



Oil & Gas
Authority

2020 OGA Strategy Review

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Introduction

In drawing up the obligations imposed by this Strategy, regard has been had to the following high-level principles:

- a. relevant persons are obliged to maximise the expected net value of economically recoverable petroleum from relevant UK waters, not the volume expected to be produced;
- b. to assist the Secretary of State with meeting the net zero target, and support investment in relevant activities, the OGA encourages and supports industry to be proactive in identifying and taking the steps necessary to reduce their greenhouse gas emissions as far as reasonable in the circumstances;
- c. that, to enable maximising economic recovery of petroleum, relevant persons should consider their social licence to operate, and develop and maintain good environmental, social and governance practices in their plans and daily operations;
- d. compliance with the Strategy is intended to lead to investment and operational activities that, on an expected basis, add net value overall to the UK;
- e. compliance with this Strategy may oblige individual companies to allocate value between them, matching risk to reward. However, while the net result should deliver greater value overall, it will not be the case that all companies will always be individually better off;
- f. compliance with this Strategy will not lead to any individual company investing in a project or operating existing assets where there is not a satisfactory expected commercial return on that investment or activity. Such a return does not necessarily mean a return commensurate with the overall corporate return on their portfolio of investment, e.g. a low risk investment could give low returns;
- g. in determining whether something is consistent with the obligations in this Strategy the OGA will need to balance the benefit of economic recovery of petroleum with the need to maintain the confidence of new and current investors to invest in exploration and production of petroleum from relevant UK waters, taking into account market conditions at the time of making its determination; and,
- h. that holders of an offshore licence must still comply with their licence and other regulatory obligations, including the execution of all operations in a proper and workmanlike manner in accordance with methods and practice customarily used in good oilfield practice.

The OGA Strategy

1. This Strategy is drafted, in accordance with section 9A of the Petroleum Act 1998, to enable the principal objective established in that section to be met.

In drafting this Strategy, the OGA has had regard to, among other things, how the Secretary of State may be assisted in meeting the net zero target.

To that end, this Strategy sets out a Central Obligation, binding on relevant persons. In order to secure the effective delivery of the Central Obligation, this Strategy also sets out Supporting Obligations and Required Actions, which are as binding as the Central Obligation, and a number of Safeguards.

The Supporting Obligations clarify how the Central Obligation applies in certain circumstances and the Required Actions are obligations which apply to relevant persons when carrying out the Central Obligation and Supporting Obligations, all of which must be read subject to the Safeguards.

As set out in sections 9B and 9BA of the Petroleum Act 1998, the OGA and Secretary of State must act in accordance with this Strategy when exercising their defined functions. That the OGA or the Secretary of State are not in the definition of relevant person is not intended to change this.

Central Obligation

2. Relevant persons must, in the exercise of their relevant activities, take the steps necessary to:
 - a. secure that the maximum value of economically recoverable petroleum is recovered from the strata beneath relevant UK waters; and, in doing so,
 - b. take appropriate steps to assist the Secretary of State in meeting the net zero target, including by reducing as far as reasonable in the circumstances greenhouse gas emissions from sources such as flaring and venting and power generation, and supporting carbon capture and storage projects.

Supporting Obligations

Governance

3. The licensee of an offshore licence, and where applicable the joint ventures in which they engage, must apply good and proper governance at all times, including complying with any principles and practices as the OGA may from time to time direct.
4. The licensee of an offshore licence must comply with a direction made by the OGA under paragraph 3 above.

Exploration

5. The licensee of an offshore licence must plan, fund and undertake exploration and other related licence activities, including seismic (and other data acquisition and use) and drilling activity, of a type and in a manner which is:
 - a. in relation to matters within their licence area, optimal for maximising the net value of economically recoverable petroleum that can be recovered under the licence; and
 - b. in relation to matters outside their licence area, set out in a plan produced under paragraph 18.
6. The licensee of an offshore licence who has made a firm commitment to carrying out a work programme in respect of that licence must not surrender the licence or allow it to expire without first having completed the work programme as set out in the licence.
7. Where the obligation in paragraph 6 does not apply because paragraph 33 applies, the licensee must:
 - a. inform the OGA as soon as it becomes aware that this is the case; and
 - b. carry out a work programme of the same or a similar nature to the one set out in the licence or such other work programme as the licensee shall agree, with the OGA, enables the Central Obligation to be met.

