

APPLICATIONS FOR PRODUCTION LICENCES

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GENERAL

- 1) This note is intended as guidance for applicants in a Licensing Round on how to complete and support an application. Our website (<http://www.og.dti.gov.uk>) carries pointers to other useful information, including general information about the Licensing system and the availability of technical data.
- 2) If you have any further queries, or need clarification of anything discussed here, there is a list of [Contacts](#) at the end.

INTRODUCTION

- 3) Anyone who wants to “search, bore for or get” oil or gas in the UK (except onshore Northern Ireland) must first get a Licence issued under the Petroleum Act 1998. Most such Licences are issued in competitive Licensing Rounds, though exceptionally they may be issued ‘out-of-round’.
- 4) Applications for Licences can only be made in response to an Invitation made by DTI. We post these Invitations in the Official Journal of the European Union, and advertise them prominently on our website.
- 5) Applications have to include [supporting information](#) – the exact information needed depends on the type of Licence being applied for.
- 6) There is an application fee (see [Application fee](#)).
- 7) DTI usually interviews applicants about their applications, and we always do so where there is competition for the same acreage. At the same time we will consider applicants’ suitability. We mark applications against a pre-defined Marks Scheme.
- 8) The Secretary of State decides Licence awards by judging the marks and the applicant’s capacity and record against the background of the continuing need for ‘expeditious, thorough, efficient and safe exploration to identify oil and gas resources of the United Kingdom Continental Shelf, with due regard to environmental considerations’.

GENERAL ISSUES

- 9) Applicants in a Seaward Licensing Round will be applying for a Seaward Production Licence. In a Landward Licensing Round, the type of Licence applied for is a Petroleum Exploration and Development Licence. All the following guidance applies to all kinds of application unless indicated otherwise. (The basic kind of Seaward Production Licence is called the ‘Traditional’ Licence because currently there are two new variants: the ‘Frontier’ Licence and the ‘Promote’ Licence. They are described on our [website](#).)
- 10) An application may come from a single company or from a group of companies with the same percentage interests. References in this Note to ‘the Applicant’ cover both situations unless clearly stated otherwise.
- 11) There is no limit to the amount of acreage you can apply for, but with Promote or Frontier applications there are limits to the amount of acreage that DTI will award to a single applicant. In these cases there will be a maximum award equivalent to four whole blocks on each Promote Licence and ten blocks on a Frontier Licence, with a cumulative total per Round of ten blocks per Promote applicant or forty blocks per Frontier applicant (the size of a block varies from c.190km² in the far North to c.250km² in the far south). This rule applies to applicant groups as a whole – we won’t try to apply it to single companies that happen to be members of several different applicant groups. If an applicant were to make both a Promote and a Frontier application, these limits would apply separately.

12) We will consider applicants' suggestions about Licence boundaries, but we will draw them to comply with the Model Clause restrictions on "Areas Surrendered".

13) Any single application may only be made in respect of a single type of Licence (Landward, Traditional, Promote or Frontier). For instance, a single Promote application could cover Blocks in the Northern North Sea and others in the Southern Gas Basin – if it were successful, DTI would simply issue two or more Licences.

14) In some cases, we may suggest a 'marriage' where competing applicants appear to have complementary expertise, interests, etc. (although the decision whether or not to pursue and negotiate such a marriage is entirely for the companies concerned).

15) Even if you want to apply for only *part* of the unlicensed acreage within a Block, you must still apply for the whole Block¹, but in **Part 2** of the Application Form you should define clearly the co-ordinates of the area you want, and DTI will consider awarding a Licence over that area only. Bear in mind that DTI may not be prepared to license a very small or very irregular area.

16) The terms of the Licences on offer can be inspected in the Petroleum Licensing (Exploration and Production) Seaward and Landward Areas) Regulations Order 2004 (2004 No 352). However, in particular cases DTI reserves the right to offer Licences on modified terms – for instance, by shortening or even eliminating the Initial Term of a Licence offered to a company that proposes to redevelop a decommissioned field.

17) In accordance with the Report submitted by the Progressing Partnerships Working Group to PILOT on 4 January 2002, DTI will not approve **Joint Operating Agreements** made under Seaward Production Licences (whether Frontier, Traditional or Promote) issued in the 20th Round or later if they include preemption provisions, except in special circumstances where the applicant has made a convincing case for such provisions before award (and in such cases, it may be taken into consideration where there is a choice between competed bids). Where DTI does accept a special need for preemption provisions, only pre-emption provisions of the form attached at [Annex 1](#) will be approved. This does not apply to landward Licences.

18) Following industry representations at PILOT (when it was called the Oil & Gas Industry Task Force), DTI will not issue a Licence covering separate (non-contiguous) areas² (a 'Multiblock Licence'). As of the 22nd Round, offshore Licensees will not be permitted to relinquish acreage in such a way as to create a Multiblock Licence, except with permission. DTI may grant such permission if the Licensee makes a strong enough technical case, but where it happens before completion of the agreed Work Programme, we reserve the right to make our permission conditional on new work commitments, to ensure that no areas can be held without being worked.

19) A Production Licence does not grant *carte blanche* to carry out all petroleum-related activities from then on. Some activities, such as drilling, are subject to further individual controls by the Licensing and Consents Unit, and a Licensee of course remains subject to controls by other bodies such as the Health and Safety Executive. It is the licensee's responsibility to be aware of, and comply with, all regulatory controls. Further guidance can be found on the DTI Oil & Gas [website](#), and from the other regulatory bodies.

20) Your attention is drawn to the provisions of the **Utilities Contract Regulations 1996** (S.I. 1996/2911), which require that companies observe the principles of non-discrimination and competitive procurement in awarding certain contracts.

¹ The Petroleum (Production) (Seaward Areas) Regulations 1988 (1988/1213)

² For these purposes, two areas that join corner-to-corner are considered to be non-contiguous.

SPECIAL TYPES OF APPLICATION/LICENCE

21) The general features of our traditional Seaward Production Licences and Petroleum Exploration and Development Licences are described on our website. There are also two recent evolutions of the Seaward Production Licence: the 'Promote' Licence, aimed at smaller companies with geoscientific ideas but limited resources, and the 'Frontier' Licence, by which DTI addresses the special difficulty of operations in challenging environments like the West-of-Shetland area. They are described on our website at [Licence type variations](#).

