, through appraisal, development and finally during decommissioning, driving collaboration where this can achieve outcomes greater than when licensees act alone.
- 1.8 A key outcome of the new MER UK approach is that UKCS resources will be developed, and key infrastructure will be managed, on a regional basis. This contrasts with the current arrangements which tend to incentivise operators to think in terms of the operation of single fields within their licences. To bring this about, the Government intends that licensees, operators and owners will be required, where appropriate, to co-operate with the new Authority and with other licence holders, operators and owners in the wider adjacent area on all aspects of field and cluster and area development, from exploration through to decommissioning, with the overarching aim of maximising economic recovery. Consistent with this and the increasing need to tie back smaller and more marginal discoveries into existing, and often ageing infrastructure, licensees, operators and owners should make their infrastructure and processing facilities available at fair commercial terms and rates to third party users, subject to their own capacity requirements and technical compatibility.
- 1.9 A measure of success of this new approach will be that the life of existing infrastructure is prolonged to allow the processing, transport and export of the UK's petroleum and investment in new key infrastructure is achieved. It is also intended that assets are not decommissioned prematurely to the detriment of production hubs and infrastructure which are needed to achieve the maximum economic extension of field life. Timing is critical since in mature areas of the UKCS, rapid exploration of near field potential is required before existing infrastructure is decommissioned.
- 1.10 It is also expected that the Licensing Authority will encourage and facilitate greater industry collaboration and ensure that disputes are resolved in good time thereby making operations in the North Sea more efficient.

## **Geographical Remit**

- 1.11 Although the Wood Review was focused on actions to maximise economic recovery from the UKCS, Sir Ian noted that there was a strong rationale for extending the remit to the recovery of oil and gas onshore. It is currently the case that the licensing and associated functions both onshore and offshore are governed by and derived from the same statutes and regulations and managed by the same team (Licensing, Exploration and Development) within DECC. While issues impacting oil and gas extraction onshore and offshore can be very different, the principles and underpinning techniques, technologies and operating and supply chain requirements have a great deal in common.

- 1.12 Government therefore agrees that the new Authority's remit should extend to onshore (as well as to the licencing activity for Natural Gas Storage and Unloading and Carbon Dioxide Storage) and intends to proceed accordingly, working with the relevant companies and industry associations along the way. The Government also believes that the MER UK philosophy established by Sir Ian's Review should be applied to all oil and gas recovery whether offshore in the UKCS or onshore.
- 1.13 However, while the high-level MER UK principles might be the same, it is clear that their application may need to be quite different onshore compared to offshore. The Government will need to consider this in more detail with the onshore industry, focusing on how the new Authority should deal with the exploration and subsequent production phases of new unconventional – principally shale – resources. It will be key to the success of the overall response to Sir Ian's Review that this work does not detract from the focus that is needed on developing MER UK strategies for the UKCS.
- 1.14 Through subsequent legislation, and following appropriate consultation with industry, Government intends to extend the duty on the Authority to produce a separate MER UK strategy applicable to the onshore environment. However, while this is our intention, we recognise the need to ensure we do not rush to set up a regulatory regime inappropriate to a nascent industry context.
- 1.15 We will seek to finalise our views on the applicability of the MER UK principles onshore in consultation with industry and intend to do so in preparedness of any development phase of shale gas.

# Chapter 2

## Recommendation 2: Create a new arm's length regulatory body charged with effective stewardship and regulation of UKCS hydrocarbon recovery, and maximising collaboration in exploration, development and production across the Industry

### **The Oil and Gas Authority**

- 2.1 The Government welcomes Sir Ian's recommendation that there should be a new body to oversee the stewardship and regulation of the UKCS. Current arrangements within DECC have proven remarkably successful at securing excellent investment and performance across the UKCS. However the current arrangements evolved in a very different environment in which the UKCS was dominated by large multinational oil companies, operating large and technically straightforward reservoirs with accordingly simple infrastructure and commercial arrangements. Over the last decade, as Sir Ian noted, the picture has changed substantially and the Government agrees that the degree of change that has taken place and the degree of challenge that this now presents require a new approach, building on the best of what we already have, especially as Britain will still need significant oil and gas supplies over the next decades while we decarbonise our economy.
- 2.2 The Government therefore intends to establish a new body to undertake the licensing, exploration and development functions work currently carried out by DECC. The new body will be called the Oil and Gas Authority (OGA). It will have its headquarters in Aberdeen, the home of the UK offshore oil and gas industry, but it will also require a substantial presence in London and potentially elsewhere in due course.

