

Legal framework and financial terms

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Headlines

- Legal framework for granting and administration of licences
- Amended framework for 3rd party access – relevant if discovery
- Financial terms (Tax, application fees,

Legal framework – the Acts

- Act on the Use of the Danish Subsoil with associated executive orders and guidelines
- Act on the Establishment and Use of a Pipeline for Transport of Crude Oil and Condensate
- Act on Environmental Impact Assessment of plans, programmes and specific projects
- Act on the Continental Shelf

Legal framework – granting of licences

- Minister for Energy, Utilities and Climate grants licences for exploration and production according to section 5 in the Danish Subsoil Act (DSA). Licences will be granted after being submitted to the Energy, Utilities and Climate committee, cf. section 6 in DSA.
- Licences are subject to specific terms and conditions (model licence)
- Exclusive right on the holder to explore for and to produce one or more raw materials within a defined area (possibly also delineated in depth)

Legal framework – conditions

- Standard conditions (model licence) updated compared to 7th Round
- Specific E&P activities to be approved, e.g.:
 - Seismic surveys, site surveys
 - Drilling operations
 - Development plans

Legal framework – licence term

- Hydrocarbon exploration and production licences granted for 6 years. Possible extension up to 4 years at a time – usually max. 10 years in total (§ 13(1) DSA).
- Provided fulfilment of following conditions – If discovery, licensee is entitled to a licence extension up to 30 years with a view to production. (§ 13(2) DSA):
 - Appraisal programme max. 6 month after discovery (§ 4(2) model licence)
 - Commerciality declaration (§ 5(3) model licence / §13(3) DSA)
 - Development plan (§ 6(1) model licence / § 10(2) DSA)

Legal framework - selection criteria

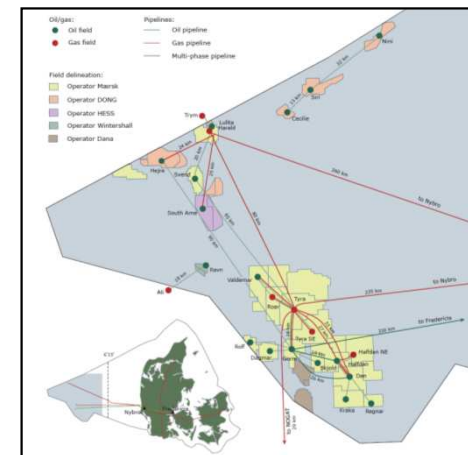
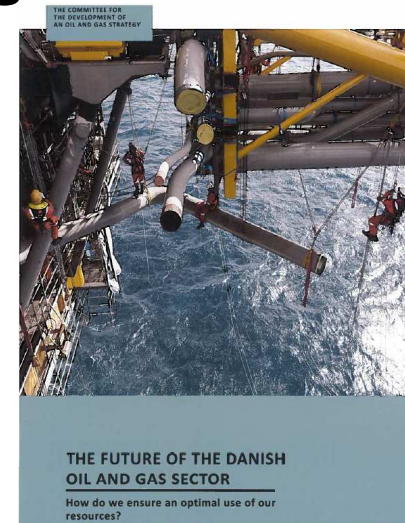
- Precondition that the applicant has the necessary technical and financial capacity (OSD implemented in DSA 12 a, 1, cf. section 24 a-f).
 - => See also guidelines for technical capacity and guidelines for security and insurances.
- Selection based on the quality and scope of the proposed work program (§ 12 a(1) DSA).
- If similar applications (based on the selection criteria)
 - => Selection of applicants based on additional share offered to NSF at no costs (20 % - 40%) in case of commercial discovery (§ 12a(3) DSA).

Legal framework - selection of operator

- The Danish Energy Agency appoints an operator on the basis of recommendation from the group of applicants after consulting the Danish Working Environment Authority, WEA (12 a, 6 and 24 d, 1 DSA and 5,2 Offshore Safety Act).

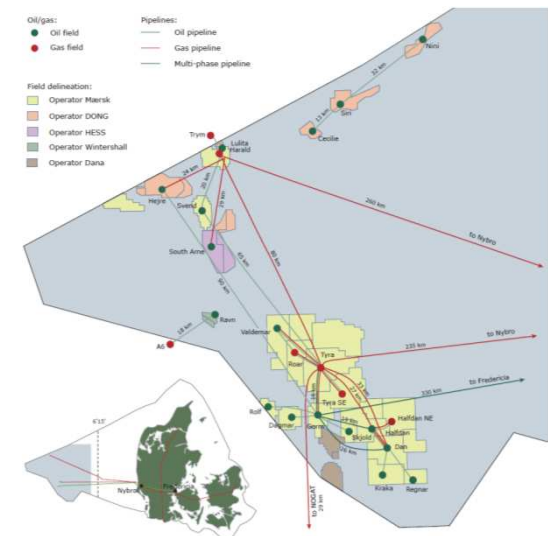
Legal framework – 3rd party access

- New strategy for the oil- and gas sector in Denmark (North Sea strategy) presented by the government in July 2017. Strategy developed in cooperation between the industry, GEUS and the DEA.
- The publication includes an analysis of the potential in the Danish Offshore sector and a number of recommendations – including recommendations regarding 3rd party access.