22) Note that Promote and Frontier Licences will not necessarily be offered in all geographical areas. The invitation will make clear what kind of Licences are available.

DOCUMENTATION AND FORMATS

23) DTI will only accept fully-supported applications made on the approved [Application Form](#). We require varying numbers of copies, depending on the type of application, because of the need for different patterns of internal distribution.

24) Applications for **Traditional Seaward Production Licences** or **Frontier Seaward Production Licences** must contain:

- *four signed paper* copies of the Application Form;
- one signed *paper* copy of **Appendix A**, plus one copy of the supporting financial information on paper or on CD-ROM, *about each company*;
- one copy of **supporting environmental information** on CD-ROM or on paper;
- two copies of any **supporting geotechnical information** on CD-ROM or on paper (or one of each); and
- a payment covering the [application fee](#).

25) Applications for **Promote Seaward Production Licences** must contain:

- *two signed paper* copies of the Application Form;
- two copies of any **supporting geotechnical information** on CD-ROM or on paper (or one of each); and
- a payment covering the [application fee](#).

26) Applications for **Petroleum Exploration and Development Licences** must contain:

- *three signed paper* copies of the Application Form;
- one signed *paper* copy of **Appendix A**, plus one copy of the supporting financial information on paper or on CD-ROM, *about each company*;
- two copies of any **supporting geotechnical information** on CD-ROM or on paper (or one of each); and
- a payment covering the [application fee](#).

27) The [financial information](#) must cover each company separately (so, for example, an application made by a group of three companies will contain three Appendix As and three sets of supporting financial information). Each company's submission must be labelled clearly with the name of the applicant and the Blocks being applied for. Appendix A must be signed and on paper but the supporting information can be either on paper or on CD-ROM. We can accept the supporting information in sealed envelopes or on separate disks if required, but we do not insist on this. Financial information is required to support applications for **Petroleum Exploration and Development Licences, Traditional**

Seaward Production Licences and Frontier Seaward Production Licences but *not* for Promote Seaward Production Licences.

28) The [environmental information](#) must be labelled clearly with the name of the proposed operator and the Blocks being applied for. It can be on paper or on CD-ROM. It is required to support applications for **Traditional Seaward Production Licences and Frontier Seaward Production Licences** but *not* for **Petroleum Exploration and Development Licences** or **Promote Seaward Production Licences**.

29) Applications for **Petroleum Exploration and Development Licences** must include two copies of the relevant Ordnance Survey maps clearly marked with the area(s) being applied.

30) Where the application covers **more than one block**:

- the Blocks should be listed at **Part 2** of the Application Form in order of preference, and
- in a Traditional or Landward Application, **Parts 4 and 5** of the Application Form must be completed separately for each block (so multiple copies of each part will have to be created and completed).

31) For any part of the application other than the Area Summary Sheet and Work Programme Summary Sheet, feel free to add more space where necessary – e.g. by adding rows to a table to make space for all of a company’s directors.

32) DTI encourages the submission of supporting information on CD-ROM. It must come in a format compatible with DTI’s own systems – we currently use Microsoft Office 2000, Microsoft Internet Explorer 5.50, Arc GIS 8.2 and Adobe Acrobat Reader 4.0 – and be clearly labelled with the name of the Operator and Block numbers. No password-protection, please. If in doubt, [contact](#) the Directorate for advice.

33) Any parts of an application that are on paper should be at A4 and in loose-leaf folders or ring binders (no spiral binders).

34) All measurements should have the units clearly annotated (metric or imperial).

35) Applicants will wish to provide material that they consider best supports their application, but it is also in their interest to make the material as concise as possible.

36) Completed applications must be delivered to Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET, by 1300 on the specified date.

37) This table summarises the information required:

		Geotechnical	Financial	Environmental	OS Maps
Landward		Yes	Yes	No	Yes
Seaward	Traditional	Yes	Yes	Yes	No
	Frontier	Yes	Yes	Yes	No
	Promote	Yes	No ³	No	No

APPLICATION FEE

38) The **application fees** are: £2,820 for Seaward Production Licences and £1,000 for a (landward) Petroleum Exploration and Development Licence. The figures are defined in secondary legislation. In the event that a Licence is awarded, payment for the first year’s rental is payable before execution of the Licence.

³ We will not want to see details of current financial capacity, but we will expect to discuss your plans to obtain the necessary financial capacity should you be awarded a Licence. We will take them into account in the Marks Scheme.

39) Payments below £10,000 can be made by any of three **methods**:

- by **BACS** to: DTI cash account 13507000 at Bank of England, Threadneedle Street, London; sort code 10-14-99;
- by **cheque**, crossed **A/C payee only** and made payable to the Department of Trade & Industry;
- by the Clearing Houses Automated Payment System (**CHAPS**) to the Bank of England, to account name: DTI; account number 13507000, at National Westminster Bank, sort code 16-53-60.

40) Payments in excess of £10,000 should be made by CHAPS.

41) Note that use of BACS or CHAPS may incur a handling charge.

INTERVIEW

42) DTI's Licensing and Consents Unit will normally interview all applicants (certainly where there is competition for the same acreage) before awarding Licences. We will try to begin interviewing within three weeks of the application date. Obviously, we cannot predict how long the interview period will last – that depends on the number of applications.

43) The main purpose of the interview is to enable the applicant to describe the technical rationale for the application, and for DTI to ask questions about it. The interview is likely to focus on:

- an outline of relevant regional work;
- any identified prospectivity;
- plans for *existing* discoveries or redevelopments of decommissioned fields;
- how this relates to the Work Programme offered;

and additionally, for Promote Applicants:

- their approach and plans to securing resources necessary to complete the latter phase of the Work Programme (which will usually be Years 3 and 4).

44) The interview will not normally cover either financial or environmental information, but DTI's Offshore Environment and Decommissioning Branch (OED) may invite applicants for Frontier or Traditional Seaward Production Licences to a separate interview about environmental competence.