### **The Role and function of the Oil and Gas Authority**

- 2.3 The Authority will be a strong, effective steward and regulator, using its powers and influence for the good of the UK in general. It will be charged with maximising the economic recovery of oil and gas from onshore, as discussed above, and offshore, encompassing the UK's Continental Shelf, and territorial seas. It will work proactively with industry and Government to develop and deliver a coherent tripartite, long-term strategy for delivering MER UK as recommended by Sir Ian, and will ensure that individual licence holders and Industry more generally are held to account for delivery of their commitments within that strategy. It will provide advice to industry and Government, as well as constructive challenge, on policy and fiscal matters. It will be a respected source of expertise charged with catalysing, facilitating, supporting, removing barriers and ultimately using its powers as necessary to require behaviours which will deliver MER UK. The body will also retain the licencing functions associated with natural gas storage and offloading, and carbon dioxide storage. It is not intended that this will in any way impact the current role of Ofgem. It will oversee planning for future decommissioning of the UKCS, ensuring it proceeds in a logical, sound, cost-effective manner, in line with MER UK.

- 2.4 The OGA will retain the various statutory and non-statutory functions undertaken by the Licensing, Exploration and Development (LED) team in DECC. In particular, it will; maintain and develop the regulatory framework, taking full account of existing and potential EU legislation; exercise its functions such as awarding petroleum licences and issuing consents for related activity; applying powers to regulate third party access to upstream petroleum infrastructure; promote sound commercial behaviours and efficient use of infrastructure, information and technology; work collectively with Industry and HM Treasury and with individual companies to maximise the value of fields and prospects and the UK's petroleum resources as a whole; work with Industry on upstream emergency plans; use PILOT<sup>1</sup> to provide strategic direction; provide input to longer term plans for gas storage and carbon capture and median line activity.

### **Ethos of the Oil and Gas Authority**

- 2.5 The Authority will be an independent arm's-length body, accountable to the DECC Secretary of State, working within a strategic policy and operating framework set by him and working to deliver objectives established by him. Within this framework, the Authority will have significant delegated operational policy and managerial freedoms to enable it to do its job effectively. Crucially, it will have the means to be able to recruit the right calibre of staff in both leadership and specialist technical functions within a high level pay remit agreed from time to time with the Secretary of State.
- 2.6 The Authority will have the powers at its disposal to require licensed operators to act in accordance with MER UK principles in the context of their own licences.
- 2.7 The Government agrees with Sir Ian's view that a strong, well-resourced, respected, proactive and competent operator should only rarely need to resort to the use of such powers. The Government instead wishes the new body to have a strong role in catalysing, encouraging and facilitating actions and agreements within and between operators, and between operators and Government, to ensure the success of the tripartite MER UK strategy. It sees the new Authority as a key strategic partner for operators, working with them to improve both returns for the taxpayer and for their shareholders. In short, Government expects the new body to develop and instil a new culture of partnership and challenge that will pervade the delivery of MER UK. To be clear, this will require industry to play its full part in changing its approach to collaboration, and ways of working within and between fields to maximise economic recovery.
- 2.8 As a public sector body with express statutory functions, duties and powers, it will carry out its business in a professional, fair, objective and transparent manner, in keeping with the very high standards of behaviour expected of arms' length bodies right across Government.

### **Establishment of the Oil and Gas Authority**

- 2.9 The establishment of the OGA in its final form will require primary legislation and there is not time to achieve all of this in the remainder of the current Parliament. DECC will, therefore, in the first instance, and in order to demonstrate pace and its strong commitment to implementing Sir Ian's recommendations, establish the Authority as an Executive Agency. Our intention is for this to be operational in autumn 2014.

