



## The Falkland Islands Government

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### Guidance note 01/16

## Measures to support Production Licence holders operating in the Falkland Islands Designated Area

### 1. Background

The Executive Council of the Falkland Islands Government recently considered and approved a suite of proposals to support the continuation of successful oil industry activity in the Falkland Islands. The objective of these proposals was to recognise:

- current economic difficulties faced by the oil industry globally as a result of the declining oil price
- the significant investment to date by existing licensees
- the desire by those licensees to continue progressing exploration and development planning activities in the future, and
- the Falkland Islands Government's aspiration to ensure that offshore opportunities in the Falkland Islands remain attractive and competitive for new investors

This policy becomes effective upon publication, and applies to all Production Licences valid at that time. The policy will not be automatically applied to any new licences that may be issued in any future licensing rounds. It supersedes and replaces the previous policy approved by Executive Council paper 240/12 and published as Guidance Note 01/13.

These proposals apply only to the *second exploration term* (hereafter referred to as "Phase 2") of Production Licences issued under either the Offshore Petroleum (Licensing) Regulations 1995, or the Offshore Petroleum (Licensing) Regulations 2000.

The policy does not permit extensions to the *subsequent continuing part* (hereafter referred to as "Phase 3") of any licences issued under the Offshore Petroleum (Licensing) Regulations 1995.

All current Falkland Islands offshore Production Licences are currently in Phase 2.

No historical work commitments that precede the date of this document will be permissible in seeking extension.

## 2. Production Licence extensions

Licensees may apply for an extension of up to three years to Phase 2 of existing Production Licences without entering into additional work commitments. All existing and unfulfilled Phase 2 licence work commitments remain extant.

Licensees may, in addition to this, apply for further extensions to Phase 2 of existing Production Licences by offering additional work commitments over and above the minimum work commitment contained in the licence. The approved policy on such extensions is as set out in section 3.

During any period of extension, an additional fallow acreage rental fee will be payable as a condition of granting the extension. This fee is set at US\$10,200 per Production Licence per annum, commencing on the current expiry date of Phase 2 of each licence, and payable annually in advance until either:

- The extended Production Licence expires, or
- Drilling activity<sup>1</sup> recommences within the Production Licence group

Fallow acreage rental fees will be charged pro-rata to the nearest month for the part year in which drilling activity resumes. The standard production licence acreage rental will remain payable at the rate prevailing for each licence or group.

Licensees must apply for an extension at least three months prior to any existing licence expiry date.

## 3. Additional work commitments

For each licence group, licensees may offer additional exploration drilling commitments over and above the existing minimum work programme for that licence group, and in doing so are eligible to apply for an additional period of licence validity:

- For each additional **exploration well commitment**, the licensee will be eligible to apply for a two year extension, subject to the maximum cumulative extension defined in section 4.
- For each additional **exploration well commitment which includes a firm commitment to collect a minimum of 30 metres of whole core from the approved reservoir objective**, the licensee will be eligible to apply for a 3 year extension, subject to the maximum cumulative extension defined in section 4.

The purpose of this policy is to encourage additional exploration of undrilled prospects. Appraisal and production wells therefore do not qualify for licence extension. FIG will define whether a well is considered to be an exploration, appraisal or production well for the purposes of applying this policy. A dual-purpose well which is primarily considered by FIG to be an appraisal or production well is unlikely to be considered acceptable.

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<sup>1</sup> For the purposes of applying the fallow acreage rental fee, "drilling activity" shall be considered to be an exploration, appraisal, or development well that is designed to penetrate to an approved objective at a depth of greater than 1000 metres below sea bed. Shallow boreholes will not be considered.

The Director of Mineral Resources may at his discretion make recommendations for other extensions if significant alternative non-drilling work commitments are proposed by licensees.

#### **4. Maximum cumulative extension**

The maximum cumulative extension permitted by proposing additional work commitments is six years. This is in addition to the three year extension provided for under section 2 giving a maximum possible extension of nine years.

The extension framework is intended to provide an additional opportunity for licensees to carry out thorough exploration of their licence area and the policy intention is not to offer a fixed “credit for work” scheme. Licensees may therefore opt to carry out additional work in the interests of full and proper exploration.

Extensions up to the maximum can be achieved by committing to various combinations of work which attract credit up to or in excess of six years.

Examples of the additional licence validity acquired as a result of submitting additional work commitments might include:

3 x non-cored exploration wells **add 3 x 2 years**

Total credit 6 years

**Total Phase 2 extension 6 years**

1 x non-cored exploration well **add 2 years**

1 x cored exploration well add 3 years

Total credit 5 years

**Total Phase 2 extension 5 years**

2 x non-cored exploration well **add 2 x 2 years**

1 x cored exploration well **add 3 years**

Total credit 7 years

**Maximum allowable 6 years - thus total Phase 2 extension 6 years**

#### **5. Discovery Area extensions**

Licensees who hold Discovery Areas declared under the Offshore Petroleum (Licensing) Regulations 2000 may apply for an extension of the duration of a Discovery Area if they consider that the period provided under Licensing Regulations is inadequate for proper appraisal and development planning.

Applications should be submitted to the Director of Mineral Resources and will be considered on a case by case basis. Licensees may apply to extend a Discovery Area up to six years from the spud date of the discovery well for a non-appraised discovery, or up to ten years for a discovery in which an approved appraisal programme has been completed. The standard Discovery Area fee will remain payable for the duration of any extension granted.

## **6. Discovery Area extensions in deep water**

FIG considers that deep-water hydrocarbon resources are likely to be more challenging to commercialise in the current oil price environment. Accordingly, a separate policy is applied to deep water hydrocarbon discoveries. A 'deep water hydrocarbon discovery' is defined as one where the sea bed location of the discovery well is in water exceeding 1000 metres in depth.

Licensees who hold deep water Discovery Areas declared under the Offshore Petroleum (Licensing) Regulations 2000 may apply for an extension of the duration of a Discovery Area if they consider that the period provided under Licensing Regulations is inadequate for proper appraisal and development planning.

Applications will be considered on a case by case basis, and applicants may apply to extend a Discovery Area up to ten years from the spud date of the discovery well for a non-appraised discovery, or up to fifteen years for a discovery in which an appraisal programme has been completed. The standard Discovery Area fee will remain payable for the duration of any extension granted.

## **7. Production Licences issued under the Offshore Petroleum (Licensing) Regulations 1995**

Licensees holding a Production Licence issued under the 1995 regulations may opt to continue into Phase 3 of their licences with or without extending Phase 2 under the approved framework, but must in all cases

- complete the agreed Phase 2 work programme as set out in their Production Licence, and
- agree and submit a full work programme for Phase 3 of their licence

prior to submitting any application to continue the licence into Phase 3.

## **8. Approval process**

Licensees should note that the proposals contained in this document constitute an approved guidance framework only, to assist licensees in understanding how they may formulate their forward work commitments to benefit from an extended licence period and enable them to assess the results of completing that work.

Individual licence extensions must be applied for in writing via the Department of Mineral Resources and will be considered through the normal processes. The lead time on processing such requests remains typically 8-10 weeks and, on approval, will result in a formal Licence Variation being issued, which will make the amended work commitment, fees, and amended licence term binding on all parties.

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Director of Mineral Resources • Falkland Islands Government  
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