45) The **Marks Scheme** is designed to reward technical analysis of the block, the identification of innovative and creative new play ideas, and technical innovation. In the light of both the application and the interview, DTI awards marks for:

- relevant regional analysis and interpretation;
- evaluation of stratigraphic levels;
- identification of prospectivity;
- (relevant) seismic database (speculative or proprietary);
- innovative application or development of technology;
- seismic Work Programme (**Frontier, Traditional and Landward** applications);
- drilling Work Programme (**Frontier, Traditional and Landward** applications);
- testing of deeper prospectivity (**Frontier, Traditional and Landward** applications);
- plans for *existing* discoveries or redevelopments of decommissioned fields.

Promote applications will also be assessed to evaluate:

- the plans and approach to secure additional resources necessary for completion of the substantive work programme that may ensue in the second period of the initial term.

46) Competing bids of different licence types and overlapping bids DTI recognises there may be cases where we will have to judge between competing bids where comparison is not straightforward. For example, there may be competition between Frontier and Traditional applications, or between Promote and Traditional applications; or where there is a partial overlap between competing applications of the same type. We would normally expect a Traditional applicant to beat a Promote applicant on the marks awarded (because the Work Programme would presumably be stronger). In addition, the Traditional applicant would have proven its capacity to start work straightaway, unlike the Promote applicant. In all other cases, DTI's guiding principle will be the need to maximise successful exploration and exploitation of the UK's oil and gas resources. Here are some examples of how this might work:

- DTI would not normally wish to split a single prospect between different licence groups;
- DTI would try not to damage the potential for any Licence by splitting competed areas in a way that DTI would see as threatening activity and development potential;
- DTI would have to judge the relative benefits of promote applications on a portfolio of assets as against a wide spread of smaller assets distributed across a range of companies (we have no real preference but recognise the potential marketing value of a portfolio that gives more materiality and spreads risk);
- DTI would consider the applicant's stated preferences for blocks;
- All other things being equal, DTI would usually prefer a Work Programme that offers early work to one that does not (assuming of course a realistic timescale);
- DTI would consider the relative density of any proposed Work Programme (taking into account relinquishment requirements) particularly when comparing Traditional and Frontier applications (applicants with well-defined leads or prospects might do well to consider a more block-specific Traditional Application instead of a Frontier Application).

47) The marks awarded by DTI are only directly comparable when they are awarded on the same acreage – on different blocks the geology and opportunities are different, so the marks awarded are not comparable. A very good application on one Block might get a lower mark than a poor application elsewhere.

48) Seismic, drilling and deeper testing is not normally appropriate for **Promote Applications**, other than the basic Drill-or-Drop commitment, which is a basic part of all such Licences. In these cases, DTI will principally assess the applicant's plans and approach to securing the additional resources necessary to complete the Work Programme.

49) The awards process is discretionary. Generally a Licence will be awarded to the top-scoring application, but DTI's final decision may take other factors into account. Examples of other considerations are:

- the applicants' past record on suspended wells, fallow blocks and discoveries (where appropriate),
- the applicants' past record on completion of Work Programmes, collecting well data and paying rentals;
- the applicants' preferences for the blocks applied for;

- Work Programme timing.

50) Environmental, operatorship and financial criteria are hurdles in the sense that DTI is either satisfied or not – there is no marks scheme for these criteria. (These ‘hurdle’ criteria are not applied before Licence award for Promote Applications, but they will be applied subsequently, at the Initial Term’s Break Point).

CONCEPTS AND DEFINITIONS

51) Prospectivity DTI distinguishes between three different kinds of identified prospectivity: Prospects, Leads, and New Play Ideas.

- A ‘Prospect’ is an identified trap that requires no further study prior to drilling.
- A ‘Lead’ is a potential trapping mechanism that requires significant additional study to bring it to the status of a prospect.
- A ‘New Play Idea’ is an unproven concept in the area (e.g. deeper potential, additional reservoir prospectivity or a seismic attribute anomaly).

52) Drilling programmes The drilling commitment is often the most important part of a Work Programme when it comes to the marks awarded. There are three types of drilling commitment: the Firm Well, the Contingent Well and the Drill-or-Drop Well. Firm Wells score highest and Drill-or-Drops lowest.

- A **Firm Well** is just that: a firm commitment to drill a well. It is not contingent on any further geotechnical evaluation – in other words, drilling could begin immediately, subject only to outside factors like other regulatory regimes, rig availability or weather. Once a licence has been issued, requests for waivers of Firm Wells are unlikely to be considered. We will not reward Firm Wells if they are linked to ill-defined exploration ideas, or if they duplicate the geological target of other wells within the same Work Programme.
- A **Contingent Well** is similar to a Firm Well except that it includes explicit provision for DTI to waive the commitment if a specified geotechnical evaluation suggests that drilling would not be justified after all. That evaluation will be another element of the same Work Programme. If the Operator decides that the well is not justified, he must make a technical case to DTI to waive the commitment – the decision rests with DTI.
- A **Drill-or-Drop Well** is a commitment to drill a well or else give the licence up. Unlike Firm Wells and Contingent Wells, the decision to surrender the Licence instead of drilling the well rests with the Licensee, and DTI does not consider it to be poor performance to drop the Licence without drilling⁴.

53) Contingent wells are appropriate only to seaward applications. Where an applicant for an (onshore) Petroleum Exploration and Development Licence wishes to offer a commitment short of a Firm Well commitment, it should be a Drill-or-Drop commitment.

54) Prospectivity types are linked to the types of drilling commitment:

- DTI will not consider a Firm Well on anything less than a Prospect.
- Contingent Wells are normally appropriate for Leads, though sometimes for Prospects (e.g. alongside a Firm Well as the second well of a linked petroleum system).
- A Drill-or-Drop Well can be appropriate to Leads or New Play ideas.

⁴ Most drill-or-drop Licences contain a breakpoint at which the Licence will expire unless the Licensee has chosen to drill, and has made a commitment to do so. If the commitment is made and the Licence continues, the well must still be drilled before the end of the current term.

55) Drill-or-Drop commitments are the standard Work Programmes for **Promote** Licences, and are the minimum Work Programme acceptable for **Landward, Frontier and Traditional Seaward applications**.