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<sup>1</sup> PILOT is a joint programme involving Government and the UK oil and gas industry which aims to secure the long-term future of the UK Continental Shelf and ensure full economic recovery of our petroleum resources

- 2.10 However, Government does not believe that an Executive Agency provides an optimum long-term solution. It is our intention therefore to establish the new body in its final form by means of a Government Company. This will give the Authority greater operational independence from Government and will provide a more suitable platform to provide the arm's length regulatory certainty Industry requires to invest in exploration and production activity to maximise economic recovery from the UK's oil and gas resources.
- 2.11 A Government Company would most likely be set up as a private company under the Companies Act 2006, limited by shares, with the Secretary of State of DECC as the sole shareholder. It is intended that the Secretary of State would appoint the Chair of the executive board and a minority of the non-executive directors, with the remainder appointed by the Chair.
- 2.12 The Companies Act memorandum and articles of association and a framework document drawn up and agreed between the Secretary of State and the new Authority will set out the governance of the company and the accountabilities as well as how control will be exercised by the Secretary of State and what he will delegate for decision to the Authority. It is intended that the Authority will have substantial operational independence from Government, but the Chair and Board will be accountable to the Secretary of State for the performance and conduct of the Authority. Key performance indicators will be developed and published alongside the Authority's objectives to enable Ministers, industry and the public to monitor the performance of the body. Government – represented by senior officials from DECC - may have observer status at board meetings.
- 2.13 DECC will develop the plans for establishing the Oil and Gas Authority further in the coming months, working closely with Industry and other partners to get the substance and the detail right. We will work both through the Interim Advisory Panel, chaired by Sir Ian, and in wider fora, including the industry's principal trade association, Oil and Gas UK.
- 2.14 Following the measures put forward in the Infrastructure Bill currently proceeding through Parliament, Government will be developing draft substantive legislation to vest the new Authority with its statutory objectives, functions, duties and powers. This will require particular care and again, we look forward to working with Industry and other key stakeholders on the substance and detail of this future legislation. The Government notes that there is significant cross-party consensus on the issue of the establishment of the new Authority in statute and so proposes to prepare a Bill for introduction which can be swiftly enacted in the early part of the next Parliament. Depending on the will of Parliament, the Government expects that the Authority be vested with the necessary powers, duties and functions in early to mid 2016.

### **Resourcing the Oil and Gas Authority**

- 2.15 In anticipation of the establishment of the new Authority, work has begun to recruit a chief executive officer (CEO) to lead the new body. In addition, £7m was made available in Budget 2014 to allow for the recruitment of key leadership and specialist staff in 2014/15 and 2015/16.
- 2.16 The CEO will play a critical role in shaping and setting up the new Authority, including setting its immediate work priorities, its organisational design and formulating the MER UK strategy. However, without pre-empting key decisions for the CEO or the new Authority, it is clear that there are opportunities to build on the existing capability and

capacity of the current teams in DECC so that they can begin to deliver on the Wood Review recommendations without delay.

