

Prime Minister

A general policy approval for this Bill, subject to colleagues? (The Chancellor is said to be content, and the proposal has been widely discussed.)

PRIME MINISTER

28 February 1986

JRW
8/3

There is no reference

PETROLEUM BILL

I think to the Oil or gas. On the contrary page 12 indicates that this would be a

Peter Walker's proposed Petroleum Bill is mainly a matter of administrative tidying up. However, the first part of the Bill, which seeks to establish an effective régime for controlling the removal of disused offshore oil and gas installations, is both important and pressing.

length
of fact
not

Understandably, perhaps, the existing legislative framework for the offshore petroleum industry concentrates on exploration and the subsequent development of commercial oil and gas fields. The Secretary of State's powers in this regard have stood the test of the last 10 years well. They have ensured that proper weight has been given to the national interest without inhibiting the enterprise and initiative of the oil companies.

But now, some of the first generation of fields are approaching the point at which serious thought must be given to the final stage of operational life, to safe abandonment, and to removal of the disused offshore installations. The potential costs are formidable - of the order of £6 billion for the 140 platforms currently installed in the North Sea. The Government will effectively bear 60-70% of these costs through tax and royalty reliefs - at a time when Government revenue from the UKCS may be appreciably lower than today. Proper financial provision must be made by the oil companies.

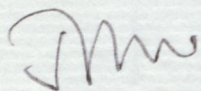
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Sensible cost-conscious standards and practices must be established.

Above all, we must contrive to ensure that the economic potential of each platform is wholly exhausted before abandonment. At some point, this may require relaxation of royalty payments and Petroleum Revenue Tax, so as to extend the economic life of the field - which, in turn, may be boosted by oil price increases. The oil companies need to know the rules of the game well in advance if they are to have the incentive and the time to plan and execute the necessary work.

Conclusion

Although the Petroleum Bill is a typical piece of housekeeping legislation, it does, in part, have important implications for the management of our offshore oil and gas resources. We would support it, whilst urging that the related policy questions concerning the maximum exploitation of mature oil fields, and their eventual abandonment, should be addressed as a matter of priority.



JOHN WYBREW

PRIME MINISTER

PETROLEUM BILL

This minute is to seek your formal policy approval and that of other E(A) colleagues to the provisions of the Petroleum Bill which has been given an advance place in the 1986/87 session. I attach a memorandum setting out my proposals in detail.

The Bill is mainly concerned with the proper management of the UK continental shelf, where our legislation on licensing, royalty and tax related questions inevitably requires periodic amendment. Two particularly important areas to be covered in the Bill where new provisions are necessary and urgent, are the laws on petroleum royalties and on platform abandonment. Legislation on royalties is needed if royalty revenue is not to be put at risk by developments in UKCS operating methods. The cost of clearing platforms in place and already planned on the UKCS has been estimated by the industry to be more than £6,000 million (at 1984 prices). At present the industry has no removal standards to plan against, there is no requirement on it to submit plans for abandonment and no way for Government to enforce abandonment obligations. The first abandonment will be in the mid-1990s and companies need to know now what their obligations are likely to be.

Because of the financial implications the Treasury has been consulted and the Chancellor of the Exchequer is content. The Treasury will of course be fully involved in any discussions of the sort of post-production costs (other than abandonment) for which royalty relief might be given, and the Treasury and Inland Revenue consulted before I require any licensee to make appropriate financial provision to enable abandonment costs to be met.

I should be grateful to know if you and colleagues in E(A) to whom I am copying these papers are content. It would be helpful to have any comments by 7 March: I will assume that the absence of comment indicates assent.

A copy of this minute and attachment goes to Sir Robert Armstrong.

Secretary of State for Energy

26 February 1986



CONFIDENTIAL

PETROLEUM BILL

MEMORANDUM BY THE SECRETARY OF STATE FOR ENERGY

1. Cabinet of 28 February 1985 (C(85) 7th Mtg) has accepted QL Committee's Recommendation that the Petroleum Bill should have an advance place in the 1986/87 Session; I now seek the agreement of colleagues to the Bill's policy content.
2. The broad theme of the Bill is to improve the management of oil and gas on the United Kingdom Continental Shelf (UKCS), but the Bill would also amend some present controls over land pipelines and refineries.
3. The main UKCS management provisions fall into five groups:
 - (i) the establishment of an effective regime for controlling the removal of disused offshore oil and gas installations;
 - (ii) provisions for extending the petroleum licensing regime to UK territorial waters off Northern Ireland;
 - (iii) provisions to clarify and update the law on petroleum royalties and measurement;
 - (iv) a provision establishing safety zones around offshore installations automatically rather than by Order; and
 - (v) a provision to discontinue publication of a superfluous Continental Shelf Report.

These and the other provisions are summarised in the following paragraphs.



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Regulation of oil and gas developments

4. (a) Abandonment of disused offshore installations
- (i) to impose a duty on owners to remove disused oil and gas installations and pipelines at the end of their productive life unless the Secretary of State for Energy (SoS) agrees otherwise;
 - (ii) to give the SoS powers to set appropriate removal standards;
 - (iii) to give SoS powers to require the submission of plans for removal; and
 - (iv) to give the SoS powers to require owners to satisfy him that finance will be available at the end of field life to meet abandonment costs.