TRANSPARENCY

56) Government policy is to maximise openness and transparency. We routinely publish the identity of, and marks awarded to, successful applicants, and the Licence issued. In the case of applications for Landward Licences, we also publish the technical components of each application after six years.

57) We do, though, accept that it is possible that some part of this information should be withheld for reasons of confidentiality under the [Code of Practice on Access to Government Information](#). If so, you should make clear (if possible with your application) precisely which elements you feel should be kept confidential, citing the Code exemption that you believe applies to it.

58) Data Protection Act 1998 Contact details, including individuals' names and email addresses, will be held and used by DTI in communications relating to the application and to any Licence issued as a result of it. In the case of successful applications this information will be made publicly available by DTI. For example we will publish companies' contact details on our website, and we will supply them to companies or individuals wishing to contact the applicant. Anyone who wishes to object to any of these uses should make clear their objections, and the grounds for them, in their application.

OUT-OF-ROUND APPLICATIONS

59) This Guidance Note applies equally to Out-of-Round applications, which are special cases covering a specific piece of acreage. The main difference is that the process is initiated at the applicant's suggestion, instead of being triggered by DTI's annual timetable. If DTI is convinced of the case to go Out-of-Round, we will usually invite applications in much the same way as we would to begin a Licensing Round. Therefore the first step for any company is to contact DTI, making a case for an Out-of-Round invitation.

60) Out-of-Round applications are considered for specific and imminent opportunities, so Frontier and Promote Licences would not be appropriate.

FINANCIAL CAPACITY (APPENDIX A)

61) 'Promote Applicants' need not meet DTI's financial criteria before Licence award, and so need not include an Appendix A with their applications. *Remember though that we will apply financial criteria to the Licence Group as it stands at the Break Point (usually at two years), and the Licence will automatically expire at that time unless DTI is satisfied – the effect is only to defer financial checks, not waive them altogether.* The financial checks will be those in force for new applications at the time.

62) The rest of this section applies only to applications for **'Frontier' Seaward Applications, 'Traditional' Seaward Applications** and **Petroleum Exploration and Development Licences**.

63) The financial information that DTI needs is described below ('Corporate structure', 'Financial capacity', 'Expenditure profiles' and 'Accounts or published statistics'). We need it to satisfy ourselves that we only issue licences to companies who can afford to complete the Work Programmes they are offering. But we recognise that a range of financing methods is available to applicants and we don't wish to be unduly prescriptive. In general, the reassurance we wish to see is that a company is likely to be able to continue in business for the foreseeable future, and that the finance necessary to fund the Work Programme is in place (or is at least irrevocably committed).

64) This section concerns each company in an application separately, so each company must provide its own Appendix A and supporting financial information. We are prepared to accept them in sealed envelopes (or separate *clearly-marked* CDs) if necessary. The 'Financial capacity' and 'Expenditure profile' sections are to be entered into the Appendix A form, while the 'Corporate structure' and 'Accounts or published statistics' are to be added as attachments.

65) Traditional and Frontier Seaward applications and **Landward** applications must include financial information about each company. Of the four sections of an Appendix A, two are part of the Appendix A form and need to be filled in, while the other two are supporting information to be included as attachments.

66) Each company must provide:

- one completed copy of the **Financial Capacity Questionnaire** (Part 3 of the Appendix A form);
- one completed **Expenditure Profile** for each Block applied for (Part 4 of the Appendix A form);
- two copies of the company's most recent **accounts** or financial statements, and two copies of the most recent group (consolidated) accounts of any body-corporate having ultimate control of the applicant, as described below at [Accounts or published statistics](#); and
- further financial information as described below at [Corporate structure](#), labelled clearly with the company's name and the blocks being applied for.

SECTION 1: FINANCIAL CAPACITY (APPENDIX A PART 3)

67) Each company must complete separately the attached **Financial Capacity Questionnaire** (using the proforma at Part 3 of the [Appendix A form](#)), using separate sheets if necessary.

68) Each company is required to demonstrate its financial capacity to undertake the Work Programme proposed and must include:

- any financial information for the latest accounting year (with profit forecasts if available) that is not included in the accounts included with the application;
- brief details of future capital commitments where these are not already given in the most recent annual accounts; and
- brief details of any contingent liability that is likely to materialise.

69) The information should assume expenditure and liabilities on all of the company's current Licences, and also assume that all the applicant's current applications are successful. We normally expect a company to be able to assume joint-and-several liability for expenditure, as set out in each licence's Model Clauses. Inability to do so does not exclude a company from consideration but it may be taken into account where there are competing bids.

70) If the Financial Capability Questionnaire shows any deficits in assets or in funding to meet the licence obligations, it should provide information showing how the deficits will be met. There are a number of ways such deficits can be met. Some of them are:

- **Internally generated funds:** In this case the company should provide detailed trading, profit and loss and cash flow forecasts and projected balance sheets covering the licence period to demonstrate how funds will be generated and used to meet the deficits. If the applicant is a parent company then the forecasts should be on group (consolidated) basis.
- **Issue of additional share capital including rights issue and capitalisation of any loans:** Details of the arrangement should be provided specifying the dates when the capital will be introduced or loans will be capitalised with suitable references from professional advisers and bankers and necessary documentations.
- **Parent company loans/guarantee:** the guarantee should be provided in the required DTI format by the parent company provided its group (consolidated) financial position is satisfactory.
- **Directors' loans** should be confirmed in writing (DTI will have to be satisfied about the directors' ability to make such loans from their private resources).
- Loans from banks or other financial institutions: if confirmed in writing.

71) The data provided in column (2) of the Financial Capability Questionnaire should, as appropriate, reflect information taken from the latest annual accounts and the best available estimate of the aggregate liability arising from all the applications made in this Licensing Round.

SECTION 2: EXPENDITURE PROFILES (APPENDIX A PART 4)

72) Each applicant company must complete an Expenditure Profile (using the proforma at Part 4 of Appendix A of the Application Form) for each Work Programme on the application, showing *its own share* of total expenditure in each year⁵. The proforma has room for information about one Block/Work Programme – you can make as many copies as necessary.

- **Name of company**
- **Block number**

⁵ Before the end of the Initial Term for Traditional and Landward Licences; before the end of the Second Term, in the case of a Frontier Licence.