## **Funding the Oil and Gas Authority**

- 2.17 Government agrees with Sir Ian that the challenge of delivering MER UK requires the OGA to be significantly better resourced than the current equivalent team in DECC. In line with the long-established practice across regulation and service delivery, and to ensure the OGA is not restricted by any future Government funding constraints, the Government considers that, in the long-term, it is appropriate for the body to recover its costs from companies who will benefit from the services of the Authority. However, to demonstrate its commitment to the tripartite approach recommended in the Review, acknowledge the work the OGA will be doing for Government as well as Industry, and help realise the other benefits outlined in Sir Ian's report, Government will contribute £3m per year for five years beginning in 2016/17 towards the running costs of the OGA.
- 2.18 While Government recognises that no cost increases are welcome for an industry that already faces considerable cost challenges in the UKCS, it nevertheless believes that the relatively modest investment that will be required will be paid back over time by improved performance across the basin. Such funding arrangements will also limit the risk of the important work of the new Authority being compromised by the challenging outlook for public finances, which is expected to continue to necessitate significant restraint on Departmental budgets. The Government also notes in this context that in the 2014 Budget the Government announced a review of the fiscal regime to ensure that it supports MER UK. HM Treasury will be working closely with Industry and the OGA as soon as it is established on this review.
- 2.19 Around 20% of the costs of current Regulator are already recovered through fees. The Gas and Petroleum (Consents) Charges Regulations 2013 (SI 2013/1138) allow for charging for the Secretary of State's consent to:
- A carbon dioxide storage proposal;
  - Certain development proposals under the offshore oil and gas model clauses;
  - A pipeline deposit proposal; and
  - Certain other functions under a licence granted under the 1998 Petroleum Act.
- 2.20 While the scope of the current charging power is broad, Government has concluded that an additional cost-recovery mechanism will be required to be able to fully fund the body and a levy would provide the fairest and simplest method of achieving this aim. Provisions will therefore be introduced into the current Infrastructure Bill to provide for a levy-making power.
- 2.21 At least initially, we envisage the levy being calculated to recover costs including those associated with developing the MER UK strategy, and with respect to the majority of the body's non-statutory activities such as: supporting and encouraging supply chain efficiency and skills; research and development work (for example research into techniques for increasing the amount of oil that can be recovered from an oil field); and costs related to the collection, storage, analysis and dissemination of data (for example surveys in relation to geological work).
- 2.22 However, setting the scale, apportioning the costs of the levy to industry and establishing the fees and charges for products and services under the existing charging power, in an effective and administratively simple framework, will need further consideration and

consultation with Industry before being made through secondary regulations. Government is therefore proposing the levy-power included in the Infrastructure Bill is subject to a 3 year “sunset clause” to ensure that an effective and efficient cost recovery mechanism is developed in consultation with Industry during this time. We would expect to engage with Industry on their preferred approach during the second half of 2014. There would then need to be more detailed dialogue on the exact mechanisms and processes around collecting revenues in the first half of 2015.

- 2.23 Government intends that this work will also consider the development of an effective and appropriate charging regime to apply to the onshore industry, as well as the Authority’s activities in relation to Carbon Dioxide and natural gas storage.
- 2.24 Detailed work on the ultimate size and cost of the Authority will not be completed until its CEO is in place, although it is clear that it will be bigger than the existing team, and therefore is likely to be more costly.

### **Milestones for setting up the Oil and Gas Authority**

- 2.25 There is an understandable desire across Industry, following Sir Ian’s Review, for implementation to take place as swiftly as possible. The Government shares the sense of urgency and the desire to move swiftly to establish the new arrangements. However, it is extremely important, if we are to establish a new operating paradigm for the UKCS that succeeds and endures, that we get this right. This requires balancing pace and commitment with thought and care, and with partnership working. Consistent with these competing imperatives, the Government intends, as far as possible, to proceed to the timetable shown below.
- CEO Search begins – June 2014;
  - Shadow body in the form of an Executive Agency set up by Autumn 2014;
  - Gradual addition to capacity/capability in DECC team to deliver new areas of work prior to appointment of CEO;
  - Consideration with Industry on detailed underpinning and legal expression of powers for the Authority autumn 2014;
  - Appointment of the CEO designate autumn 2014;
  - Accelerated addition to capacity/capability in Executive Agency through 2015.
  - MER UK principles and levy-making powers established in statute, subject to the will of Parliament by May 2015;
  - Levy in force through secondary regulations, subject to the will of Parliament, by October 2015;
  - Government Company set up with new powers in 2016 – subject to legislative programme for the next Parliament.