Some of these provisions would also apply mutatis mutandis to pipelines. They are needed now because some fields will quite soon be nearing the end of their productive life and plans will need to be made in good time to ensure that abandonment takes place in an orderly way. Although most companies already assume that they will be responsible to some extent for abandonment costs, and some are already making financial provisions in their accounts, the existing legislative and other provisions governing abandonment - Part II of the Coast Protection Act 1949 and the model clauses incorporated in production licences - do not confer on the Department adequate regulatory powers, indeed there are no existing powers relating to (a) (ii) - (iv) above and the extent of existing powers at (a) (i) is not sufficiently clear. Imposing the duty to remove should encourage efforts by operators to defer the costs involved by extending the economic lives of individual installations, eg by further marginally profitable exploitation of oil and gas fields,



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with advantages to the economy and the Exchequer.

(b) Extension of licensing regime to territorial waters off Northern Ireland

At present neither the Great Britain nor the Northern Ireland petroleum licensing legislation applies in these waters.

Petroleum Royalties

5. Some proposed changes relate to new situations which the existing royalty framework does not cover adequately; others simply clarify procedures and correct anomalies in present legislation. The first category comprises provisions:

(c) To enable relief against royalty to be given for abandonment and other post-production costs

This provision would enable SoS to allow the value of petroleum for royalty purposes to be reduced by the net amount of abandonment and other post-production costs. Since the provision would be enabling only, Ministers will remain free to decide in due course whether or not to implement it. There will be no need to implement the provision should it be decided that the Government should bear a share of abandonment costs through grants outside the fiscal system rather than through tax and royalty repayments.

(d) To apply to royalty payments amendments to the PRT valuation rules

The main effect of this change would be to facilitate the collection of royalty on capacity



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payments, ie payments made to a producer of gas for maintaining the capability to meet high transient demands for gas. These payments may be a significant part of the income of a licensee who contracts to supply gas on demand at peak periods only.

The second category comprises provisions:

- (e) To simplify calculations of residual cash royalties due where royalty in kind is taken

This would bring within the formal scope of legislation a simple method, already in use by mutual agreement with all licensees, for calculating outstanding cash royalty in cases where most of the royalty due is taken in kind.

- (f) To correct anomalies on dispute procedures and clarify the calculation of interest

At present different licence model clauses provide for different notice periods and procedures for resolving different types of dispute between the SoS and a licensee; these would be brought into line with each other. In addition, the model clauses providing for the calculation and payment of interest on royalty would be clarified.

- (g) To amend petroleum measurement requirements

The licence model clauses would be amended to enable the SoS to require separate measurement of petroleum won and saved from fields located in the same licensed area which may have different fiscal treatments; licensees would also be required to



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measure the quality of petroleum as well as the quantity.

Safety Zones

6. (h) To amend existing legislation so that a protective 500 metre safety zone would automatically be created around new offshore installations, avoiding the need for hundreds of separate Orders.

Pipelines

7. (i) Public inquiries on pipeline route modification

To permit inquiries to be dispensed with where no objection has been received; the aim is administrative saving.

- (j) Pipeline insurance

To give SoS powers to require the owner of a pipeline to have adequate third party insurance.

Construction and extension of refineries

8. (k) The repeal of sections 34-39 of the Petroleum and Submarine Pipelines Act 1975. These sections impose controls on the construction and extension of refineries, including powers for the SoS to issue works authorisations, and appoint inspectors. None of these powers has ever been used; they are inconsistent with current policy towards refining and the oil industry; and there is no justification for retaining them.



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Continental Shelf Report

9. (1) The repeal of section 1(5) of the Continental Shelf Act 1964 which requires that an annual report be laid before Parliament giving details of offshore licences granted and petroleum production. There is very little demand for this report; the Department's annual Brown Book is much more comprehensive and is in far greater demand.

Controversy and timing

10. Most of these provisions are unlikely to be seriously controversial. Some of the royalties proposals may give rise to some opposition from the industry though our consultations so far do not suggest that serious resistance is likely.

11. On timing, these provisions are directed at situations which are already of practical significance in offshore oil and gas administration, or affect Government finances. Deferment of legislation could put some royalty revenue at risk as well as creating delays damaging to development and to the reputation of the UKCS as a well managed oil province.

Financial Implications

12. It is impossible to put a figure of net cost or benefit to the Exchequer on the provisions proposed for this Bill, but broadly its impact must be to the advantage of the Exchequer. Some of the provisions remove risks of loss to the Exchequer from ambiguities or gaps in the existing law. Making capacity payments to licensees liable to royalty will increase revenue in the period immediately ahead. Some of the provisions achieve or entrench administrative savings, with modest Exchequer benefits. Potentially the largest financial implications flow from the provisions for controlling abandonment of disused platforms.



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The amounts of tax relief to which companies will be entitled over a long period for removal expenditure is bound to be substantial but it would be wrong to regard that as a "cost" of this Bill. It has in fact long been recognised that companies cannot reasonably be denied relief on abandonment costs against tax and royalty though it has not yet been decided whether this relief should be made available through the fiscal system or by other means. At the same time as enabling relief to be given against royalties if this route is subsequently chosen, the Bill would reduce the risk that the Government might find itself obliged to finance the removal of a rig through default by a licensee. Unless owners can be required by law to demonstrate that funds will be available to finance removal, there is a real risk in some cases that insufficient funds will be available as production declines and licensees' cash flow is reduced accordingly. In that respect the Bill would protect the Exchequer. And if the costs of removal encourage extended exploitation, that should produce some benefit to the Exchequer.