Development

8. Relevant persons must plan, commission and construct infrastructure in a way that meets the optimum configuration¹ for maximising the value of economically recoverable petroleum that can be recovered from the region in which the infrastructure is to be located.
9. In considering the configuration required by paragraph 8, relevant persons must give due consideration to:
 - a. whether or not any infrastructure proposed to be constructed under such a plan or commission could be of benefit to others, who are recovering petroleum from that region or who may begin to do so, by increasing the recovery of economically recoverable petroleum from that region;
 - b. whether or not any infrastructure already in existence could be used in such a way as to reduce costs or otherwise increase the recovery of economically recoverable petroleum from the region; and
 - c. whether or not any infrastructure (whether proposed or already in existence) could:
 - i) contribute to meeting the net zero target, including by reducing greenhouse gas emissions as far as reasonable in the circumstances; and
 - ii) provide for or support the development and use of facilities for any carbon capture and storage project.

This includes consideration as to whether any such infrastructure (whether proposed to be constructed or already in existence) could provide such benefits if reasonable adjustments were to be made to it.

Asset stewardship

10. The owners and operators of infrastructure must ensure that it is maintained in such a condition and operated in such a manner, including undertaking relevant and measurable metering and measurement activities, that it will:
 - a. achieve optimum levels of performance, including production efficiency², energy efficiency and cost efficiency, for the expected duration of production;
 - b. reduce as far as reasonable in the circumstances greenhouse gas emissions resulting from sources such as flaring and venting, and power generation; and,
 - c. achieve optimum potential for the re-use or re-purpose of that infrastructure taking account of the Secretary of State meeting the net zero target,

taking into consideration the stage of field, reservoir and asset development, technology and geological constraints.
11. Owners and operators of infrastructure must ensure that it is operated in a way that facilitates the recovery of the maximum value of economically recoverable petroleum from (as applicable):
 - a. the region in which it is situated; and
 - b. where the infrastructure is used by or for the benefit of others, the regions in which those others are situated.
12. The obligation in paragraph 11 includes:
 - a. requiring infrastructure owners to negotiate, in a timely fashion and in good faith, access to infrastructure;
 - b. allowing access to the infrastructure on fair, reasonable and non-discriminatory terms; and,
 - c. where the infrastructure is not able to cope with demand for its use, prioritising access which maximises the value of economically recoverable petroleum.

¹ In this context "configuration" includes not only the geographical placement of infrastructure, but also the sort of infrastructure to be used.

² Optimum production efficiency here is not necessarily the same as the highest achievable levels of production efficiency.

Technology

13. Relevant persons must ensure that new, emerging and existing technologies, are developed and deployed to their optimum effect for the purpose of:
 - a. maximising the value of economically recoverable petroleum that can be recovered from relevant UK waters, including in relation to decommissioning; and, in doing so,
 - b. reducing as far as reasonable in the circumstances greenhouse gas emissions resulting from sources such as flaring and venting, and power generation;
 - c. where appropriate enabling carbon capture and storage projects to be planned for and developed; and,
 - d. where appropriate enabling projects relating to hydrogen supply to be planned for and developed.
14. When considering whether to develop and deploy new, emerging and existing technologies in accordance with paragraph 13, relevant persons shall have regard to:
 - a. the effective mitigation of the risks and uncertainties associated with such technologies; and
 - b. the potential benefits to the UK of the development and deployment of such technologies;
 - c. enabling carbon capture and storage projects to be planned for and developed; and,
 - d. enabling projects relating to hydrogen supply to be planned for and developed.

Decommissioning

15. Before commencing the planning of decommissioning or partial decommissioning of any infrastructure in a region, relevant persons including the owners of such infrastructure, must ensure, and be able to demonstrate, that all viable options for that infrastructure's continued use including for re-use or re-purposing for carbon capture and storage projects have been suitably explored.
16. Relevant persons must decommission infrastructure located in relevant UK waters in the most cost-effective way that does not prejudice the maximising of the recovery of economically recoverable petroleum including any re-use or re-purposing options considered under paragraph 15.