# Chapter 3

## Recommendation 3: The Authority should take additional powers to facilitate implementation of MER UK

- 3.1 Sir Ian's Review rightly highlights the very considerable evolution that the UKCS has undergone in the last 20 years or so, from a basin dominated by big fields run by a few multinational operators to a position where we now have over 300 producing fields. Some of these are small and technically and commercially marginal, operated by around 50 operators, including companies of very different sizes and industry profiles with many of those fields critically dependent for their operation on access to third party infrastructure. Sir Ian characterises the early approach to intervention in the basin as "light touch" and points out that this approach will no longer suffice in the new and much more interdependent environment we now have offshore. However, in framing this recommendation, Sir Ian makes clear that the success of the new Authority will rest as much on its knowledge, capability and experience as it will on the regulatory tools it has at its disposal and notes that it is these attributes which have enabled petroleum regulators in jurisdictions like Norway and Holland to successfully deal with the sort of challenges which we now face. The Government agrees with this analysis and agrees that the further powers that need to be given to the Authority should be seen in this light. A strong and effective regulator will succeed by influencing, facilitating, convening and sharing its learning with operators across the sector, only occasionally needing to resort to use of its harder regulatory powers.
- 3.2 The Government therefore welcomes this recommendation and the careful way that it captures the need for the new Authority to exercise an appropriate balance of hard and soft power in pursuit of its MER UK objectives. The Government is committed to ensuring the new Authority makes effective use of its existing powers, which in many respects are not inconsiderable, and it will therefore review the full range of current powers to see whether, and if so how, they could be deployed more effectively by a better-resourced regulator. As recommended, the Government will also equip the Authority with additional powers to enhance its ability to maximise economic recovery by encouraging and facilitating collaboration and dispute resolution without compromising the incentives for efficiency and innovation achieved by healthy competition.
- 3.3 Getting this suite of current and new regulatory powers right will require considerable further detailed analysis of the scope of DECC's current powers and the Government will work closely with industry and other interested parties in the months ahead to undertake this work and ensure we are able to take additional powers in the legislation that is proposed for the first session of the new Parliament. In accordance with the Review's recommendations and alongside provisions that will establish the new OGA and define its responsibilities, objectives and accountabilities, we expect this future legislation will:
- Provide for **Dispute Resolution powers**. The Wood Review highlighted that overzealous legal and commercial behaviour between operators was increasing costs, causing delays and poorer recovery, and in some cases stranded assets. The Government agrees an enhanced role of the Authority in this area could bring benefits and will therefore charge the Authority with working with Industry to develop protocols

and processes, including the use of expert assessors where appropriate. Power will be given to the Authority to help resolve disputes and disagreements in good time on matters relevant to the licence and MER UK. Where existing contracts are in place, the new body clearly will not take the place of the courts, however where the operation of these contracts is in opposition to the MER UK Principles, then either or both parties may be liable to sanctions under the new powers

- The Government notes that some of the current sanctions exist in extreme form (such as licence revocation), making their use difficult and disproportionate in many cases. The Government therefore proposes to create a more graduated **sanctions and incentives** regime for circumstances in which licensees are not adhering to the MER UK strategy. Government is committed to ensuring the stepped sanctions regime is transparent and accountable. It is envisaged that the Authority will have powers to issue private and formal notices, including improvement notices, and require production efficiency plans in situations where they believe the conditions of the licence or the MER UK strategy are not being adhered to. It is envisaged the Authority will also have powers to levy fines and other penalties where appropriate.
- The Government agrees that there may be times where the right to attend licence holders' **meetings** would help ensure the Authority is adequately informed to carry out its duties effectively. This may particularly apply in situations where there are concerns over the management of the licence, or where there are disputes among and between licensees.
- Ensure **transparency and access to data**. The Review notes the importance of good data to promote investments, create value and support safe operations. Whilst respecting the confidential nature of some data and competition law, the Government is committed to increasing the transparency and access to data and will therefore ensure appropriate powers, resources and enforcement procedures are in place to facilitate the sharing of data.

3.4 A key theme running throughout the recommendations contained in the Wood Review is the need to ensure effective collaboration between parties. With this in mind, the Government is considering whether any further powers are required, for example to encourage joint development plans, area unitisation and to ensure appropriate access to infrastructure without contravening competition law or weakening market incentives.