Manpower Implications

13. Minimal.

Community Implications

14. None.

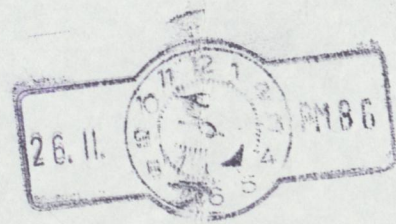
Recommendations

15. I ask colleagues to approve the principle of a Petroleum Bill and the inclusion of provisions (a) to (l) above.

PEW

Secretary of State for Energy

January 1986



PRIME MINISTER

PETROLEUM BILL

You asked for some information about the financial effects of the proposed Petroleum Bill. A letter from the Department of Energy and a note by the Policy Unit are below.

The essence of the argument is that the offshore oil platforms will have to be removed sooner or later, the Government will any way have to pay a substantial share of the costs whether through tax relief or by grants, the Bill will help to ensure that the option of tax relief is available, and will also help to guard against default by companies in meeting their share of the liabilities.

The Bill also includes other measures which would reduce the risk of Exchequer losses arising from the royalties system.

Agree to policy approval for the Bill?

Amanda Ross
A DN

Yes

6 March, 1986.

JD3AKG



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

DRN seen

CBG

D Norgrove Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON SW1

6 March 1986

Dear David

PETROLEUM BILL

FILE WITH DRN

I understand that the Prime Minister has asked for further details of the financial implications of the Petroleum Bill which were set out in paragraph 12 of the memorandum attached to my Secretary of State's minute of 26 February. In particular I believe that the Prime Minister enquired about the need to put the abandonment provisions in place quickly. *(timing)*

The principal financial implications of the Bill flow from the provisions on petroleum royalties (para 5 of the memorandum) and abandonment (para 4 of the memorandum). Of the four provisions relating to royalties, three are measures to bring the royalties system into line with current needs and reduce the risk of costly disputes and Exchequer losses. The sooner they are in place, the sooner these risks will be reduced. The other royalty provision is an enabling power which could be used to provide companies with royalty relief, if a fiscal route to relief of abandonment costs - para 3 below, (as against a grant system like the Norwegian's) is eventually adopted. The inclusion of this provision in the Bill in no way prejudices this decision. Thus the power may never be used, but it is important to get it in place quickly, since delay in legislating could reduce the amount of relief potentially available through royalty relief if this route was chosen for making available the Government's share of abandonment costs.

The purpose of the abandonment legislation is not only to provide an enforceable framework for abandonment so that companies have a realistic basis against which to plan, but crucially, to try to ensure that there will be funds available to meet the companies share of the costs. Abandonment of the existing and planned UKCS platforms is estimated by the industry to cost some £6 billion. Although these costs will fall to be met by the oil companies who own the installations, it is anticipated that a substantial portion of the costs (generally in excess of 60% and possibly up to 85%) will in practice be met by the Government through fiscal relief in the form of tax and royalty reliefs or by a grant system having a similar effect. This will still leave the oil companies to find substantial amounts at a time when the income from the relevant fields is dwindling away.



Officials here have discussed this problem with a number of oil companies. There is general agreement on the need to guard against default, whether involuntary or deliberate, which could result in the whole cost of abandonment falling on the Exchequer. We therefore need the power to satisfy ourselves that funds will be available, and as a last resort, (in consultation with Treasury and Inland Revenue) to require any licensee to make appropriate financial provision to enable abandonment costs to be met.

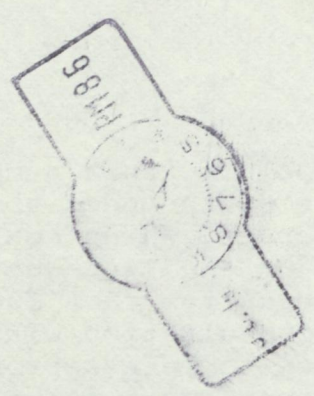
Where a licensee's only real asset is his share in the field, we need to act before his remaining entitlement to petroleum is less than his abandonment and other liabilities. That point appears already to be close at hand in a number of cases. Hence the need for legislation at the earliest possible date.

Yours ever,

A handwritten signature in dark ink, appearing to be 'G S Dart', written in a cursive style. The signature is positioned to the right of the typed name.