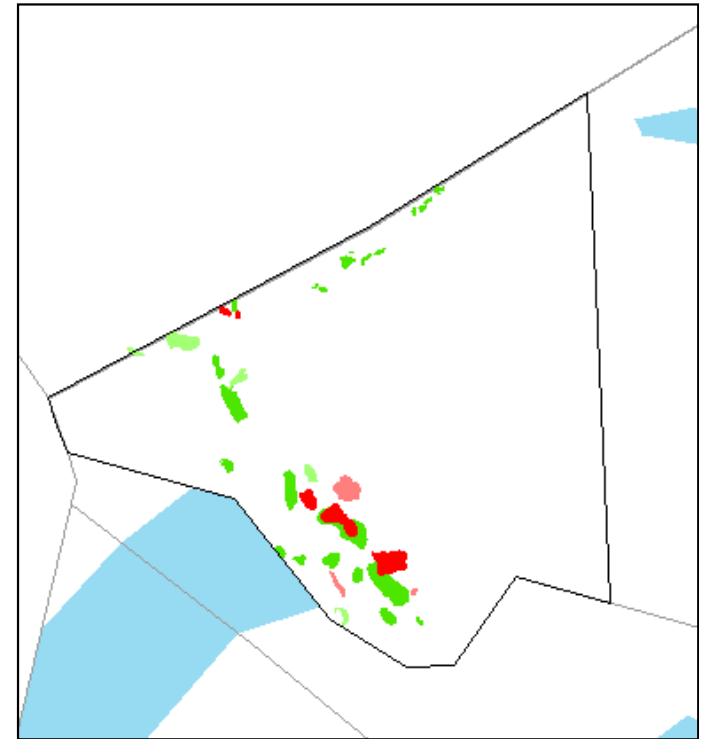
Legal framework – 3rd party access

- Conclusion - mature area, small discoveries most likely. 90 pct. of potential volume within 25 km distance from existing infrastructure.
 - =>Third party access essential
- Amendments of the DSA end 2017 facilitating 3rd party access to infrastructure (§10(5- 6), §15 a, §§16 and 16 a):
 - Active government role (i.e. conditions)
 - Simple and transparent 3rd party agreements to existing infrastructure
 - Economic incentives for infrastructure owner and licensee to discovery.



Legal framework – Environmental issues

- DEA relevant environmental authority (EIA Directive, EU nature legislation {Birds Directive and Habitats Directive (annex IV species)}) . Directives implemented in Danish legislation – consultation of other relevant authorities
- Strategic environmental assessment has been performed already before 7th licensing round. This assessment is also valid for 8th licensing round.



Legal framework – Environmental issues

- Environmental Impact Assessment (EIA) directive – all activities need to be evaluated before granting of DEA approval.
- Mandatory EIA: Annex I projects with significant effect on environment.
- Screening procedure: Annex II projects (not covered in Annex I). See Annex III criteria.
- => Seismic: Impact assessment + mitigation measures (i.e. **Birds Directive** and **Habitats Directive** (annex IV species))
- => Exploration drilling: Typically **EIA screening**
- => Development: Full **EIA procedure**



Financial terms - Tax regime

- 25% corporate tax (including additional corporate tax), which is deductible from the basis for assessing hydrocarbon tax
- 52% hydrocarbon tax.
- In determining the basis for assessing hydrocarbon tax, a 5% hydrocarbon allowance is granted on investments for 6 years (a total of 30%).
- Investment window 2017-2025. See: <http://www.skm.dk/skattetal/satser/satser-og-beloebsgraenser/kulbrinteskatteloven>

Financial terms – Fees and other costs

- Application fee of DKK 25,000
- Upon the issuance of the licence, an additional fee of DKK 100,000 is to be paid for the consortium as a whole.
- Nordsøfonden participates with 20 percent. (§ 8 in DSA)

Financial terms – Fees and other costs

- No royalties
- No area rentals
- No oil pipeline tariff or compensatory fee
- Reimbursement relative to the DEA case handling of approvals and supervision

Other – Access to relevant material

- <https://ens.dk/en/our-responsibilities/oil-gas/legislation-and-guidelines>

Questions?