This includes ensuring due regard is given to the obligations in paragraph 13 insofar as they apply to decommissioning.

17. Where the OGA produces or adopts a plan under paragraph 18, which relates to the obligation in paragraph 15, it may identify particular pieces of infrastructure the decommissioning, or method of decommissioning, of which would prejudice the maximising of the recovery of economically recoverable petroleum in a region or restrict the re-use or re-purposing options considered under paragraph 15.

OGA Plans

18. Subject to paragraph 20, the OGA may produce or adopt a plan or plans which set out its view of how any of the obligations in this Strategy may be met. Such plans may address circumstances particular to a single or small group of relevant persons or may address circumstances at a regional level.
19. Where any relevant person intends to carry out activities in a manner which is inconsistent with any current plan produced by the OGA under paragraph 18 that person must first demonstrate to the satisfaction of the OGA how their alternative meets the obligations of this Strategy.

20. Where the OGA intends to produce a plan under paragraph 18, it must first seek the views of such relevant persons as it considers are likely to be affected by the proposed plan.

Collaboration

21. Relevant persons must:
- a. collaborate and co-operate with:
 - i) other relevant persons;
 - ii) persons seeking to acquire an interest or invest in offshore licences or infrastructure in a region; and,
 - iii) persons providing goods or services relating to relevant activities in order to support the delivery of such activities on time and on budget; and,
 - b. co-operate with the OGA.

Carbon capture and storage projects

22. Relevant persons must have regard to carbon capture and storage projects when complying with their obligations under this Strategy including:
- a. collaborating with those persons planning and carrying out carbon capture and storage projects;
 - b. negotiating access to infrastructure for carbon capture and storage projects in a timely fashion and in good faith; and,
 - c. permitting access to the relevant infrastructure to be used for the carbon capture and storage projects on fair, reasonable and non-discriminatory terms.

Required Actions

23. Any obligation arising from or under either the Central Obligation or one or more of the Supporting Obligations includes the requirements set out below. The OGA has published its Stewardship Expectations which may be updated from time to time and relevant persons should have regard to relevant Stewardship Expectations when considering how to act and acting in accordance with this Strategy.

Timing

24. All obligations, including any actions, in this Strategy must be complied with in a timely fashion.

Cost efficiency

25. Compliance with the obligations in this Strategy requires that the full lifecycle costs of the recovery of petroleum, including decommissioning and the reuse and/or re-purposing of infrastructure, and operations relevant to such matters, are incurred in the most cost-efficient way and that relevant benefits from re-use and/or re-purposing of infrastructure have been assessed properly.

Actions where relevant persons decide not to ensure Maximum Economic Recovery

26. Where this paragraph applies, by virtue of paragraphs 27 or 28, relevant persons must allow others to seek to maximise the value of economically recoverable petroleum from their licences or infrastructure including by divesting themselves of such licences or infrastructure to other financially and technically competent persons who are able to recover economically recoverable petroleum.
27. Where relevant persons are not able to ensure the recovery of the maximum value of economically recoverable petroleum from their licences or infrastructure for financial reasons they must seek to secure investment from other persons, including by allowing others to undertake such investment as a sole risk project. If relevant persons are not able to secure sufficient investment in a reasonable time the obligation in paragraph 26 applies.
28. The obligation in paragraph 26 applies in all other circumstances where relevant persons decide not to ensure the recovery of the maximum value of economically recoverable petroleum from their licences or infrastructure. This includes where there are technical or other non-economic reasons
29. Where a relevant person is seeking to comply with the obligation in paragraph 26, that person must:
 - a. provide access to all relevant data and other information, including to allow bona fide persons to establish technical and financial competence;
 - b. seek to do so without demanding compensation in excess of a fair market value or unreasonable terms and conditions; and,
 - c. in order that other financially and technically competent persons who, including at the time of divestment, are able to recover economically recoverable petroleum may do so.
30. Where after a reasonable period the relevant person is unable to secure alternative funding or to divest themselves of the licence or infrastructure then, if the recovery of the maximum value of economically recoverable petroleum would achieve a satisfactory expected commercial return they shall surrender the related licences.