G S DART
Private Secretary

PARLIAMENT
LEGISLATION P T 4



COMPRESSOR

B/F Thursday please

MR NORGROVE

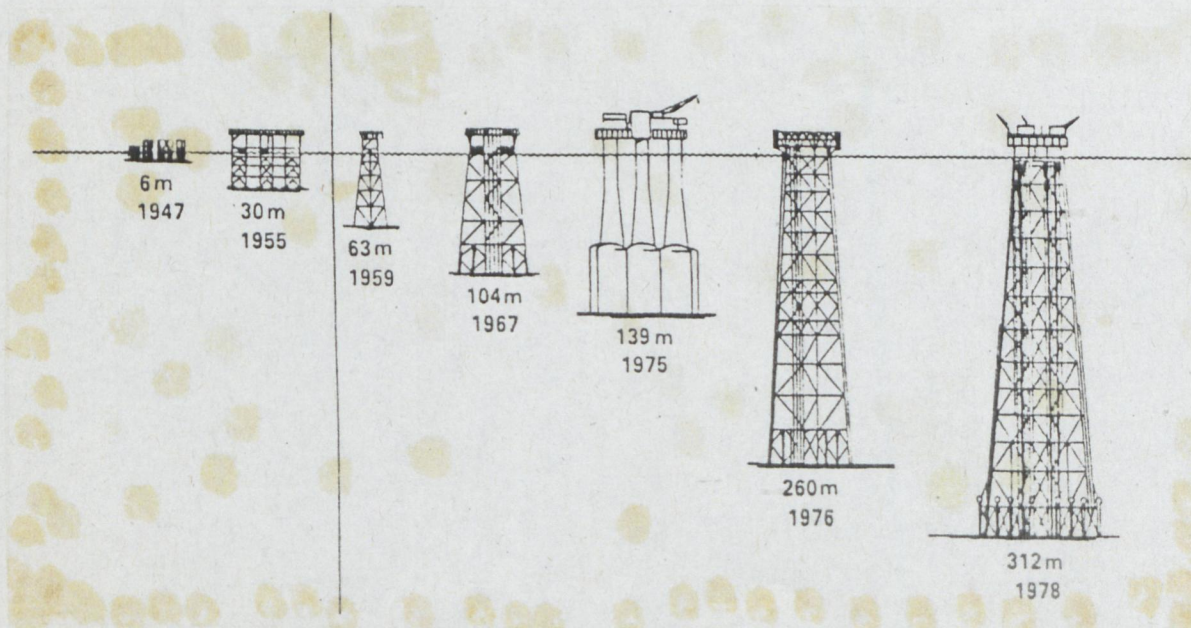
4 March 1986

PETROLEUM BILL - REMOVAL OF DISUSED OFFSHORE
OIL AND GAS INSTALLATIONS

You asked for more background on the financial implications of the oil industry's obligation to remove disused offshore oil and gas installations.

1. The oil industry started working offshore in the 1940s. Since then, it has been accepted that abandoned offshore oil and gas installations must be removed, at least to the extent of eliminating the potential hazards to shipping. Most Governments have accepted that the costs incurred by the oil companies in fulfilling this obligation are integral to field development and should be allowed against tax and royalty.

2. The 1958 Geneva Convention called for the total removal of abandoned offshore structures. But the Convention did not foresee the subsequent evolution of offshore technology:



B/A Thursday please.

MR NORGROVE

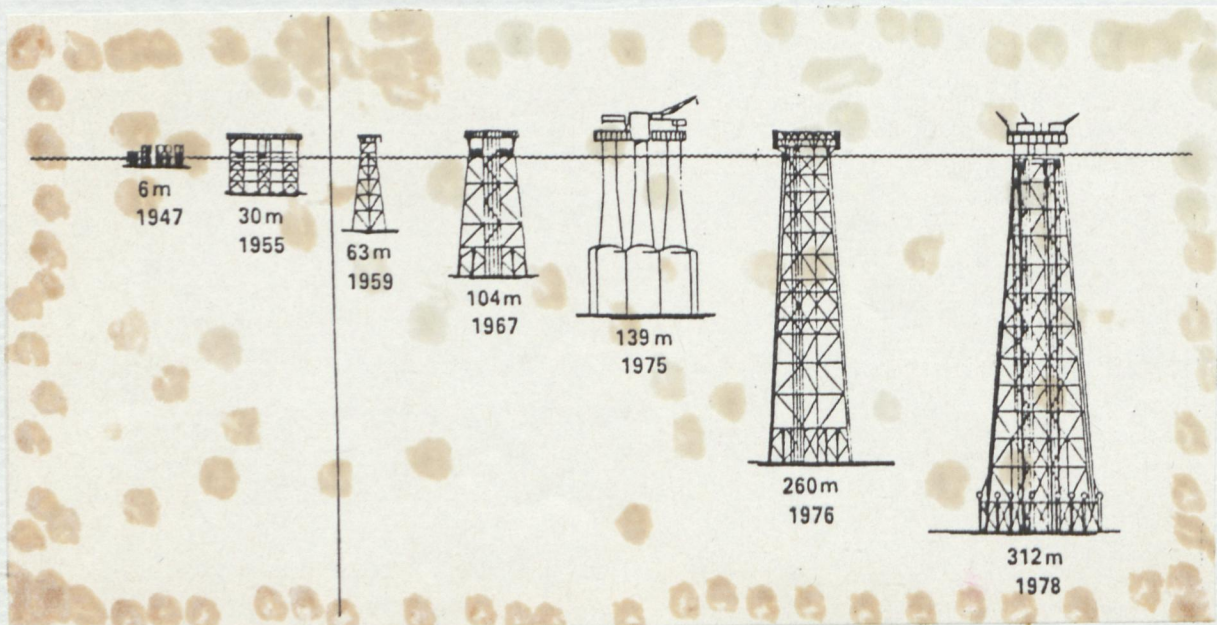
4 March 1986

PETROLEUM BILL - REMOVAL OF DISUSED OFFSHORE
OIL AND GAS INSTALLATIONS

You asked for more background on the financial implications of the oil industry's obligation to remove disused offshore oil and gas installations.

