

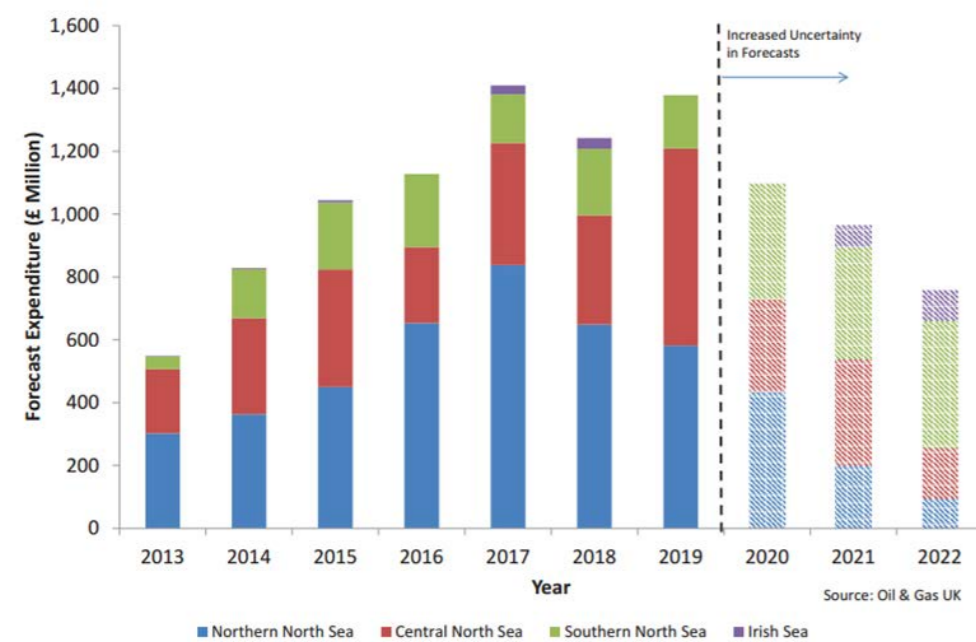
Decommissioning Relief Deeds and their impact on the UK oil and gas industry

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INTRODUCTION

- UKCS characteristics of mature province: declining production and average new field size, increase in operating costs and number of fields approaching the end of economic life.
- The cost of decommissioning projects in the North Sea over the next 30 years to exceed £30bn



- Problem of uncertainty over tax relief for decommissioning expenditure addressed in 2013 Finance Act.
- Decommissioning Relief Deeds: the Government provides tax relief for decommissioning costs at a total rate of 75% or 50% at the point that those costs are incurred.

METHODOLOGY

Financial Model captures returns to Investment in fields of three various sizes in UKCS with and without Decommissioning Relief Deeds.

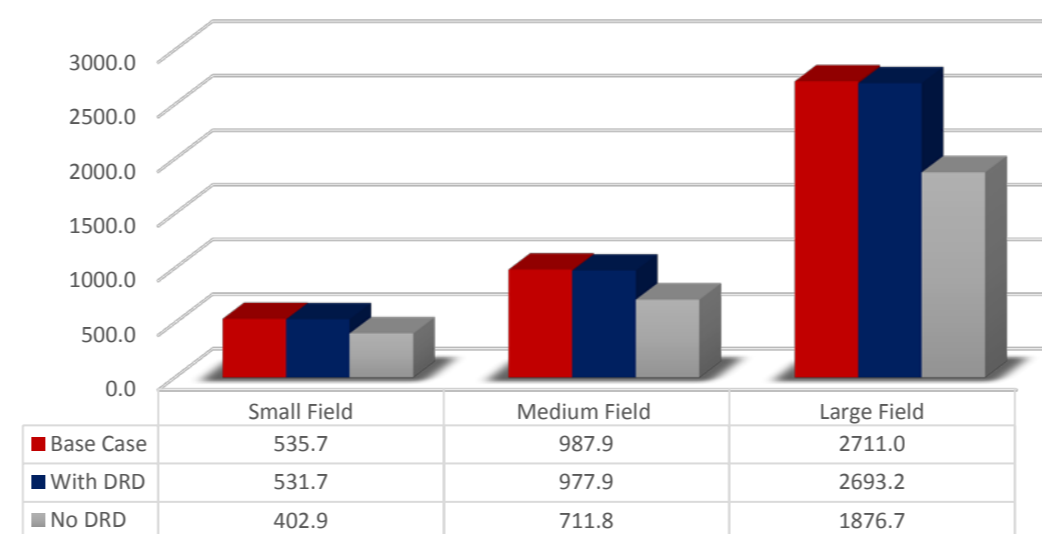
Model Evaluation via :

- Net Present Value (NPV)
- Payback
- Sensitivity Analysis & Monte-Carlo Simulation