- **Expenditures:** show the group's total expenditure during the exploration phase⁶ and your share of that total expenditure.

SECTION 3: ACCOUNTS OR PUBLISHED STATISTICS

73) Each company must submit two copies of its most recent annual accounts, together with any Interim Statements subsequently published. They must include the Notes thereto, the Chairman's Statement, the Report of the Directors and Auditors' Report. Accounts must be in English, or accompanied by a translation into English.

74) Each company must also submit two copies of the group (consolidated) accounts or financial statements of any body-corporate that ultimately controls⁷ it.

75) If the latest accounts of the applicant company and its ultimate parent relate to a period ending more than six months before the application date, full management accounts (comprising profit and loss account, balance sheet and cash flow) for the current year up to application day should also be submitted. For the ultimate parent company these management accounts should be on a group (consolidated) basis.

SECTION 4: CORPORATE STRUCTURE

76) Each company must give details of corporate structure, including a diagram.

77) If it is a subsidiary⁸ of another company, it must also give its parent company's place of incorporation, principal place of business and company registration number.

⁶ In each of the four years of the Initial Term for Traditional and Landward Licences; In each year of the six years of the Initial and Second Terms, in the case of a Frontier Licence.

⁷ As defined in paragraph 9(1) of Schedule 3 to The Petroleum (Production) (Seaward Areas) Regulations 1988, as amended.

⁸ As defined in Sections 736 and 736(A) of the Companies Acts of 1985, as amended by the Companies Act of 1989.

GEOTECHNICAL INFORMATION ABOUT THE ACREAGE APPLIED FOR (APPENDIX B)

78) This section describes the applicant's initial technical/geological case for the award of a licence. We will complete our technical assessment after interview.

79) The geotechnical information comes in four sections. Two are part of the Application Form itself and simply need to be filled in, in accordance with the instructions below, while the other two are supporting information to be included as attachments.

- **1 Area Summary Sheet**, in which the applicant outlines the potential within the acreage;
- **2 Work Programme Summary Sheet**, in which the applicant sets out the proposed work programme within the acreage;
- **3 content**, in which the applicant presents its technical case that its plans for the acreage represent the best way to explore for petroleum resources (or to develop known resources) in the acreage; and
- **4 technical competence**, in which the applicant supports its case that it is competent to work on the acreage it is applying for.

80) See [Interview](#) for information about the way DTI will mark an application, and [Concepts and definitions](#) for information about the basic technical elements of an application.

SECTION 1: AREA SUMMARY SHEET (APPLICATION FORM PART 4)

81) This sheet is your chance to explain and discuss your geoscientific view of the acreage you're applying for.

82) Each Block on a Traditional application must be treated on its own Area Summary Sheet. Additional sheets are acceptable if more than one horizon map is required with leads/plays identified at a particular horizon, though for each lead/play it must be kept to a single page. However, we can accept a single Area Summary Sheet for larger areas in Frontier and Promote applications, provided that each one is a single contiguous area.

83) It is very important to us that the Area Summary Sheet is printable on a single page so that we can use and refer to it easily, especially during an interview. In Traditional applications it should always be on A4 paper in portrait, although we can accept A3 paper for Frontier and Promote applications, in landscape if necessary.

84) The boxes on the Area Summary Sheet should be completed as follows:

- **Name of operator**
- **Block number(s)** being applied for. See "[Licensing: Coordinate systems](#)" on our website. **For Landward Licences only:** include also the [National Grid](#) reference number.
- **Map:** Insert a map, scaled by depth with units clearly annotated (metric or imperial), showing the location of any prospects, leads or concepts, or new play ideas. It can be a schematic 'blob' map, a composite map or a horizon map, as the applicant thinks best. In a **Traditional application** it should be at a scale of 1:100,000; but it may be at any scale or orientation in the case of **Promote and Frontier applications**. **For landward applications** use National Grid 4x10km squares. If you don't want to be awarded a whole Block, mark clearly the area you want and include co-ordinates.

- **Stratigraphic/lithologic prognosis:** Insert a stratigraphic and lithologic prognosis scaled by depth with target horizons marked and with units clearly annotated (metric or imperial).
- **Cross-section:** Insert a representative geological cross-section, indicating the play types.
- All depths and measurements should have clearly annotated units (metric or imperial).
- If leads or prospects are identified on more than one horizon, and detailed maps are included on the Area Summary Sheet, a separate Area Summary Sheet must be included for each horizon. In such a case, the phrase "Sheet 1 of ..." should be clearly noted in the header box at the top of the sheet.
- Details of any extension of a proposed structure from a block applied for into another block or blocks should not be shown on the Area Summary Sheet but should be included, as appropriate, on a separate map or diagram in the main body of (Appendix B), preferably using the same scale as the Area Summary Sheet.

85) We require all **map and navigational information** to be specified on these bases:

- For seaward applications: in degrees, minutes, seconds (DMS) of latitude and longitude and referenced to the European Datum 1950 (1st Amendment) on the International (Hayford) 1924 spheroid.
- For landward applications: using Ordnance Survey National Grid coordinates (see [Onshore Licence coordinates](#)).

86) For seaward applications, three additional paper copies (unbound) of each Area Summary Sheet must be supplied with Appendix B, in a separate, clearly-labelled envelope.

SECTION 2: WORK PROGRAMME SUMMARY SHEET (APPLICATION FORM PART 5)

87) Each Block on a Traditional application must have its own Work Programme Summary Sheet, but we can accept a single Sheet for larger contiguous areas in Frontier and Promote applications.

88) Traditional applicants who wish to combine adjacent blocks within a single application may offer an additional joint work programme on a separate Work Programme Summary Sheet. It should be clearly marked with a "J" in the block number box.

89) Applicants for **Frontier** and **Traditional** Licences should indicate (in the space for comments in the section for wells) their policy on evaluation of exploration and appraisal wells, particularly with regard to their coring, logging and testing philosophy. Further details or elaboration, if necessary, should be noted in sub-section BII.