1. The oil industry started working offshore in the 1940s. Since then, it has been accepted that abandoned offshore oil and gas installations must be removed, at least to the extent of eliminating the potential hazards to shipping. Host Governments have accepted that the costs incurred by the oil companies in fulfilling this obligation are integral to field development and should be allowed against tax and royalty.

2. The 1958 Geneva Convention called for the total removal of abandoned offshore structures. But the Convention did not foresee the subsequent evolution of offshore technology:



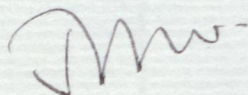
3. The cost estimate of £6 billion (1984 money) referred to in Peter Walker's paper of 26 February 1986 comes from a study carried out by the UK Offshore Operators' Association. This made a broad budget estimate of the cost of removing the 140-odd structures currently installed on the UKCS. The use of existing techniques or sensible projections of advancing techniques and equipment capability were assumed. The study concluded that the cost would be £4-6 billion (1984 money).

In the shallow waters of the southern North Sea (less than 130 feet) abandoned platforms will have to be removed totally. In the deep waters (400 feet plus) of the northern North Sea, the commonsense solution is to topple the platforms and leave them on the sea bed. The most contentious cases arise in the central North Sea (250 feet plus) where the upended structures or partially-dismantled stumps could arguably endanger shipping or submarines. Different assumptions for the extent of removal in the central North Sea largely account for the range of £4-6 billion in the cost estimate.

4. The big question is how the cost of removing offshore structures will be phased. Peter Walker's paper envisages that the removal programme will begin in the mid-1990s. The oil companies and the Government have a mutual interest in delaying for as long as possible the economic abandonment of fields and ultimately the removal of structures.

Firstly, we must contrive to ensure that the economic potential of each platform is wholly exhausted before abandonment. At some point, this may require relaxation of royalty payments and Petroleum Revenue Tax so as to extend the economic life of a field - which in turn may be boosted by oil price increases. Even after a field ceases to operate, delaying the removal of the structures will generally save money because advancing offshore technology and equipment should reduce costs. In any case, there is no point in dismantling platforms when neighbouring platforms are still operational.

5. My guess is that the £4-6 billion (1984 money) spent in removing the existing offshore structures will be phased over a period of at least 20 years. The important point is that the oil companies need to know the rules of the game well in advance if they are to have the incentive and the time to plan and execute the work needed to maximise the economic life of the fields, and thereafter minimise the cost of removing the abandoned structures. The main purpose of the Petroleum Bill is to replace the ill-assorted patchwork of existing legislation with a sound basis for these decisions.



JOHN WYBREW

CONFIDENTIAL

File JA



CCBGV

10 DOWNING STREET

From the Private Secretary

7 March 1986

Dear Geoff,

PETROLEUM BILL

The Prime Minister has seen your Secretary of State's minute of 26 February seeking formal policy approval for the Petroleum Bill, and your letter to me of 6 March.

The Prime Minister is content that the Petroleum Bill should have policy approval.

I am copying this letter to Private Secretaries to members of E(A) and to Michael Stark (Cabinet Office).

David

(David Norgrove)

Geoff Dart, Esq.,
Department of Energy.

CONFIDENTIAL

[Handwritten initials]

cc/BG



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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JU979
Secretary of State for Trade and Industry

// April 1986

CONFIDENTIAL

The Rt Hon Peter Walker MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London
SW1P 4QJ

NRB AM

PETROLEUM BILL

at 11 am

Thank you for your letter of 26 March in which you agree it might be possible to deal with the point about pipelines in your forthcoming Petroleum Bill.

Many minerals besides petroleum are technically capable of being transported by pipeline. Some already are piped - chalk, china clay, salt and sand - and others may well be in the future. The anomaly identified in the legislation should therefore be corrected as soon as possible, since there is no way of knowing when this Department might receive an application under the Mines (Working Facilities & Support) Act to resolve a particular dispute between a land owner and would-be mineral operator. As things stand at present, it would be open to a landowner to frustrate a mining or quarrying project requiring pipelines on "factory premises". This is because of a gap in coverage between the two Acts providing for rights for pipelines to be acquired compulsorily. The Pipe-lines Act does not cover factory premises, and the Mines (WFS) Act only covers petroleum and water pipe-lines.

**17
19** **86**
BOARD OF TRADE
BICENTENARY



The Court decision on the BP case confirmed that applications for oil pipelines can be made under either the Mines (WFS) Act or the Pipe-lines Act as appropriate. We would want to put all minerals on the same footing so that one way or another, all necessary pipeline rights can be obtained. We believe the changes needed are simple, and my officials will be in touch with yours to propose some draft wording shortly.

I am copying this letter to colleagues in E(A) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'P. Channon', written over a diagonal line.

PAUL CHANNON

A large, stylized handwritten signature in dark ink, appearing to be 'Paul'.

