

INSIGHTS

U.K. Announces Unconventional Petroleum Licensing Model Clauses

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Energy Minister Michael Fallon took the opportunity on 24 June 2014 at the UK Shale Conference to cite the energy security crises in the Ukraine and Iraq as further reason for the UK to focus on shale gas and oil exploration. In the latest step towards the development of the UK shale industry, revisions to petroleum licence Model Clauses will be implemented to accommodate the practicalities of fracking compared with recovery of conventional resources. Specifically, and recognising that shale plays may cover vast areas (see, for example, the Bakken formation in North America and the Bazhenov formation in Russia), existing rules relating to operations and retention of acreage will be amended to allow greater flexibility for unconventional resource development. Whilst we await further details of the new regime, it appears that concepts include "Production Plans" relating to specific areas of the licensed area and "Retention Agreements" allowing the licensee to retain acreage subject to approved work plans. Given that neither of these is particularly revolutionary (we already have development and production programmes, field delineation and phased relinquishment under the existing licensing regime), it will be interesting to see the specifics that facilitate shale development. We might, for example, expect to see bespoke provisions relating to appraisal operations, continuous production and longer holding periods. The Government, however, is particularly cognisant of the issue of "land-banking", and is apparently keen to dissuade licensees from sitting on large acreages by requiring "plans for meaningful activity" (although the precise meaning of this requires clarification). The Government will also look to enhance access rights to information regarding operations. DECC will require licensees to submit well reports and production data, with confidentiality protection reduced significantly from four years to just six months. This is in line with offshore plans mooted for the UK, which see enhanced data sharing between operators as key to stimulating production, and will be a consideration for companies looking to take positions in the 14th Onshore Licensing Round that is expected later this year. This announcement is certainly encouraging for the UK shale industry, and we await the text of the new Model Clauses with anticipation and interest; DECC's current narrative of the Petroleum Model Clauses (Amendment) Order 2014 as "Make licences accommodate shale gas; permit onshore exploration; and otherwise make routine updates to onshore model clauses" is certainly not giving much away for now.