90) The boxes on the Work Programme Summary Sheet should be completed as follows:

- **Name of operator**
- **Block number(s)** (for landward applications use OS 100km block numbers)
- **Seismic data acquisition:** Give the amount of 2D (in line kilometres) or 3D seismic (area of full migration, in square kilometres) to be acquired. Note any further acquisition of data outside the area under Comments, if it is directly related to the evaluation of the prospectivity. Indicate whether the new data will be proprietary, joint or group proprietary, speculative, purchased or traded. Include an outline of any reprocessing programme. Indicate the timing of the proposed activity, in years from the award of the licence. Note any recent seismic data that you have already acquired with the specific objective of applying for this acreage,

particularly if it means you only need supplementary data, and make clear whether you acquired proprietary, joint or group proprietary, speculative, purchased or traded data. Landward applicants will be encouraged to archive any new data with the [UK Onshore Geophysical Library](#).

- **Wells:** You can indicate a lead or prospect name. Include the number of Firm, Contingent or Drill-or-Drop wells, with the minimum depth of each (in both feet and metres), stratigraphic formation or seismic target reflector qualification, the seismic horizon to be penetrated and the amount of proposed penetration. Indicate the proposed timing of drilling, in years from the award of a licence. For a contingent commitment, indicate clearly what the drilling commitment is contingent on. For a Drill-or-Drop commitment, include the timing of the decision (which must be long enough before the end of the exploration phase to allow the drilling to be completed before its end).
- **Other Work:** Any other work not already described – surveys, research, technological development or studies that specifically relate to the evaluation of the block (e.g. gravity or magnetic surveys), plans for existing discoveries and redevelopment of decommissioned fields or for the evaluation of mines gas. In the case of Promote applications this part should summarise the applicant's plans and approach to securing the resources needed to complete the substantive work programme for the second period of the Initial Term.

91) All **seaward** applications (Traditional, Promote and Frontier) must contain three additional paper copies (unbound) of each Work Programme Summary Sheet, in a separate clearly-labelled envelope.

SECTION 3: CONTENT

92) This Section allows the Applicant to:

- demonstrate the quality of its technical evaluation,
- identify prospectivity,
- explain the exploration (and/or exploitation) rationale,
- propose a detailed Work Programme, and
- (for **Promote** applicants) its plans and approach to attract and realise resources necessary for completion of the Work Programme.

93) The Applicant should present data in whatever format it considers best illustrates its plans for the acreage and the rationale behind them. We don't need a lot of back-up data about previous experience, unless it's directly relevant to the current application. A fit-for-purpose Content section will be at most 50 pages long (and considerably less for Promote applications), including displays (relevant maps and seismic sections indicating well ties, where appropriate).

94) For each area, the application must include:

- a brief description of the relationship of the block to the regional geology of the area;
- a written summary of the new play ideas, leads and/or prospects identified in the block(s), together with predicted reservoir information; and/or a description of existing discoveries or decommissioned fields including trap type, key risk factors and geotechnical chance of success, if available;
- (for Traditional Applications) a detailed description (including timings) of the Work Programme that it proposes to carry out during the licence's four-year Initial Term;

- (for Frontier Applications) a detailed description (including timings) of the Work Programme that it proposes to carry out during the licence's first two terms, including the evaluation that will enable it to make a 75% relinquishment at the end of the two-year Initial Term;
- (for Promote Applications) a detailed description (including timings) of the evaluation that it proposes to carry out in the first two years, demonstrating its technical and innovative case, its associated capability to carry out the agreed Work Programme to establish a viable drilling prospect during the first two years of the licence, and its approach to securing the additional financial and technical resources that would be needed to carry out the agreed substantive work programme for the rest of the Initial Term.
- (for Landward applications) a detailed description of the Work Programme that it proposes to carry out during the licence's six-year Initial Term.

95) For the sake of consistency, we will appoint the same official as Lead Assessor for all competing applications for a particular block. The assessor will judge each Appendix B against uniform criteria by means of an objective Marks Scheme.

96) Promote applicants should bear in mind that, while the evaluation work planned for the first two years will not include any seismic or drilling, Promote Licences are based on a basic four-year drill-or-drop Work Programme, with the decision to drill or drop at two years, so the plans should be aimed at culminating in the drilling of a well (or equivalent) in Years 3 or 4.

97) When designing their Work Programmes, **Frontier applicants** should bear in mind the special structure of Frontier Licences, with a 75% relinquishment after two years and a two-term (2+4) period taking the place of what is usually the Initial Term. *The Work Programme should cover the full six years of the first two terms.* There is a fuller description of the different types of Licence on our [website](#).

98) In response to a recommendation by the Oil and Gas Industry Task Force for greater transparency in the licence award process, and as part of the Government's drive to greater transparency, the marks awarded to the successful applicants for each block or group of blocks will be published, along with a précis of the Work Programme on each Licence, in a press notice and on the DTI website. All applicant groups will be notified of their own marks in writing at the time of announcement of awards.

SECTION 4: TECHNICAL COMPETENCE (OPERATORSHIP)

99) DTI will not issue a Licence other than to a competent operator, or to a group that includes an approved operator. For a **Traditional Seaward Production Licence**, **Frontier Seaward Production Licence** or **Petroleum Exploration and Development Licence** it would usually be an '[Exploration Operator](#)', approved for exploration (e.g. drilling, seismic), but *not* for production. DTI will need to be satisfied that the Operator is capable of supervising and managing the operations in question. In the special case of an application to develop an *existing* discovery or redevelop a decommissioned field, DTI must be satisfied about the Operator's capacity to manage a development project, so that it can be approved as a '[Production Operator](#)'.

100) The exception is the **Promote Licence**. It is aimed at companies who, at the time a Licence is awarded, may not meet DTI's criteria for Exploration Operators. Therefore these Technical Competence criteria will not be applied to such applicants during the Licensing Round and the application does not need to address this section. *But applicants must be aware that we will apply Technical Competence criteria to the nominated operator at the Break Point (usually at two years), and the Licence will automatically expire at that time if DTI is not satisfied.* The effect is to defer these checks, not abandon them. The checks will

be those in force for new applications at the time. Of course DTI will not approve any actual operations by the Licensee until there is an approved operator.

