Introduction to different licensing systems

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Different systems for award (licensing systems)

• Discretionary system

• Auctioning system
Discretionary system

- Based on applications the authority decides who to award the license to (at discretion of the authorities)
- Probably the most common award process
- May have many different forms
- Potential for government control
- Many different aspects can be included in the award decisions

Discretionary system

- Main problem: Not transparent
- Important to have announced and non-discriminating award criteria
- Guidelines
- Should have a system with feedback after an award process
Possible award criteria

Within the framework of good resource management:

- Geological understanding
- Relevant technical expertise
- Financial capacity
- Experience in the area
- Authority experience regarding the applicant’s activities
- Work program offered
- Local content
- Government take parameters
- Other?

Auctioning systems

- Cash bid
  - US
- Work program bid
  - Australia?
- Bid on Government take
- Many possibilities
Auctioning process

• Sealed bid – Opened publicly – Highest bidder wins (US)

• A real auction with increasing bid

Auctioning system (Cash bid)

• Transparent way of award

• Based on economic theory that the one that is willing to pay the most is best suited for the job
  – Problems relating to information etc?

• Government guaranteed income
  – A central part of the total Government take?

• The winners curse

• Upfront payment effect on exploration/field economics?
Auctioning system (work program bid)

- Transparent

- Is the most money spent on exploration the best way of exploring an area?

- Overinvestment in exploration?

- Exploration costs should not be tax-deductable

The NCS
Opening

- Impact assessment studies
- Public hearing
- The Cabinet’s recommendation
- The decision of Stortinget

Nomination

- Invitation to the companies to recommend blocks to be included in the licensing round
- Companies can nominate maximum 15 blocks
- The nominated blocks ranked as “interesting” or “very interesting”
Preparation for announcement

• The MPE puts forward a suggestion for blocks to be included in the round:
  – The suggestion is based on the industry’s nominations and the authorities own geological evaluations

• MPE’s suggestion for announcement is put forward to the Ministry of Environment and the Ministry of Fishery and Costal Affairs.

• The Cabinet makes the final decision on announcement

Announcement

• Invitation to apply for production licenses
• Requirements to an applicant
• Specified blocks
• Conditions for award
• Award criteria
• Contents of the application
• Application deadline
• Practical information
Application

- Name, address, nationality
- The blocks applied for
- Geological evaluation
- Prospect economic evaluation
- Company related matters
- Technical expertise
- Safety and work environment

Negotiations

- Between The Ministry of Petroleum and Energy and the oil companies
- Negotiation issues
  - Geographical extent of the production license
  - Operatorship and participating interest
  - Work obligation
  - Duration of the production license
  - Relinquishment of acreage
Award - criteria

Factual and objective criteria which secure the best possible resource management:

- Geological understanding
- Relevant technical expertise
- Sufficient financial capacity
- The applicant’s plan for exploration and production in the relevant area
- The applicant’s experience on the NCS or equivalent experience from other areas
- The authorities’ experience regarding the applicant’s activities

Production licence - characteristics of the system

- Exclusive right to explore for and produce petroleum in a defined area (efficiency through competition in the award phase) for a defined time period
- Joint venture between companies - pooling of resources, capital, competence, research, plurality of ideas and internal checks and balances
- Risk, cost and profit shared between the licensees (including the State) in accordance with their participating interest in the joint venture
- Title to petroleum produced - incentives for industry to make a "bigger cake"
- State participation
The maps show licenced acreage and announced blocks as of the 31st of January 2005. These areas can change through the application period. The NPD’s interactive Factmaps (NPD’s homepage) contain daily updated information showing the current areas available for application.