

UNOFFICIAL TRANSLATION

13 January 2014
File No.1001/1814-0001
Ref. Id/sbo/ksc
Energy Resources

7th Licensing Round (hydrocarbons)

Statement from the Minister for Climate, Energy and Building to the Climate, Energy and Building Committee of the Danish Parliament pursuant to section 12(2) of the Danish Subsoil Act

This statement is made pursuant to section 12(2) of the Danish Subsoil Act, which provides that prior to inviting applications for hydrocarbon exploration and production licences, the Minister for Climate, Energy and Building is to submit a statement to the Climate, Energy and Building Committee of the Danish Parliament setting out the areas to be offered for licensing, as well as the general terms applicable to the awarding of licences.

Background and status

Since 1981, six licensing rounds have been held in Denmark. The first three licensing rounds comprised all unlicensed areas in Danish territory.

The three most recent licensing rounds - the 4th Round in 1995, the 5th in 1998 and the 6th in 2006 - comprised the Central Graben with adjoining areas only, i.e. the area west of 6°15' eastern longitude.

Since 1997, the so-called Open Door procedure has comprised the remaining part of the Danish area east of 6°15' eastern longitude, i.e. the eastern part of the North Sea, inner Danish waters and onshore areas. In the Open Door area, oil companies may continually apply for and be granted licences.

In the period since the 6th Licensing Round in 2006, a neighbouring block licence was granted in 2009 and another licence was granted in 2012, the result of a so-called mini licensing round held on the basis of an uninvited application. Since then no licences have been granted for hydrocarbon exploration and production in the Central Graben with adjoining areas.

The work programmes drawn up under the licences awarded in the 6th Round involved quite stable exploration activity, which has virtually ceased now that the obligatory parts of the work programmes have been fulfilled for nearly all licences.

Half of the 14 licences granted in the 6th Licensing Round have been relinquished by the licensees after their completion of initial exploration work. Under the remaining 6th Round licences, the licensees are continuing to assess the commerciality of the hydrocarbon discoveries made and to conduct follow-up exploration work.

To date, ten exploration and appraisal wells have been drilled under the 6th Round licences. The licensees have drilled some of these wells in a joint venture with companies holding licences granted prior to the 6th Round. Eight of the wells drilled encountered hydrocarbons. The licensees are still appraising several of the discoveries in order to determine whether the discoveries can be exploited commercially.

Background for the new licensing round

The main objective of future exploration for oil and natural gas is to organize exploration activity in a way that enables finding the maximum possible amount of the oil and natural gas in place in the Danish subsoil. This will open up a possibility for prolonging the period for which Denmark is a net exporter of oil and natural gas, in whole or in part. This is in keeping with the decision made by the Danish Parliament in connection with the interpellation debate on 23 February 2012, when the Parliament decided that “Denmark’s oil and gas resources are to be utilized for the greatest possible benefit of the Danish society and economy”.

In order to uphold the continuity of exploration activity in the years to come and thus preserve and further develop the knowledge and expertise the oil companies have accumulated concerning the Danish subsoil, it will be appropriate to open a 7th Licensing Round for the Central Graben with adjoining areas as soon as possible. Against this background, an environmental assessment of a plan that also includes the 7th Round was initiated in 2011; see the section *Environmental issues*.

To this must be added that the experience of recent years shows that most potential discoveries will consist of small fields that are assumed to be profitable only if exploited in conjunction with the existing processing and pipeline facilities. Against this background, it is expedient to hold a 7th Licensing Round now, and thus allow the possibility of using the existing infrastructure in connection with new discoveries, to the extent considered desirable. This will ensure that the existing installations and pipelines can be used for an extended period.

As the Central Graben with adjoining areas is still likely to hold attractive potential, there may be competition for licences covering certain parts of the area offered for licensing. Consequently, it is considered appropriate to uphold the licensing round procedure for this area.

The deliberations regarding the various options for holding the 7th Licensing Round also included reflections about the future licensing of areas - after the 7th Round. These reflections were based on the fact that the licensing round area in the Danish part of the North Sea is a so-called mature area with a well-developed infrastructure. The DEA believes that in future it would be expedient to publicly invite applications for the whole area west of 6°15' eastern longitude at fairly regular intervals, as this licensing procedure would give companies more predictability about when they can apply for unlicensed areas. In the DEA’s opinion, holding licensing rounds at about one-year intervals would be appropriate. In this connection it should

be noted that Norway grants new licences for the Norwegian part of the North Sea once a year, thus creating a certain degree of synergy because companies could make overall assessments and preparations for licensing rounds in Denmark as well as Norway.

Area offered for licensing

The area offered for licensing in the 4th, 5th and 6th Rounds was delimited on the basis of an assessment of the potential spatial distribution of hydrocarbons generated in the Central Graben. As this assessment remains unchanged, the same area will be offered for licensing in the 7th Licensing Round. Against this background, applications are invited for all unlicensed areas in the Central Graben with adjoining areas. The Central Graben with adjoining areas comprises the territory west of 6° 15' eastern longitude; see Appendix 1 (map).

