



Oil & Gas
Authority

Stewardship Expectations

SE-04 Licence Activity, Decision Points
and Milestones Implementation Guide

1. Objectives

The OGA is uniquely positioned to have visibility of the complete licensing landscape and advise accordingly. The objectives of this expectation are:

- To enable the OGA to support licensees with timely work programme execution
- To enable the OGA to facilitate licensee/joint venture alignment
- To advise licensees on good practice, including in relation to commercial activity

2. Indicators to assess delivery

Delivery of this Stewardship Expectation is demonstrated through the performance of the following three key elements:

- a. Notified upon signature of a Joint Operating Agreement (JOA) within six months of licence award
- b. Notified and engaged at least one month prior to the investment decision being taken to drill or drop a well commitment, or at least three months prior to entering into a new phase or term of an Innovate Production Licence
- c. Be notified by any participant in the licence of farm-out / divestment activity in a timely manner prior to the commencement of such activity

2.1 Joint Operating Agreements (JOAs)

2.1.1 Scope

This component of the expectation covers all production licences within their initial term.

Partnerships without an agreed JOA can often lead to protracted commercial disputes, which may have an adverse impact on the timely fulfilment of work programmes, including seismic and drilling activity.

The Joint Venture (JV) group for an awarded licence should have a fully signed and executed JOA within the first six months of the initial term of the licence. To assist this the Oil and Gas UK industry standard JOA is available:

<http://oilandgasuk.co.uk/knowledgecentre/accessagreements.cfm>

2.1.2 Submission to the OGA

The licence operator should notify the OGA within six months of licence award that a JOA has been agreed and signed. The JOA notification should be emailed to the following email address:

JOA.Notification@ogauthority.co.uk

The email subject should be structured as follows:

LicenceNumber_JOA_Block(s)_OperatorName
(e.g. P1111_JOA_Block99-55a_MERUKOil)

Note: If the opportunity covers multiple blocks and licences, please name the primary block and licence only.

Although not obligatory, it may reduce later requests if a copy of the JOA is attached to the email. Receipt of a JOA by the OGA should in no way be interpreted as an endorsement of the terms and conditions contained therein.

Note that outside of this process, the OGA may also request copies of current JOAs for existing production licences in any term.

Where a partner group has been unable to sign a JOA within the six month period, an explanation should be given, in writing to the above email address, detailing steps that will lead to an agreed JOA within a reasonable timeframe.

2.2 Drill or drop decisions

2.2.1 Scope

This component of the expectation covers all production licences within their initial term. The OGA should be engaged prior to an investment decision being taken to drill or drop a well commitment, ideally when discussions begin, and no later than one month prior to the investment, or drop, decision.

For Innovate Licences issued from the 29th Offshore Licensing Round onwards, the OGA should be engaged at least three months prior to entering into the next Phase (B/C) or the Second Term.

Reference should also be made to the requirements of Stewardship Expectation (SE02) and licensees should acquaint themselves with their statutory obligation to inform the OGA of certain joint venture meetings Under Part 2, Chapter 4 (Meetings) of The Energy Act 2016. The OGA website has the latest guidance.

2.2.2 Submission to the OGA

The licence operator should inform the OGA as early as possible prior to the well investment/non-investment decision by sending an email to the following address:

Offshore.Exploration@ogauthority.co.uk

The e-mail subject should be structured as follows:

LicenceNumber_DrillOrDrop_Block(s)_OperatorName

(e.g. P1111_DrillOrDrop_Block99-55a_MERUKOil).

Note: If the opportunity covers multiple blocks and licences, please name the primary block and licence only.

This email should include a summary document of the well/prospect in question.

2.3 Farm-outs/divestments

2.3.1 Scope

This expectation covers upstream asset acquisition and divestment (A&D) activity on individual assets, rather than corporate packages (i.e. sales and marketing of acreage, prospects, discoveries and producing fields with or without infrastructure) that may be marketed openly or more selectively. It pertains to production licences in any term and includes partial divestment (farm-downs) and complete divestment. The expectation is intended to aid the OGA in anticipating and planning for future activity, including licence and operatorship assignments, and seismic/well activity.

This expectation does not cover corporate mergers and acquisitions (M&A - including those involving share transactions) or midstream and downstream infrastructure deals, although if the OGA is also given prior warning of such transactions, it may help aid subsequent regulatory approvals.

2.3.2 Submission to the OGA

Timely provision of information to the OGA aids with regulatory processes and planning. The OGA should ideally be informed prior to commencing formal marketing of assets for divestment or farm-out, and ideally before potential bidders have been contacted.

The following information should be provided to the OGA by any participant in a licence who is planning or actively taking part in farm-out/divestment activity. If more than one participant is farming out together, the main/lead party can notify the OGA on behalf of all parties.

