

REQUEST TO DETI FROM THE ETI COMMITTEE LMU 47-14

At its meeting on 15 May 2014 the Committee discussed the Petroleum Production Regulations (Northern Ireland) 1987.

Members asked the Department for written briefing as follows:

- a. A breakdown of the steps government departments/agencies/NDPBs are required to follow during each of the three terms provided for in the Petroleum Production Regulations (Northern Ireland) 1987. This should also include details of:
 - i. The steps which the departments are required to follow during the second stage of the initial term, when, as indicated by a member, a 'test frack' is permitted; and
 - ii. If the second term and the production term are considered part of the initial licence agreement or if a full new licence must be applied for in relation to these terms.

DEPARTMENTAL RESPONSE

a. Initial Term

DETI's activities in granting of Petroleum Licences in NI and the monitoring and oversight of Licensees are informed by the provisions of the Petroleum (Production) Act NI 1964 and the subordinate legislation associated with that Act.

A Work Programme, agreed between the applicant and the Department, forms an integral part of a petroleum licence.

In the Initial Term - statutorily defined as a period of 5 years beginning on the date of commencement of a Licence - the licence may contain a 'drill or drop' work programme that is divided into two parts - Part I (pre-drilling exploration, usually Years 1 to 3) and Part II (drilling, usually Years 4 to 5).

A two-part work programme reflects the fact that Northern Ireland has seen relatively little exploration and a company may not want to commit to drilling an exploration well, which typically costs about £4 million, at the time of licence application before a viable drilling target has been identified.

Consequently, a Licensee uses Part I of a Work Programme to try to identify a suitable drilling target using geological, geophysical and geochemical survey methods. Elements of the work programme that involve a 'field' component may be subject to a number of additional permits from DETI and other agencies – for example, a seismic reflection survey requires prior written permission from DETI. Such activities will be assessed for any potentially significant impacts that they might have on sites with European or national environmental designations. These assessments may lead to

permission being withheld or conditions being applied that permission. Before the end of Year 3 the Licensee must make a decision either to commit to drill an exploration well before the end of the Initial Term or relinquish ('drop') the licence.

It should be noted that an applicant can make a firm commitment to drill a well during the Initial Term at the time of application, if they have already identified a viable drilling target in the area they have applied for. This is the case in one of the four current petroleum licences, PL3/10, where the Licensee had drilled the Ballinlea No. 1 well in a previously-held licence and intended to follow up the encouraging results from this well where oil was recovered during testing.

An exploration well can be scheduled at any time during the Initial Term although it is rare for any applicant to propose drilling a well before the end of Year Three. From the Department's viewpoint the execution of a well-designed exploration programme that includes the drilling of at least one exploration well is the primary objective of the initial term – the timing of that well is of secondary importance.

The Department also understands that the Licensee may decide not to drill an exploration well or that it can take longer than expected for the company to progress to the drilling stage. This is reflected in the Petroleum Production (Amendment) Regulations (Northern Ireland) 2010 which seek to maintain the balance between ensuring that the Licensee carries out an exploration programme that is appropriate to the area under licence and that this area is not held for longer than is necessary to complete this programme, whilst also giving the Department the discretion to vary the terms of the previously agreed work programme.

i. Initial Term - Part II of the Work Programme

Part II of the initial term work programme (Years 4 and 5) usually corresponds to the design, permitting, procurement and drilling of an exploration well.

Where the Licensee makes the commitment to drill an exploration well then they must do so before the end of the initial term, unless the Department decides otherwise in accordance with Clause 2(2) of the Petroleum Production (Amendment) Regulations (Northern Ireland) 2010, subject to the company obtaining all the necessary permissions/consents.

It is not accurate to say that 'a test frack **is** permitted during the second stage of the initial term.' Whilst a petroleum licence confers general rights on the Licensee 'to search for, bore for and get petroleum', these rights are still subject to the Licensee obtaining separate permissions for various operations including drilling, from DETI and other regulatory authorities. Hydraulic fracturing is a specific process that may be carried out as part of the testing or completion phase of an exploration well and, as such, is dependent on the company obtaining the relevant permission for the proposed operations.

During 2013, DETI in conjunction with DOE Planning and the Northern Ireland Environment Agency, worked with the Department of Energy & Climate Change

(DECC), London, on the development of an “Onshore Oil and Gas Exploration In The UK – Regulation And Best Practice Roadmap”.

The resultant roadmap was published on the DECC website on 17 December 2013 - <https://www.gov.uk/government/publications/regulatory-roadmap-onshore-oil-and-gas-exploration-in-the-uk-regulation-and-best-practice>

The Roadmap is intended as a first point of reference for anyone seeking to understand the permitting and permissions process for exploratory work in oil and gas development in the various regions of the UK, including Northern Ireland.

The NI section of the Roadmap is appended for ease of reference. Committee members may find its contents a useful basis for forming an overview of the Petroleum industry permitting process including key pieces of legislation and regulation, and required actions and best practices at various stages.

ii **Second Term and the Production Period**

Are these Terms part of the Initial Petroleum Licence agreement?

No. The initial work programme relates only to the initial term. A separate work programme must be submitted for the second term and a development programme submitted for the production period.

A petroleum licence consists of up to three terms – the initial term, the second term and the production period. Regulation 2 (6) of the Petroleum Production (Amendment) Regulations (Northern Ireland) 2010 defines these terms and sets out the conditions under which the licence can continue after the initial and second terms.

In general, the Licensee has the option to request (in writing to DETI, not later than four months before the end of the initial term) that the Licence continue for the second term. This is conditional on the Licensee having carried out the work programme, where the Department has not exercised its discretion under Clause 2(2) mentioned above, on or before expiry of the initial term.

The Licensee will propose a work programme for the second term, to be agreed by the Department, and this will form part of the licence document. This programme will typically be to continue exploration or to carry out appraisal drilling of a discovery made in the exploration well, with a view to evaluating the economic potential of that discovery.

At any time not later than four months before the end of the second term the Licensee may give notice in writing to DETI that it wishes the Licence to continue. This is subject to the Department having approved a development programme submitted by the Licensee. The development programme, which sets out how the Licensee intends to bring the oil or gas field into production, would be subject to planning and other consents appropriate to the development under consideration.

In relation to these Terms is there a requirement on licensee to apply for a full new licence?

No. The requirements for the licence to continue for the second term and production period are outlined above and described in detail in the relevant legislation.

Prepared by: Minerals & Petroleum Branch
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