At present the unlicensed area covers 16,115 km² out of the total area of 19,744 km², corresponding to 82 %. The comparable percentages were 79 %, 64 % and 73 % in the 4th, 5th and 6th Licensing Rounds.

A number of accumulations have been delineated in terms of area as well as depth, viz. the Amalie, Lulita, South Arne, Nini, Siri, Hejre and Cecilie/Connie accumulations. Moreover, the eastern part of licence 4/98 has been delineated in terms of depth. Therefore, besides applying for the open, unlicensed areas, oil companies can also apply for exploration and production licences covering the deeper-lying layers under the licences thus delineated, as was also the case in the 6th Licensing Round.

Applications may also be submitted for any areas relinquished during the period prior to the application deadline. A map of the licence area will regularly be updated at the DEA's website.

Terms applicable to the 7th Licensing Round

Compared to the other North Sea countries, the Danish area is overall considered to be as geologically competitive as it was in the 6th Licensing Round. The financial terms for the 7th Licensing Round were comprised by the terms of reference for "overhaul of the terms and conditions for oil and gas production". As a result of the overhaul, it was recommended that the financial terms for the 7th Licensing Round should be based on the terms applied in the 6th Licensing Round. This recommendation has been met, for which reason the 7th Round licences will be covered by the tax rules applicable to new licences since 1 January 2004, which correspond to the rules for A. P. Møller's extended Sole Concession from 1962.

Consequently, the following taxes will be payable for licences granted in the 7th Licensing Round:

- 25 % corporate income 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 for investments over 6 years (a total of 30 %).

In addition, as in the most recent rounds, it is a condition that the Danish state is granted a 20 % share of all licences ("state participation"). All expenses attributable to this share will be

paid by the state. The Danish North Sea Fund will participate in the 7th Round licences on behalf of the state.

A standard licence, termed the Model Licence, has been prepared and will be used in the 7th Licensing Round (Appendix 2). Compared to the most recent licensing rounds, the changes made to the Model Licence will only consist of the minor technical revisions required to adapt it to the 7th Round. Similar changes will be made to the Model Licence used under the Open Door procedure.

Payment

To cover administrative costs, a DKK 25,000 fee is payable per application submitted, regardless of whether a licence is awarded. As in the most recent licensing rounds, an additional fee of DKK 100,000 is payable upon the issuance of a licence.

Environmental issues

Plans and programmes prepared by central government authorities and determining the framework for future installations or area uses are covered by the Act on Environmental Assessment of Plans and Programmes (Consolidated Act No. 939 of 3 July 2013), and an environmental assessment has therefore been carried out (Appendix 3). The aim of the environmental assessment is to identify, describe and assess the probable significant impacts of the plan on the environment.

The 7th Licensing Round is part of a plan covering new offers for licences in the area west of 6°15' E for the purpose of oil and gas exploration and production, as well as separate licensing rounds for the possible issuance of permits for injection of CO₂ (to enhance oil recovery) in existing oil fields west of 6°15' E. Licensing rounds for permits for injection of CO₂ in existing oil fields, aimed at increasing the recovery factor, are not expected to be opened until companies have specifically expressed an interest in CO₂ injection by presenting projects that are commercially viable.

The environmental assessment of the plan was subjected to public consultation in July 2012, including among relevant Danish public authorities and public authorities etc. in Norway, Germany, the Netherlands and Great Britain. Consultation responses were subsequently submitted to the DEA, which has considered the responses.

The recurrent themes of the consultation responses are a general aversion to further oil and gas activities, the environmental aspects of noise-generating activities (work connected with drilling and seismic surveys) in relation to marine mammals, an aversion to CO₂ injection and the consequences of CO₂ injection, a fear of major accidents, and possible impacts on the German habitat "Dogger Bank" where porpoises, among other species, are protected.

Based on the environmental assessment and consultation responses received during the public comment period, a summary report (Appendix 4) has been prepared.

Among other things, it appears from the summary report how the plan for the licensing rounds has made allowance for the outcome of the consultation and which initiatives are to be made as a consequence of the environmental assessment process connected with future licensing

rounds, including the 7th Licensing Round. The integration of environmental considerations and measures appears from section 3.1 and table 3.1 in the summary report (Appendix 4).

A preliminary assessment has also been made to determine whether to perform a nature impact assessment, see the Habitats Directive (Appendix 5), and it was concluded that this is not the case. However, a nature impact assessment may have to be performed for specific projects.

As for previous licensing rounds and the subsequent issuance of licences, the procedures established for involving the relevant authorities/organizations in protecting environmental, nature, raw material and fishing interests will be maintained in connection with exploration and production of oil and gas, the aim being to minimize any risk to and interference with the environment. Moreover, before licences are granted for oil and gas production projects assumed to significantly affect the environment, an assessment will be made in accordance with the provisions of the Subsoil Act regarding environmental impact assessments (EIA procedure).