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19 **86**
BOARD OF TRADE
BICENTENARY

PARLIAMENT REGISTRATION AT14

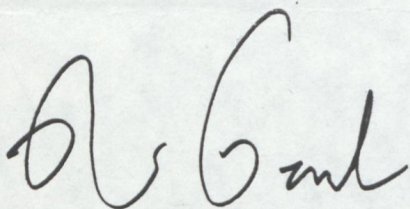
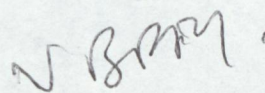


CABG

01 211 6402

The Rt Hon Paul Channon MP
 Secretary of State for Trade
 and Industry
 1-19 Victoria Street
 LONDON
 SW1H 0ET

26 March 1986

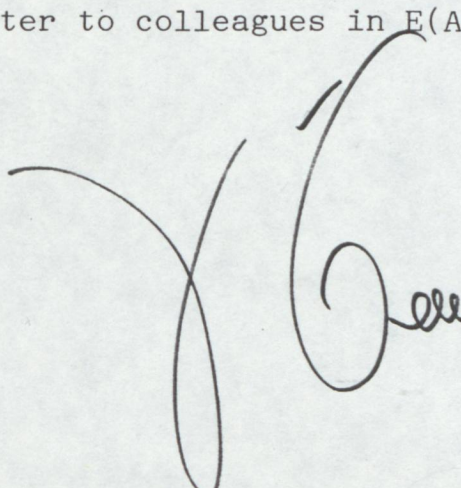
PETROLEUM BILL

Thank you for your letter of 10 March in which you asked me to keep open an option to include a possible minor piece of additional legislation on pipelines in the Petroleum Bill.

As you say, our officials are considering the extent and implications of the anomaly identified in existing legislation. It is not yet clear either what remedy would be appropriate, or how urgently it is required. Until we see a little more detail in this, it is difficult to say whether the Petroleum Bill would provide the appropriate vehicle for any amending legislation. However, subject to colleagues' views, I am prepared to leave open the possibility of the point being dealt with in the Bill.

I should however mention that Parliamentary Counsel is already drafting the Bill (starting, as it happens, with the pipelines provisions) so that early resolution of the matter is essential.

I am copying this letter to colleagues in E(A), and to Sir Robert Armstrong.



PETER WALKER

PARLIAMENT : hejblat nr 174





NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

~~CCBG~~

CONFIDENTIAL

11 March 1986

WBRM

Prime Minister

PETROLEUM BILL

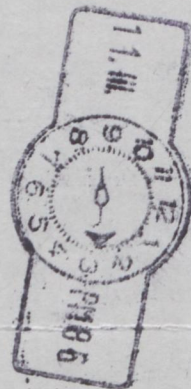
I have seen Peter Walker's minute seeking E(A) approval to the provisions of the Petroleum Bill and am content with his proposal subject to the Bill making adequate provision for consultation with the fishing interests on the removal standards to be adopted in respect of offshore oil and gas installations.

A copy of this goes to members of E(A) and to Sir Robert Armstrong.

at flap
MR

MR

En PARUAMBINTA PACOR PTB.
Negman. Pogan PTM.



CONFIDENTIAL

CBG



Secretary of State for Trade and Industry

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10 March 1986

CONFIDENTIAL

The Rt Hon Peter Walker MP
Secretary of State for Energy
Thames House South
Millbank
London
SW1P 4QJ

NBAM

Dear Peter,

PETROLEUM BILL

Thank you for a copy of your minute of 26 February to the Prime Minister asking whether I am content with the proposals for the Petroleum Bill. The only comment I have concerns a possible addition to the paragraph of your memorandum on pipelines (paragraph 7).

at trap.

As you will recall, the High Court helpfully decided on 18 February that BP were entitled to seek certain rights for the pipelines they need for their Wytch Farm development either under the Mines (Working Facilities and Support) Act 1966 or under the Pipe-lines Act 1962, as they choose. My department administers the first of these Acts, yours the second.

The detailed legal investigations officials made on this part of BP's case have shown up an anomaly in the way these two Acts inter-relate. Our officials are in touch about this and it is possible that a minor piece of additional legislation might be desirable to cover other mineral pipelines. I should be grateful if you could leave this option open for your Bill, pending further consideration by officials. Your Bill already deals with other general subjects about pipelines and could be a convenient vehicle for any new clause found to be needed.

I am copying this letter to colleagues in E(A), and to Sir Robert Armstrong.

Ans,

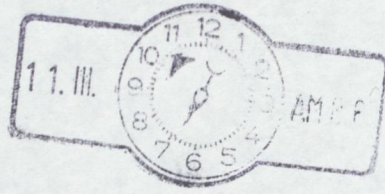
PAUL CHANNON

Paul

DW5AQA

1786
BOARD OF TRADE
BICENTENARY

PARUAMGNT
Regulation 4





Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

The Rt Hon Peter Walker, MBE, MP
The Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

11 February 1986

NBP

John Peter

PETROLEUM BILL

Thank you for your letter of 30 January covering a draft E(A) paper on the Petroleum Bill. *WITH DR*

I note that you are now proposing to extend the royalty provisions to allow effective relief to be given for other post-production costs as well as abandonment costs. I am content with this provided that the Treasury is brought into any discussions of the sort of post-production costs to be relieved (if any) at an early stage.

I understand from officials that the proposed enabling powers requiring licencees to satisfy you that finance will be available at the end of field-life to meet abandonment costs is now only meant to be a backstop provision. Companies will in general be expected to make their own arrangements for protection against default. On this basis and on the understanding that Treasury and Inland Revenue would be consulted before you require any licensee to make appropriate provision I have no objections to this being included in the Bill.