Licencees should undertake the following actions in support of this expectation:

- a. Prior to marketing commencing, the OGA should be notified of the activity and provided with Pre-Confidentiality Agreement (CA) asset marketing documentation (i.e. summary flyers and brochures)

This should be supplied to this email address:

Divestment.Plan@ogauthority.co.uk

The email subject should be structured as follows:

LicenceNumber_DivestmentName_Block(s)_OperatorName

(e.g. P1111_DidgeridooProspectDivestment_Block99-55a_MERUKOil)

Note: If the opportunity covers multiple blocks and licences, please name the primary block and licence only.

- b. The OGA may request additional information, and it would be helpful if the OGA is informed of impending transactions and licence changes as far in advance as possible

2.3.3 Farm-out good practice guide

In order to maximise the chance of a successful divestment and/or farm-out, licensees should ensure that they allow as much time as possible, and allocate sufficient resources to upfront planning of the process, and management of marketing, data reviews and any negotiations. If dedicated in-house personnel are not available, consider using an experienced, external specialist divestment service provider. Use of specialist A&D divestment service providers is often more cost-effective, more likely to be successful, and allows existing technical and commercial resources to focus on their usual activities. Specialist agents are also more likely to have access to a broad, up-to-date network of potential buyers and farminees.

This guide is not intended to be prescriptive, and the OGA recognises that each company and asset will have their own requirements and procedures. However, attention should be given to a thorough and robust process, since consequential failure to fulfil work programme commitments may result. In particular, consideration should be given to:

1. Opportunity framing session
 - a. Time and effort should be dedicated to fully preparing the farm-out process, including a clear marketing strategy, careful consideration of the technical and commercial opportunity and its fit within a given market, timelines with milestones, consideration of changing market conditions, JOA conditions, licence constraints and the commercial landscape and drivers.
 - b. Planning should allow for both the marketing and negotiation phases. Deals typically take 12-18 months or more from start to completion, with offers/negotiation/approvals often taking up a third to half of this time.
2. Opportunity flyers
 - a. These should provide a non-confidential summary of the asset, with a clear, positive technical and commercial message and key information which will attract potential buyers into a dataroom after signing a confidentiality agreement. It is important to ensure such documentation allows the potential buyer/farminnee to assess key selection criteria.
 - b. It should be recognised that often, more detail can be provided in the pre-CA documentation which helps trigger interest. The CA should not act as a barrier to the provision of key information.
3. Distribution and marketing
 - a. Consider using a professional divestment service provider to complement internal expertise, allowing direct approaches to a wide pool of relevant, potential buyers and assistance in managing and coordinating a progressive marketing approach, with proactive, structured follow-up conversations and project reviews.
 - b. Establish a marketing plan using diverse media types, including marketing through key technical conferences, A&D prospect exhibitions and industry fairs within both the UK and elsewhere around the world where new entrants to the UK can often be found.

4. Confidentiality agreements

Depending on the potential bidder, signing of a CA can take time, although use of industry standard CA formats will often greatly assist. Until executed, more in-depth marketing and data provision cannot take place.

- a. A standard confidentiality agreement is available from Oil and Gas UK:
<http://oilandgasuk.co.uk/knowledgecentre/accessagreements.cfm>

5. Information memorandum (IM) / detailed management and project presentation

- a. This should contain the detailed technical and commercial story of the asset with all of the information required to make a preliminary evaluation. This should include technical, economic, commercial, operational and political aspects. It should also encourage subsequent review of the key project data in the subsequent initial independent evaluation.

6. Dataroom

- a. Physical datarooms (PDR) or online datarooms (ODR) can be used, or a combination of both, where an ODR allows the potential buyer to carry out remote due diligence before either party needs to spend time and resources on detailed face to face reviews in a PDR.
 - i. The advantage of a PDR is that the seller can provide face to face access to technical experts. Interested parties that have had prior access to the appropriate key information in the ODR, and have already progressed their evaluation to a mature point, ensures such face to face reviews are most productive.
 - ii. An ODR can also be useful to monitor activity before or after a PDR and select the most interested buyers, also allowing the data to be accessed by a wider pool of targets over an extended period.
- b. Management Presentation. This is a key part of the marketing process, used to deliver a robust sales and technical story. This can often be more effective than an IM, so long as the pre and post CA marketing material contains sufficient data and is complementary to the project marketing strategy.
- c. Data packages. Best made available as part of a secure ODR, these allow the potential buyer to access sufficient information to carry out their own assessments in-house, and present the opportunity to their own management.

7. Negotiation and decision-making processes

The negotiation process is composed of several steps: bid receipt; clarifications; scoring/ranking; potential rebids; possible pre-emption; negotiation of key terms; detailed negotiation and exchange; completion; regulatory approval.

Time is often the biggest issue in farm-out deals, and few companies start the process early enough.

Allow sufficient time and manpower to manage this process and maintain momentum.

3. OGA approval of licensee changes

Any proposed changes to the licensees must be submitted to the OGA using the PEARS system within the UK Energy Portal (https://itportal.decc.gov.uk/eng/fox/live/PORTAL_LOGIN/login). Licensees should ensure that enough time for these approval processes is built into their plans.

Further guidance is available on the OGA website (www.ogauthority.co.uk).



Oil & Gas Authority

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