Licensing procedure

The licensing procedure used in the 4th - 6th Licensing Rounds will also apply to the 7th Licensing Round. This procedure is flexible and means that groups of companies as well as individual companies may submit applications for licences. Moreover, applications may be submitted for licence shares of less than 80 % (100 % when including state participation). If applications for shares in licences add up to more than 80 %, it will be assessed, based on the applicants' qualifications and the work programmes offered, whether the shares applied for can be adjusted, so that all applicants obtain a licence share. Likewise, should applications be submitted for shares that add up to less than 80 % of a given block, it will be investigated whether the applicants are prepared to increase their shares, so that all the shares of a licence may be allocated in full. The aim of this licensing procedure is to help increase the number of applicants, and thus the level of investments in exploration in the licensing round.

As in previous licensing rounds, the operatorship must be applied for specifically. Applications from groups of companies must state which company is to undertake the operatorship. Likewise, individual companies submitting applications should indicate any wishes with regard to operatorship. If the companies applying for a licence disagree about the appointment of operator, the Minister for Climate, Energy and Building may appoint the operator on the basis of the applicants' qualifications; see section 12a(6) of the Subsoil Act.

Selection criteria and choosing between several applicants

The applicants will be assessed and selected according to the above-mentioned, previously used criteria, which appear from section 12a(1), see section 5(3), of the Subsoil Act, and which concern the applicant's technical competence and financial capability, as well as the quality and scope of the work programme offered. The scope and quality of the work programme, assessed on the basis of the need to explore the hydrocarbon potential and the approach to exploitation of any discoveries already existing in the area applied for, will be important criteria, and the applicants will be asked to describe what they consider a complete work programme for the area, and which works they intend to carry out on this basis.

When considering applications for licences, the Minister for Climate, Energy and Building will also attach weight to the ways in which applicants have conducted their activities under corresponding licences; see section 12a(4) of the Subsoil Act.

Moreover, the Minister for Climate, Energy and Building may refrain from granting licences on the basis of the applications received in connection with the licensing round; see section 12(3) of the Subsoil Act.

Competing applications

If there is more than one qualified applicant for an area and the work programmes offered are considered to be of equal merit, the final selection between these applicants will be made on the basis of a supplementary offer made by the applicants regarding the size of the share to be offered to the Danish North Sea Fund over and above the obligatory 20 %; see section 12a(3) of the Subsoil Act. However, the Danish North Sea Fund's total licence share cannot exceed 40 %.

The supplementary offer must indicate the size of the increased share offered to the Danish North Sea Fund if discoveries are made under the licence. If discoveries are made under the licence, the Danish North Sea Fund will thus be entitled, free of charge, to increase its share up to the size of the highest supplementary offer. The transfer of an increased share to the Danish North Sea Fund will take place effective from the date when the field is declared commercial. If the field is not declared commercial in advance, the transfer will become effective from the date a development plan is submitted to the DEA. The Danish North Sea Fund's decision to exercise the right to increase its share must be made no later than the date on which the field is declared commercial or the date on which a development plan for the field is submitted.

As concerns its increased share, the Danish North Sea Fund will not have to contribute to licence costs already defrayed. Thus, the Danish North Sea Fund will have to contribute financially for its total share (the obligatory share of 20 % and the increased share) as from the date when the increased share is transferred.

The relevant applicants for the areas in question will be asked, should the occasion arise, to submit an offer, within a certain time limit, for the percentage up to which the Danish North Sea Fund may increase its licence share. The applicant offering the highest share to the Danish North Sea Fund will receive an offer from the DEA for issuance of the licence.

Size of licence areas

The intention is to carry on the practice used to date. This means that the individual licences will cover an area limited to 1-2 blocks, except in special circumstances. The division into blocks appears from Appendix 1.

Time schedule

Once this statement has been considered by the Climate, Energy and Building Committee of the Danish Parliament, the DEA will, in pursuance of section 12(1)(a) and section 12a(7) of the Subsoil Act, invite applications by publishing a notice in the Danish Official Gazette and the EU Official Journal at least 90 days before the deadline for applications. The intention is to fix the closing date for applications at 1 August 2014, depending on the time of publication,

so that applicants are given about five months at least to prepare an application. Licences in the 7th Round are then expected to be awarded at the end of 2014 - the beginning of 2015.

Before new licences are issued, a statement describing the licences to be awarded will be submitted to the Committee; see section 6(1) of the Subsoil Act. As before, the intention is to discuss the geological basis for applications received with the Geological Survey of Denmark and Greenland (GEUS) before any position is taken on issuing licences. Moreover, the Danish North Sea Fund will be consulted.

Confidentiality

Under section 12(2) of the Subsoil Act, members of the Climate, Energy and Building Committee and any other parties attending its discussions about this statement are under an obligation not to disclose any information that comes to their knowledge in the Committee regarding the terms and conditions on which licences are to be granted according to the procedure set out in section 12(1)(a) until the date when the invitation for applications is published.

Appendices

- Appendix 1 Map appendix to section 12(2) statement regarding the 7th Licensing Round
- Appendix 2 Model Licence
- Appendix 3 Environmental assessment
- Appendix 4 Summary report
- Appendix 5 Preliminary nature impact assessment