Safeguards

31. The Central Obligation, and the Supporting Obligations and Required Actions, must be read subject to paragraphs 32-36 (Safeguards).
32. No obligation imposed by or under this Strategy permits or requires any conduct which would otherwise be prohibited by or under:
 - a. any legislation, including legislation relating to competition law, health, safety or environmental protection;
 - b. licence obligations; or
 - c. the common law, including the OGA's duty to act reasonably.
33. No obligation imposed by or under this Strategy requires any person to make an investment or fund activity (including existing activities) where they will not make a satisfactory expected commercial return on that investment or activity.
34. This paragraph applies where this Strategy (read in accordance with paragraphs 32, 33, 35 and 36) requires a relevant person to make an investment or fund activity and that person intends either:
 - a. to delay that investment or funding; or
 - b. to not undertake that investment or funding,

because it will not produce a return which they consider to be sufficiently high. Where this paragraph applies, the OGA must discuss the situation with that relevant person before taking any enforcement action in relation to that decision.

35. Where this Strategy requires a relevant person (A) to invest in infrastructure or fund activity wholly or partly for the benefit of another relevant person or persons (B):
 - c. A may require from B³ a contribution to the costs associated with installing and operating the infrastructure or carrying out the activity; but
 - d. that contribution shall not exceed one that is fair and reasonable in all of the circumstances, taking into account the importance of realising B's assets to meeting the Central Obligation
36. No obligation imposed by or under this Strategy requires any conduct (including investment or funding activity) where the benefits to the UK deriving from that conduct are outweighed by the damage to the confidence of investors in petroleum exploration and production projects in relevant UK waters.

³ Where B is comprised of more than one person the contribution required may be different for the different persons.

Annex - Definitions

For the purposes of this Strategy:

“**Carbon capture and storage project**” means any project relating to the capture, transportation or storage of carbon dioxide (including if only at the appraisal stage), or where there is a reasonable prospect of any such project being developed;

“**Central Obligation**” is set out in paragraph 2;

“**Economically recoverable**” in relation to petroleum means those resources which could be recovered at an expected (pre-tax) market value greater than the expected (pre-tax) resource cost of their extraction, where costs include both capital and operating costs (including carbon costs) but exclude sunk costs and costs (such as interest charges) which do not reflect current use of resources. In bringing costs and revenues to a common point for comparative purposes a 10% real discount rate will be used;

“**Infrastructure**” means terminals and, upstream of a terminal, equipment, pipelines, platforms, production installations and subsurface facilities;

“**Net zero target**” means the net UK carbon account for the year 2050, as set out in section 1 of the Climate Change Act 2008 (as amended);

“**Offshore licence**” means a licence granted under section 3 of the Petroleum Act 1998 in respect of an area, at least some of which is within relevant UK waters;

“**The OGA**” means the Oil and Gas Authority as defined in the Energy Act 2016;

“**Petroleum**” has the same meaning as in the Petroleum Act 1998;

“**Region**” means any area within relevant UK waters or in which infrastructure relating to exploration and production of petroleum from relevant UK waters is, or is planned to be, located;

“**Relevant activities**” means the activities and/or actions as the context provides which relevant persons are obliged by section 9C of the Petroleum Act 1998 to exercise in accordance with this Strategy;

“**Relevant persons**” means the persons listed in section 9A(1)(b) of the Petroleum Act 1998;

“**Relevant UK waters**” has the same meaning as in section 9I of the Petroleum Act 1998;

“**Required actions**” are set out in paragraphs 23 to 30;

“**Satisfactory expected commercial return**” means an expected post-tax return that is reasonable having regard to all the circumstances including the risk and nature of the investment (or other funding as the case may be) and the particular circumstances affecting the relevant person;

“**Subsurface facilities**” include wells, reservoirs and fields;

“**Supporting Obligation**” is described in paragraph 1.



Oil & Gas Authority

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