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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

AN EIGHTH ROUND OF OFFSHORE LICENSING

Note by the Central Policy Review Staff

Introduction

1. In his paper (E(82)32) the Secretary of State for Energy sets out his proposals for an Eighth Round of Offshore Licensing. The objectives are to open up exploration in frontier areas of the UKCS; to promote exploration for gas as a logical follow-up to the Oil and Gas (Enterprise) Bill; and, where practical and consistent with other objectives, to secure early revenue through payments for licences.

2. To achieve these objectives it is proposed that 150 blocks are offered in the frontier areas, 45 blocks in the Southern Basin gas province, and 15 blocks in the mature oil province of the central North Sea with the aim of licensing about 85 blocks overall. Closed tender bids are proposed for the mature oil province with normal licensing criteria applying for all other blocks.

Oil Blocks

3. The CPRS supports the principle of an Eighth Round of oil licences at the present time as part of a long-term Government policy for the level of exploration activity and depletion in the North Sea. The issue of licences on a regular basis will help to establish and define the reserve base and will enable the oil companies to develop the North Sea while ensuring best use of expertise and equipment.

4. The CPRS agrees with the Secretary of State for Energy that a regular licensing policy should not be deflected by short-term market fluctuations and it seems to us unlikely that the companies' long-term approach, or therefore their willingness to tender competitively, will be significantly influenced by the current situation of falling prices.

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Gas Blocks

5. Although oil and gas depletion policy should be seen together and the above remarks apply equally to gas, the ending of the BGC monopsony could lead to companies bidding for gas blocks in the South Basin with the express intention of bringing pressure to bear on the Government to allow gas exports to Europe. This potential pressure for clarity on exports policy would put Ministers in a difficult position before they have come to conclusions on exports and is likely to draw attention to the status of the landing requirement.

6. It may therefore be appropriate to defer the licensing of gas blocks until the Working Group on ways of controlling gas exports, recently set up by the Department of Energy, has reported. Among the issues being considered is the possible retention of the landing requirement, and how this could be best defended, while allowing controlled exports through a cross Channel link.

7. One option would be to defer the announcement of the Eighth Round (both oil and gas) for perhaps six months until the Working Group has reported. However, to maintain continuity, the CPRS recommends that the proposals for the oil blocks should proceed, but that in order to satisfy the possible increased interest in gas explorations following the Oil and Gas (Enterprise) Bill there should be an announcement that a gas round will be offered later.

Allocation System

8. On the method of allocation the CPRS is in favour of closed tender bids for all blocks on offer in this Round. Enabling the companies to make bids in the light of their assessment of the prospects and risks would ensure, through market judgements, that the maximum economic rent is derived from any block. It would also maximise the front-end gain to the PSBR. The CPRS does not believe that cash bidding will seriously deter company interest in any of the blocks on offer; any company can reflect their assessment in a low bid if appropriate.

9. Closed tender bidding would enable sufficient discretion and flexibility to be retained on such aspects as the adequacy of work programmes and technical and financial soundness.

Future Rounds

10. In planning future rounds consideration should be given to allowing two summer seasons between the announcement and submission of applications.

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This would help the companies in forward planning and provide an opportunity for assessing block prospects in greater detail to the benefit of a cash bidding allocation system.

Recommendation

11. The CPRS recommends:

- (i) that the proposals for oil blocks proceed;
- (ii) that the proposals for gas blocks are deferred until the Working Group on gas exports has reported, but that an announcement is made that a gas round is planned;
- (iii) that closed cash tenders be invited for all blocks;
- (iv) that consideration is given to allowing two summer seasons between the dates of announcement and submission of applications for future Rounds.

Cabinet Office
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