

The OGA's onshore decision-making framework

The Energy Act 2016 sets out the matters to which the OGA must have regard when exercising its licence powers onshore. These, in combination with the functions set out in the Petroleum Act 1998, and associated Landward Petroleum Regulations, provide the following framework for the exercise of the OGA's powers in relation to English¹ licences.

- **Minimising future public expenditure:** *The need to minimise public expenditure relating to, or arising from, relevant activities.*
- **Security of supply:** *The need for the United Kingdom to have a secure supply of energy.*
- **Collaboration:** *The need for the OGA to work collaboratively with the government of the United Kingdom and with persons who carry on, or wish to carry on, relevant activities.*
- **Innovation:** *The need to encourage innovation in technology and working practices in relation to relevant activities.*
- **System of regulation:** *The need to maintain a stable and predictable system of regulation which encourages investment in relevant activities.*

This document sets out the matters the OGA will normally consider when making its decisions in the current circumstances of the onshore oil and gas industry.

Overall onshore objective:

When making decisions, the OGA must have regard to the matters as set out in the Energy Act 2016, so far as relevant². While these apply to licensing decisions at all relevant stages, the OGA will likely put particular emphasis on different factors during the life cycle of a licence, including where appropriate to assist in the implementation and support of overall government policy for onshore oil and gas.

The factors likely to have particular relevance over the life cycle of a licence include:

- **During licensing rounds:** *appropriate collaboration with government and the need for the United Kingdom to have a secure supply of energy.*
- **For decisions relating to exploration, appraisal and development:** *in addition to energy supply considerations, the need to encourage innovation (particularly to ensure best practice is adopted).*

¹ Onshore licensing powers were devolved to Scotland on 9 February 2018. Similarly, the onshore licensing powers will be devolved to Wales on 1 October 2018

² Energy Act 2016 Section 8(1). The OGA must also have regard to matters related to the development and use of facilities for the storage of carbon dioxide.

- ***Throughout the lifetime of a licence:*** the need to maintain a stable and predictable system of regulation which encourages investment, the benefits of working collaboratively with those carrying out the activities, and the need to minimise public expenditure.

Demonstrating viability: application of the overall objective to decision making over the lifetime of a licence.

If the new exploration plays are successful, the majority of onshore petroleum activity over the next five to ten years will focus on evaluating and developing England's shale and other low permeability petroleum resources. While much can be learnt from the more advanced activity in North America, the companies involved will likely face greater technical and regulatory uncertainty than when working in established plays.

At this stage of the development of England's onshore shale and low permeability resources, in some circumstances security of supply may be better secured by placing more weight on innovation and the encouragement of investment and less weight on seeking to maximise the contribution of an individual field or well than would be appropriate in the management of a more established resource. When taking decisions specific to a licence, the OGA will normally consider whether the licensee has based its proposals on evidence of wider working practices and technical understanding of its area and is thereby best placed to undertake successful activity on its licence.

In the light of these circumstances, the OGA will normally:

When issuing new licences

- encourage innovative approaches to exploration which are likely to contribute to security of supply, stimulate investment, the adoption of technology or improve working practices
- take account of synergies between, or dependencies on, similar prospective areas and work programmes where these would support its objectives
- recognise that enabling innovative approaches to exploration may support higher levels of investment and that licensee exploration risk management may be an important component of an ambitious, achievable work programme, and,
- adapt marking schemes used in previous licensing exercises as appropriate to include these factors.
- undertake financial checks of licensees in accordance with its financial guidance, and repeat these as appropriate throughout the life of the licence.

When varying existing licences

When considering applications to extend licence terms or, where appropriate, the overall length of a licence, the OGA will consider relevant circumstances, which could include but not be limited to:

- the relevant factors that would now be taken into account at the award of a similar licence in the light of the current context of the licence
- the benefit of the extension to the OGA's objectives (e.g. the opportunity for the licensee to complete its Work Programme)
- the duration of the extension that the OGA considers necessary to secure that benefit
- whether a licensee would have an early opportunity to apply for a licence if the OGA were to refuse an extension
- whether the licensee has worked diligently to meet the relevant deadline and/or has been prevented from doing so by factors beyond its control, and,
- consistency with decisions in similar cases.

When considering applications to modify work programmes, the OGA will consider relevant circumstances, which could include but not be limited to:

- the relevant factors that would be taken into account at the award of a similar licence in the light of the current context of the licence (including but not limited to the synergies and dependencies with activity in the area)
- the benefit of the variation to the OGA's objectives (e.g. the best opportunity for the licensee to complete its Work Programme)
- whether or not the licensee has worked appropriately to deliver the obligation and/or has been prevented from doing so by factors beyond its control, and,
- consistency with decisions in similar cases.

Drilling and completion for exploration and appraisal

When considering applications for drilling, completions (including fracking) and other operations, the OGA will normally expect operators to:

- demonstrate a level of organisation preparedness that is appropriate for the current decision being made and looks beyond the current operational focus
- have sought out and incorporated recent developments in working practices and understanding relevant to their operations, and,
- conform with the requirements set out in the licence and guidance.

Development and EWT

When considering applications for development and extended well testing, the OGA will normally expect operators to propose activity that:

- maximises the contribution of the field to security of supply
- demonstrates sustainable investment considering all prospectivity in the licence
- incorporates effective working practices and innovation in technology
- where synergies exist, draws on and supports activity in the area, and,
- conforms with requirements set out in the licence and guidance.

Well decommissioning

Given the matters to which the OGA must have regard, the OGA seeks to ensure that licensees manage their redundant well stock efficiently, including planning for the plugging and abandonment of a well at the end of its useful life.

Accordingly, the OGA will normally:

- for exploration and appraisal wells at the well consent stage, set clear expectations that only wells which have real value are left suspended rather than immediately decommissioned, and,
- work with licensees to review their existing well stock to secure a low-cost progressive plan for the decommissioning of redundant suspended wells so that only wells with real value are given consent to suspend or continue suspension.