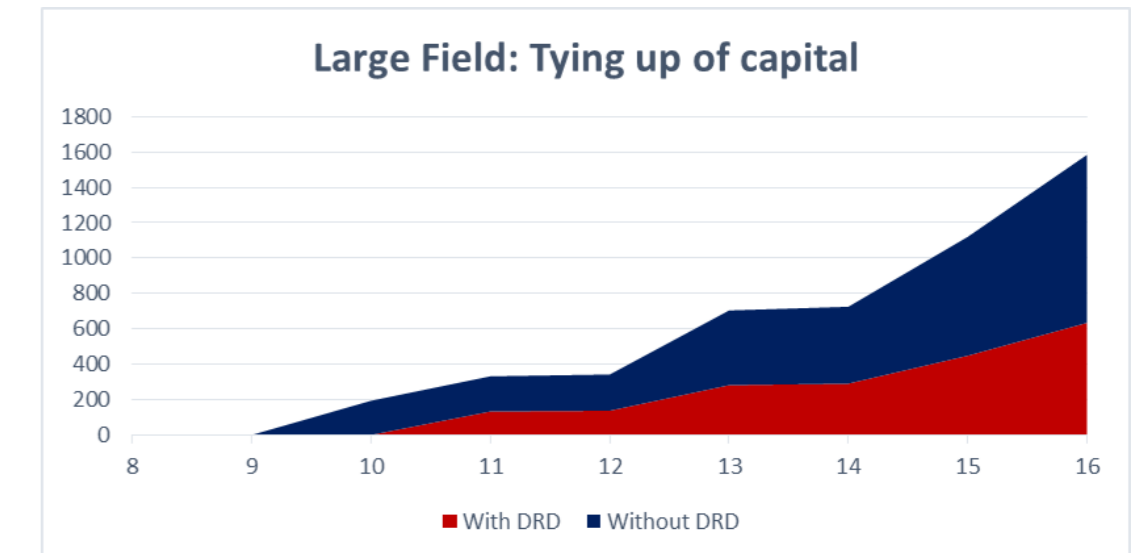
RESULTS

- With increased certainty, smaller probability of loss, higher returns to investors and government.

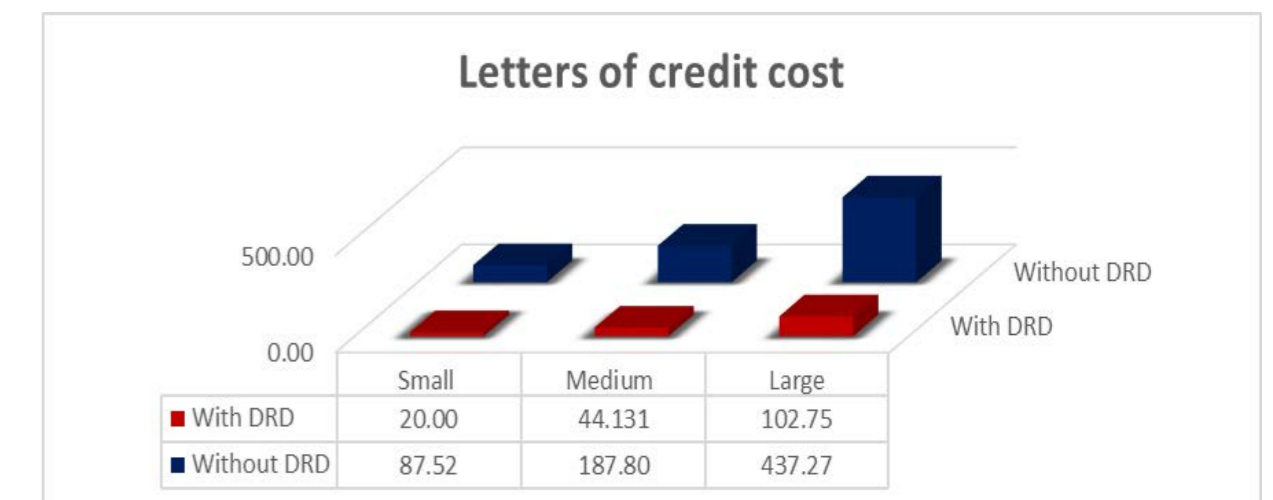
Post Tax NPV



- Improved debt capacity and availability of capital for incremental project and new investments.



- Diminished cost of providing financial security in the form of letters of credit.



CONCLUSIONS

- Small companies benefit in particular.
- Less capital held up as guarantee for financial security, higher returns to investor.
- Facilitated trade of mature assets.
- Long-term planning enabled.
- Remaining Issues:
 - increased competition of UKCS with other regions such as Brazil;
 - decommissioning costs artificially underestimated.