101) Even on a Promote Licence, DTI will require one company to act as “Licence Co-ordinator” – i.e. a contact point for communications and rentals invoices – but we will not check its technical competence. On other kinds of Licence, we will consider the approved operator to be Licence Co-ordinator.

102) For Landward Licences only: applicants should also give details of people not yet in post, and of how empty posts are to be filled.

103) In addition to the prospective operator’s technical competence, its partners would be expected to be able to exercise a responsible level of control over Licence activities – for instance in casting their votes at Operating Committees. Each company must state the number of managerial and technical staff engaged in the company’s oil and gas activities who would be available for the operations being proposed (including an organisation chart) and, in the case of technical staff, their discipline, years of experience and any relevant technical qualifications.

ENVIRONMENTAL ISSUES (APPENDIX C)

104) Environmental protection in the onshore areas falls principally to local authorities, acting through the planning process, rather than to DTI, so this section does not apply to applicants for Petroleum Exploration and Development Licences. There is more guidance about the onshore environmental regulatory regime [elsewhere](#) on our website.

105) For **Promote Seaward Applications**, these checks, like the financial checks and certain technical checks, will be deferred until the Break Point within the Initial Term. Applicants should note that it is their own responsibility to ensure that they meet these criteria at the appropriate time. Where a Work Programme to be undertaken in the second phase of the Initial Term is not completed because DTI or any other regulatory body will not permit the work to be done for environmental or any other reasons, the Licence will automatically expire at the end of the Initial Term.

106) The rest of this Appendix applies only to **Frontier** and **Traditional Seaward Applications**.

SECTION 1: POLLUTION LIABILITY

107) Seaward applications other than Promote applications should include evidence that the proposed operator of a licence will register its operatorship of the area with the [Offshore Pollution Liability Association Limited](#) (OPOL). Evidence of registration could be a copy of the letter to OPOL – if already registered, the application should include a copy of OPOL's acceptance letter. The alternative to membership of OPOL would be evidence that each applicant company has in place adequate funds to meet any liability for damages caused through drilling or production operations, and a binding commitment to maintain it.

108) Promote Licensees will not be approved as Exploration operators at award, so this issue would arise at a later stage.

SECTION 2: ORGANISATION

109) The proposed Operator must submit evidence demonstrating its commitment to its environmental policy, as it relates to oil and gas activities carried out under the licence. All documentation should be as brief and concise as possible. It should take into account any relevant Regulations and Directives and should include the requirements set out in the following paragraphs:

- **Responsibilities** A description of the Operator's management structure (directors/managers/personnel) with specific responsibility for environmental issues up to and including board level (an organisation chart may be the best way to show this).
- **Environmental management** Details of the Operator's Environmental Management System (EMS), including details of any external certification (e.g. EN ISO 14001 and/or EMAS accreditation) or verification (by whom, when, and proposed date of next verification).
- A copy of the Operator's **Environmental Policy Statement** together with details of (i) the mechanisms that are in place to implement changes to the policy, (ii) how the policy has been communicated to all staff, including sub-contractors; and (iii) how the policy is reviewed and audited and the dates of the last reviews.
- A copy of the contents list of your **environmental management system manual** (or similar) together with information on the scope of that management system in terms of sites, activities and management control.

- Brief details of the **environmental training** carried out by the company, including dealing with pollution incidents.
- Brief details of the **key management processes** in place to control the major environmental effects of the operator's activities and to ensure that operations are carried out in an environmentally responsible manner. These may include, but not be limited to, procedures for: environmental impact assessment; environmental audits; identification of applicable legislative, regulatory and policy requirements; management of sub-contractors; and procurement.
- An indication of what **performance indicators** are used to monitor environmental performance. Where applicable, please provide results of this performance monitoring to show performance trends.
- Any **quantified objectives and targets** for environmental improvement and, where applicable, an assessment of current performance against stated targets and objectives.
- Information on **assessment procedures** used to monitor the environmental commitment and performance of your sub-contractors and suppliers, including any audit programme and, if possible, a copy of the last audit report.

SECTION 3: COMPLIANCE

110) Answer 'Yes' or 'No' to the following questions. If you answer 'Yes' to any of them, include details in your application.

- Have you failed to comply with relevant legislative standards/requirements (e.g. oil levels in produced water) to the satisfaction of the environmental regulator during the last five years?
- Has there been any civil action against you in respect of the environment on the UKCS in the last five years?
- Have you been convicted of breaching any UK environmental legislation in the last five years?
- Is there any environment-related civil or criminal action pending against your company in respect of its operations on the UKCS?

SECTION 4: ENVIRONMENTAL MANAGEMENT

111) A summary of how management systems will be applied to any Work Programmes proposed. This summary should include, but not be limited to:

- a description of the procedures in place for **monitoring environmental performance**;
- a **timetable** for certification or verification of the Environmental Management System (EMS);
- a description of any **modelling or monitoring** (surveys) to be undertaken to assess potential environmental impact;
- and the methods to be employed to ensure that any **contractors** to be employed will be selected/were selected (include details of company interfaces) to ensure that contractor operations comply with the company's environmental policy.

SECTION 5: GENERAL

112) DTI sets great store by an Operator's environmental competence and acknowledges that new entrants may face a steep learning curve to reach an acceptable level. LCU/OED

may be prepared to allow such companies to be provisionally approved as Exploration Operator before achieving that level, if they can demonstrate a reasonable grasp of the issues, and a coherent plan to address them. In such cases, LCU/OED will subsequently monitor the applicant's progress until the required level of competence has been achieved, and will not permit the company to carry out surveys or drilling until it has.

113) Applicants must expect to be questioned on the content of these submissions at the interview stage and be prepared to submit further documentation as required.

114) Applications from operators new to the UKCS will be required to submit plans demonstrating how environmental competence will be achieved and maintained.

115) Applicants should be aware that any documents submitted in support of an application as part of Appendix C may be made available for inspection by members of the public. If they contain any information of a commercially-sensitive nature, then it should be clearly marked and detachable from the documents. Applicants wishing DTI to withhold such information from the public domain will have to demonstrate that its disclosure could damage their company.