Subject to these points I am content with the draft paper and I agree that it should be circulated to other members of E(A) for clearance by correspondence.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

Nigel Lawson

NIGEL LAWSON



~~PRIME MINISTER~~

NRBM
4 February 1986

PETROLEUM BILL

Peter Walker's proposed Petroleum Bill has already been postponed once to accommodate legislation more central to the Government's aims. Much of it could be postponed indefinitely with no more cost than the failure to achieve some administrative tidying up in the Department of Energy.

However, the first part of the Bill, which seeks to establish an effective régime for controlling the removal of disused offshore oil and gas installations, is both important and pressing. Understandably, perhaps, the existing legislative framework for the offshore petroleum industry concentrates on exploration and the subsequent development of commercial oil and gas fields. The Secretary of State's powers in this regard have stood the test of the last 10 years well. They have ensured that proper weight has been given to the national interest without inhibiting the enterprise and initiative of the oil companies.

But now, some of the first generation of fields are approaching the point at which serious thought must be given to the final stage of operational life, to safe abandonment, and to removal of the disused offshore installations. The potential costs are formidable - £4-6 billion for the 140 platforms currently installed in the North Sea. The Government will effectively bear 60-70% of these costs through

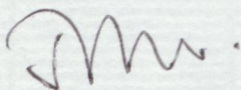
tax and royalty reliefs - at a time when Government revenue from the UKCS is likely to be substantially lower than today. Proper financial provision must be made by the oil companies. Sensible cost-conscious standards and practices must be established.

Perhaps most importantly, we must contrive to ensure that the economic potential of each platform is wholly exhausted before abandonment. At some point, this may require relaxation of royalty payments and Petroleum Revenue Tax, so as to extend the economic life of the field - which, in turn, may be boosted by oil price increases. The oil companies need to know the rules of the game well in advance if they are to have the incentive and the time to plan and execute the necessary work.

Conclusion

Although the Petroleum Bill is a typical piece of housekeeping legislation, it does, in part, have important implications for the management of our offshore oil and gas resources.

But it is not sufficient just to secure the powers. The related policy questions must be addressed with some urgency.



JOHN WYBREW

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Please see whether
Mr Whybrow has any
Comments.

AKS
sol.

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
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30 January 1986

Original

at flap Pt 13

I wrote to you in December 1984 enclosing a draft Paper for E(A) Committee which set out the provisions for a Petroleum Bill which was at that time proposed for introduction in the 1985/86 Session.

The Bill's introduction was subsequently postponed to the 1986/87 session (where Cabinet agreed it should have an advance place) and it was therefore decided not to submit the Paper to E(A) for the time being. It is now opportune to seek policy clearance for the Bill's contents; given that one or two of the more controversial items have now been dropped from the Bill, and a couple of minor technical items added, I think it is right that you should again see what is proposed in advance of circulation to E(A).

I would like to be able to tell the Prime Minister that the proposals are agreed between us and to suggest that given its limited interest to other members of E(A) the Paper should be circulated to them for clearance by correspondence. I should be grateful to know if you are content.

I am copying this letter and enclosure to the Prime Minister and to Sir Robert Armstrong.

PETER WALKER



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PETROLEUM BILL

MEMORANDUM BY THE SECRETARY OF STATE FOR ENERGY

1. Cabinet of 28 February 1985 (C(85) 7th Mtg) has accepted QL Committee's Recommendation that the Petroleum Bill should have an advance place in the 1986/87 Session; I now seek the agreement of colleagues to the Bill's policy content.

2. The broad theme of the Bill is to improve the management of oil and gas on the United Kingdom Continental Shelf (UKCS), but the Bill would also amend some present controls over land pipelines and refineries.

3. The main UKCS management provisions fall into five groups:
 - (i) the establishment of an effective regime for controlling the removal of disused offshore oil and gas installations;
 - (ii) provisions for extending the petroleum licensing regime to UK territorial waters off Northern Ireland;
 - (iii) provisions to clarify and update the law on petroleum royalties and measurement;
 - (iv) a provision establishing safety zones around offshore installations automatically rather than by Order; and
 - (v) a provision to discontinue publication of a superfluous Continental Shelf Report.

These and the other provisions are summarised in the following paragraphs.



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Regulation of oil and gas developments

4. (a) Abandonment of disused offshore installations
- (i) to impose a duty on owners to remove disused oil and gas installations and pipelines at the end of their productive life unless the Secretary of State for Energy (SoS) agrees otherwise;
 - (ii) to give the SoS powers to set appropriate removal standards;
 - (iii) to give SoS powers to require the submission of plans for removal; and
 - (iv) to give the SoS powers to require owners to satisfy him that finance will be available at the end of field life to meet abandonment costs.

Some of these provisions would also apply mutatis mutandis to pipelines. They are needed now because some fields will quite soon be nearing the end of their productive life and plans will need to be made in good time to ensure that abandonment takes place in an orderly way. Although most companies already assume that they will be responsible to some extent for abandonment costs, and some are already making financial provisions in their accounts, the existing legislative and other provisions governing abandonment - Part II of the Coast Protection Act 1949 and the model clauses incorporated in production licences - do not confer on the Department adequate regulatory powers, indeed there are no existing powers relating to (a) (ii) - (iv) above and the extent of existing powers at (a) (i) is not sufficiently clear. Imposing the duty to remove should encourage efforts by operators to defer the costs involved by extending the economic lives of individual installations, eg by further marginally profitable exploitation of oil and gas fields,



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with advantages to the economy and the Exchequer.