# Chapter 4

## Recommendation 4: Develop and implement important Sector Strategies

- 4.1 The Wood Review highlights the importance of the new body working collaboratively with Industry to develop and implement sector strategies which will underpin the overarching MER UK strategy. Government published the UK Oil and Gas Industrial Strategy in 2013, which, like the Wood Review, seeks to put Government and Industry on the right path to maximise economic recovery of oil and gas from the UKCS. The Industrial Strategy identified priorities that Government and Industry will work on together in a long-term partnership. It will be important to ensure these areas of work are complementary, particularly in the areas of technology and decommissioning which are highlighted in both reports.
- 4.2 The sector strategies outlined in the Wood Review will provide the building blocks of the overarching MER UK strategy. Building on the detailed work of PILOT and in line with the tripartite approach, Government, Industry and the Authority will need to work together to develop and implement these strategies. As outlined in the 2014 Budget the Government will task the new Authority to review how best to encourage exploration and reduce decommissioning costs as a priority. It will report back at Budget 2015 with its findings and recommendations.
- 4.3 As highlighted in the Wood Review, despite the high demand for acreage in recent licensing rounds, exploration remains at an all-time low. Exploration rates have halved in the last five years. The exploration strategy will urgently consider ways to stimulate exploration, including considering the facilitation of regional exploration plans, increased access to data where appropriate and better use of data including seismic, geological and geoscience as well as looking at the use and availability of key equipment and infrastructure. It will also look at innovative commercial solutions including the development of rig clubs which will reduce operators' costs and encourage operators to co-plan exploration campaigns.
- 4.4 The second strategy recommended in the Review focuses on asset stewardship. This strategy will seek to ensure operators are maximising economic recovery from fields under their licence whilst also having consideration of adjacent resources. This is a pressing issue. The decline in production efficiency has contributed to a 38% decline in UKCS production over the last 3 years. The Government will therefore encourage the Authority to set clear expectations with respect to critical stewardship factors such as production efficiency and recovery factors and work with joint venture partnerships to ensure these are being met.
- 4.5 The overarching principle of MER UK is to maximise economic recovery for the UKCS as a whole and not just the particular field for which the operator has a licence. Effective regional development plans will be key to achieving this. Through the rejuvenation projects, Industry is already making good progress to address the challenge of regional cooperation. Government will encourage the Authority to work closely with Industry to develop regional plans across the UKCS which co-ordinate and where appropriate integrate exploration, development, production and decommissioning plans.

- 4.6 The Wood Review highlighted that negotiating fair access to infrastructure was leading to substantial delays, increased costs and in some cases field abandonment. In line with the asset stewardship and regional development plan strategies, Government agrees with the need to develop an infrastructure strategy to retain and develop existing infrastructure. Government believes the OGA should have a role in ensuring existing infrastructure is being optimised, help facilitate new investment and ensure access to infrastructure on an appropriate commercial basis.
- 4.7 As noted in the UK Oil and Gas Industrial Strategy, overall R&D spend in the sector is significantly less than Norway, yet the development and implementation of new technology will be essential to maximising economic recovery from the UKCS. The impact of technological advancements is clear and has already improved the economics of some fields, for example a move to deeper waters, the ability to tie back and operate remotely and the development of high pressure high temperature reservoirs. Government believes the OGA should build upon the recommendations contained in the UK Oil and Gas Industrial Strategy and work with the newly established Technology Leadership Board to oversee the development of a technology strategy which will help ensure the UK becomes a world-leader in technology development. The Technology Leadership Board has been established through PILOT Council and jointly reports to PILOT and to the Oil and Gas Council.
- 4.8 With around 470 installations, 10 thousand kilometres of pipelines and approximately 5 thousand wells to plug and abandon, decommissioning is of fundamental importance to operators. The decommissioning strategy will need to link closely to all of those above. Government believes the OGA should have a role to play in ensuring the maximum economic extension of field life as well as ensuring key assets are not decommissioned early, to the detriment of regional hubs and infrastructure. The strategy should focus on ways to reduce the costs of decommissioning but at the forefront, ensuring it is done safely, cost effectively and with utmost regard to the environment.
- 4.9 The Government very much endorses Sir Ian's view that the intent of these strategies should be to create value and not add to the regulatory burden.

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