ANNEXE 1 – APPROVED PREEMPTION PROVISIONS

Pre-Emption Arrangements

- (1) In the event that a Disposing Pre-emption Participant enters into bona fide negotiations to, or otherwise makes a bona fide decision to, transfer the whole or any part of its rights and obligations under an Existing Operating Agreement then it may serve notice of such intention on all Other Pre-emption Participants together with such further information as may be required under the Existing Pre-emption Arrangements (together the “Further Information”) to enable such Other Pre-emption Participants to assess the nature and extent of such proposed disposal and the potential exercise of their respective rights under the Existing Pre-emption Arrangements.
- (2) Within seven (7) Business Days after receipt of the Further Information each of the Other Pre-emption Participants shall elect either:
 - (a) to reserve its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to such proposed disposal; or
 - (b) to waive its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to such proposed disposal (in which event, for the avoidance of doubt, the Disposing Pre-emption Participant shall not be obliged to serve notice on such Other Pre-emption Participant pursuant to Clause 1(5));
 - (c) and shall serve notice accordingly upon the Disposing Pre-emption Participant and in default of receipt by the Disposing Pre-emption Participant of any such notice within such period of seven (7) Business Days the Other Pre-emption Participant shall be deemed to have served a notice electing to reserve its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to such proposed disposal.
- (3) For the avoidance of doubt, in the event that none of the Other Pre-emption Participants reserves (or is deemed to have reserved) its rights under Clause 1(2)(a) then the Existing Pre-emption Arrangements shall thereupon cease to apply in relation to such proposed disposal.
- (4) In the event that all or any of the Other Pre-emption Participants reserves (or is deemed to have reserved) its rights under Clause 1(2)(a) then in circumstances where the Disposing Pre-emption Participant is no longer intending so to transfer the whole or any part of its rights and obligations under the Existing Operating Agreement the Disposing Pre-emption Participant shall as soon as reasonably practicable after the occurrence of such circumstances serve on all such Other Pre-emption Participants a notice to that effect.
- (5) In circumstances where agreement has been reached (and whether or not such agreement is recorded in a fully termed sale and purchase agreement) in relation to a transfer of the whole or any part of its rights and obligations under the Existing Operating Agreement to a third party (the “Proposed Disposal”) (subject only to the rights of the Other Pre-emption Participants under the Existing Pre-emption Arrangements and such conditions as may be applicable) then the Disposing Pre-emption Participant shall as soon as reasonably practicable after the occurrence of such circumstances (and whether or not the Disposing Pre-emption Participant has previously given notice of such proposed disposal under Clause 1(1)) serve on each of those Other Pre-emption Participants which has reserved its rights under Clause 1(2)(a) or (as the case may be) all the Other Pre-emption Participants, a notice to that

effect and shall with such notice provide such information and details as may be required under the Existing Pre-emption Arrangements and, in any event, at least the main terms of such agreement (the “Agreed Terms”) and including:

- (a) the identity of such third party; and
 - (b) the effective date of the Proposed Disposal; and
 - (c) the applicable price; and
 - (d) all and any material conditions to which such agreement is subject.
- (6) Within thirty (30) days after receipt of a notice under Clause 1(5) in relation to a Proposed Disposal each of the Other Pre-emption Participants shall elect either:
- (a) to exercise its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to the Proposed Disposal; or
 - (b) to waive its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to the Proposed Disposal;
 - (c) and shall serve notice accordingly upon the Disposing Pre-emption Participant and in default of receipt by the Disposing Pre-emption Participant of any such notice within such period of thirty (30) days such Other Pre-emption Participant shall be deemed conclusively to have served a notice electing to waive its rights of pre-emption as set out in the Existing Pre-emption Arrangements (and upon and subject to these New Pre-emption Arrangements) in relation to the Proposed Disposal.
- (7) In the event that more than one of such Other Pre-emption Participants exercises its rights under Clause 1(6)(a) in relation to the Proposed Disposal then the Disposing Pre-emption Participant shall transfer the relevant interest upon the Agreed Terms to each of such Other Pre-emption Participants in the proportions in which their respective percentage interests bear to the aggregate of their respective percentage interests or in such other proportions as such Other Pre-emption Participants shall agree between them.
- (8) In the event that one of such Other Pre-emption Participants exercises its rights under Clause 1(6)(a) in relation to the Proposed Disposal then the Disposing Pre-emption Participant shall transfer the whole of the relevant interest upon the Agreed Terms to such Other Pre-emption Participant.
- (9) In the event that none of such Other Pre-emption Participants exercises its rights under Clause 1(6)(a) then the Existing Pre-emption Arrangements shall thereupon cease to apply in relation to the Proposed Disposal.

Liabilities

Without prejudice to the applicable provisions of the Existing Operating Agreement it is agreed that the Disposing Pre-emption Participant shall be and shall remain liable to the Other Pre-emption Participants for all and any liabilities, costs and expenses of the Other Pre-emption Participants in relation to any transfer or purported transfer of the whole or any part of its rights or obligations under the Existing Operating Agreement which does not comply with the provisions of these New Pre-emption Arrangements.

FURTHER ENQUIRIES: CONTACTS

For DTI's **financial appraisal** (Appendix A), contact Nic Rogers:

tel: 020 7215 5728;
fax: 020 7215 5710;
email: Nicholas.Rogers@dti.gsi.gov.uk

For landward **geological and other technical issues** (Appendix B), contact Geoff Swann:

tel: 020 7215 5062;
fax: 020 7215 5070;
email: geoff.swann@dti.gsi.gov.uk

For seaward **geological and other technical issues** (Appendix B), contact Jen Brzozowska:

tel: 020 7215 5138;
fax: 020 7215 5070;
email: jen.brzozowska@dti.gsi.gov.uk

For **environmental issues** (Appendix ENV), contact Megan Douglas:

tel: 01224 254014;
fax: 01224 254019;
e-mail: megan.douglas@dti.gsi.gov.uk

For **tax issues**, contact Inland Revenue, Revenue Policy, International: Energy Group, Melbourne House, Aldwych, London WC2B 4LL:

tel: 020 7438 7437;
fax: 020 7438 6374.

For general enquiries about the **administration** of a Licensing Round, contact Bob Bailey:

tel: 020 7215 5111;
fax: 020 7215 5142;
email: robert.bailey@dti.gsi.gov.uk