(b) Extension of licensing regime to territorial waters off Northern Ireland

At present neither the Great Britain nor the Northern Ireland petroleum licensing legislation applies in these waters.

Petroleum Royalties

5. Some proposed changes relate to new situations which the existing royalty framework does not cover adequately; others simply clarify procedures and correct anomalies in present legislation. The first category comprises provisions:

(c) To enable relief against royalty to be given for abandonment and other post-production costs

This provision would enable SoS to allow the value of petroleum for royalty purposes to be reduced by the net amount of abandonment and other post-production costs. Since the provision would be enabling only, Ministers will remain free to decide in due course whether or not to implement it. There will be no need to implement the provision should it be decided that the Government should bear a share of abandonment costs through grants outside the fiscal system rather than through tax and royalty repayments.

(d) To apply to royalty payments amendments to the PRT valuation rules

The main effect of this change would be to facilitate the collection of royalty on capacity



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payments, ie payments made to a producer of gas for maintaining the capability to meet high transient demands for gas. These payments may be a significant part of the income of a licensee who contracts to supply gas on demand at peak periods only.

The second category comprises provisions:

- (e) To simplify calculations of residual cash royalties due where royalty in kind is taken

This would bring within the formal scope of legislation a simple method, already in use by mutual agreement with all licensees, for calculating outstanding cash royalty in cases where most of the royalty due is taken in kind.

- (f) To correct anomalies on dispute procedures and clarify the calculation of interest

At present different licence model clauses provide for different notice periods and procedures for resolving different types of dispute between the SoS and a licensee; these would be brought into line with each other. In addition, the model clauses providing for the calculation and payment of interest on royalty would be clarified.

- (g) To amend petroleum measurement requirements

The licence model clauses would be amended to enable the SoS to require separate measurement of petroleum won and saved from fields located in the same licensed area which may have different fiscal treatments; licensees would also be required to



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measure the quality of petroleum as well as the quantity.

Safety Zones

6. (h) To amend existing legislation so that a protective 500 metre safety zone would automatically be created around new offshore installations, avoiding the need for hundreds of separate Orders.

Pipelines

7. (i) Public inquiries on pipeline route modification

To permit inquiries to be dispensed with where no objection has been received; the aim is administrative saving.

- (j) Pipeline insurance

To give SoS powers to require the owner of a pipeline to have adequate third party insurance.

Construction and extension of refineries

8. (k) The repeal of sections 34-39 of the Petroleum and Submarine Pipelines Act 1975. These sections impose controls on the construction and extension of refineries, including powers for the SoS to issue works authorisations, and appoint inspectors. None of these powers has ever been used; they are inconsistent with current policy towards refining and the oil industry; and there is no justification for retaining them.



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Continental Shelf Report

9. (1) The repeal of section 1(5) of the Continental Shelf Act 1964 which requires that an annual report be laid before Parliament giving details of offshore licences granted and petroleum production. There is very little demand for this report; the Department's annual Brown Book is much more comprehensive and is in far greater demand.

Controversy and timing

10. Most of these provisions are unlikely to be seriously controversial. Some of the royalties proposals may give rise to some opposition from the industry though our consultations so far do not suggest that serious resistance is likely.

11. On timing, these provisions are directed at situations which are already of practical significance in offshore oil and gas administration, or affect Government finances. Deferment of legislation could put some royalty revenue at risk as well as creating delays damaging to development and to the reputation of the UKCS as a well managed oil province.

Financial Implications

12. It is impossible to put a figure of net cost or benefit to the Exchequer on the provisions proposed for this Bill, but broadly its impact must be to the advantage of the Exchequer. Some of the provisions remove risks of loss to the Exchequer from ambiguities or gaps in the existing law. Making capacity payments to licensees liable to royalty will increase revenue in the period immediately ahead. Some of the provisions achieve or entrench administrative savings, with modest Exchequer benefits. Potentially the largest financial implications flow from the provisions for controlling abandonment of disused platforms.



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The amounts of tax relief to which companies will be entitled over a long period for removal expenditure is bound to be substantial but it would be wrong to regard that as a "cost" of this Bill. It has in fact long been recognised that companies cannot reasonably be denied relief on abandonment costs against tax and royalty though it has not yet been decided whether this relief should be made available through the fiscal system or by other means. At the same time as enabling relief to be given against royalties if this route is subsequently chosen, the Bill would reduce the risk that the Government might find itself obliged to finance the removal of a rig through default by a licensee. Unless owners can be required by law to demonstrate that funds will be available to finance removal, there is a real risk in some cases that insufficient funds will be available as production declines and licensees' cash flow is reduced accordingly. In that respect the Bill would protect the Exchequer. And if the costs of removal encourage extended exploitation, that should produce some benefit to the Exchequer.

Manpower Implications

13. Minimal.

Community Implications

14. None.

Recommendations

15. I ask colleagues to approve the principle of a Petroleum Bill and the inclusion of provisions (a) to (1) above.

PEW

Secretary of State for Energy

January 1986

PARLIAMENT PT 14

Legislative Programme

