

Case Closure Summary

Date investigation opened

20 April 2018

Date investigation closed

30 July 2019

Parties subject to investigation at the relevant time (April 2018):

A. **CMS Field Owners** (*ConocoPhillips (U.K.) Limited – 00524868, Neptune E&P UK Ltd – 03386464, Tullow Oil SK Limited – 05287330, Faroe Petroleum (ROGB) Limited – 01852301*),

CMS Pipeline Owners (*ConocoPhillips (U.K.) Limited – 00524868, ConocoPhillips (U.K.) Beta Limited – 02316577, Tullow Oil SK Limited – 05287330, Premier Oil E&P UK Limited – 02761032, Neptune E&P UK Ltd – 03386464*), and

TGT Owners (*ConocoPhillips (U.K.) Limited – 00524868, ConocoPhillips Petroleum Limited – 01247477, BP Exploration (Alpha) Limited – 01021007, BP Exploration BETA Limited – 00895797*)

(together the **‘Owners’**)

B. **Triton II Consortium (‘Triton II’)**¹

Collectively the **‘Parties’**.

Relevant legal provisions:

Sanctions investigation under Part 2 Chapter 5 of the Energy Act 2016

Outcome

The OGA has decided to close its investigation into the circumstances surrounding the failure of the negotiations between the Owners and Triton II to secure an agreement to replumb elements of the Caister Murdoch System (‘CMS’) away from the Theddlethorpe Gas Terminal (‘TGT’) (the ‘proposed Triton II transaction’). A summary of the background, the OGA’s investigation and its conclusion are set out below.

Background:

Since 2017, the OGA Operations Directorate had been facilitating discussions between ConocoPhillips (U.K.) Limited (**‘ConocoPhillips’**) (representing the Owners) and Faroe Petroleum (ROGB) Limited (**‘Faroe’**) (representing Triton II) regarding the proposed Triton II transaction. Despite intensive OGA facilitation, negotiations between the Parties broke down. At a high-level, the matter at the heart of the negotiations was that Triton II considered a successful five well incremental development had potential to justify further investment in this area, whereas the Owners considered that three of the wells considered by Triton II were unrealistic and that two successful wells were insufficient to generate a satisfactory economic return to justify the continued operation of CMS and TGT.

¹ Triton II Consortium is understood to have comprised subsidiaries of Faroe and certain supply chain companies.

Once the negotiations broke down, in line with the OGA measured escalation process, the matter was passed onto the OGA Regulation Directorate in February 2018. Following a short enquiry², a full investigation was opened on 20 April 2018.

The scope of the OGA's investigation was to:

- a. gather information on:
 - i) the level of economic value of the proposed Triton II transaction, including consideration of the level of technical risk incorporated in the input parameters;
 - ii) the respective company behaviours and the negotiating positions taken with regard to the proposed Triton II transaction, including (but not limited to) the Parties' respective proposals relating to or based on decommissioning cost risk and liability; and,
- b. evaluate whether there was a failure by one or more of the Parties to comply with a petroleum-related requirement; and whether a sanctions warning notice be issued to one or more of the Parties and if so on what terms it should be issued on.

Further to submission by the owners of the CMS Fields of their proposals for permanent cessation of production ('CoP') from the CMS area to the OGA, the OGA confirmed by letters dated 10th May 2018 and 15th November 2018 that it was not minded to enforce the obligations to carry out any previously consented production programme upon permanent CoP from the CMS Fields, subject to certain conditions.

Summary of investigation:

The OGA prioritised its assessment of potential economic value of further investment in the area in relation to the proposed Triton II transaction, with emphasis on establishing the evidence base on the extent of economically recoverable petroleum in the area that may otherwise remain stranded.

The Parties to the investigation were asked to provide their discounted cash flow models used to assess the remaining economic life of the CMS area, including details of the underlying technical and economic assumptions, which each did.

The OGA considered the information submitted and subsequently sought independent expert advice on the reasonableness of key technical assumptions underpinning those assessments and a view on a range of scenarios to inform further internal economic analyses on the potential value of further investment in the area.

Following the economic analysis, which considered a number of scenarios, the OGA has concluded that on balance there is considerable uncertainty whether there would be remaining material economic value from the investment envisaged in the proposed Triton II transaction.

Given the considerable uncertainty around whether there would be potential stranded economic value from further investment in the area as a result of the transaction failing to progress, the OGA has decided to close the investigation. The OGA has also decided not to expend further resources on investigating the commercial behaviours of the Parties.

² Enquiry opened on 20 February 2018.

Conclusion:

Therefore, the OGA has decided in this case to close its investigation in this matter without taking enforcement action.

The decision to close the investigation does not prevent the OGA from reopening the investigation in the future if it receives new evidence which changes this assessment.