



Oil & Gas  
Authority

**Oil & Gas Authority**

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29 March 2018

Stephen Sanderson  
HORSE HILL DEVELOPMENTS LTD  
c/o UK Oil and Gas Investments Plc

[REDACTED]  
[REDACTED]  
[REDACTED]

**Re: HHDC**

Dear Stephen,

Thank you for your letter of **28 February 2018** where you set out your views on the future licence structure and governance of PEDL 137 and PEDL 245 approaching a prolonged operational phase.

As the OGA has indicated in previous correspondence on this matter, it is important that Horse Hill Developments Ltd (**HHDL**) can demonstrate that its operational, governance and financial arrangements are appropriate.

The implication of this is that the operations that you currently propose would be conducted by HHDL in the capacity of operator for and on behalf of the licensees (HHDL and Magellan Petroleum (UK) Limited (**Magellan**)) under a joint operating agreement (**JOA**) between HHDL and Magellan.

### **Operatorship**

Prior to operations commencing, the Oil and Gas Authority (**OGA**) is required to assess the capability and competence of the operator in line with our guidance.

As you note, the well's initial flow test was conducted under an organisation headed by HHDL and comprising staff seconded from UK Oil & Gas Investments PLC (**UKOG**) and a number of contractors.

Shortly after that initial flow test, the OGA wrote to you (**30 March 2016**) indicating that, for the expanded operations of an extended well test, the OGA would like to discuss with HHDL plans for the future structure and operational capability of the licence group (i.e. HHDL and Magellan).

The OGA specified at that time that the aspects the OGA was interested in were:

- a) the in-house (i.e. HHDL) technical capability to monitor and perform the extended testing and production activities;
- b) the governance and corporate structure of HHDL;
- c) the joint venture arrangements;
- d) the arrangements for the expanded operations including responses to unexpected events; and,
- e) the extensive stakeholder engagement likely to be required.

These matters are reflected in *section B6 of our Consolidated Onshore Guidance*<sup>1</sup> which provides the criteria that the OGA considers when examining operatorship.

In essence, these criteria take into account HHDL's technical experience and capacity to supervise, manage and undertake the proposed operations, its risk assessment and hierarchy of decision making, and plans for public engagement.

Please note that the guidance contemplates the use of contractors but stresses that operators must retain overall responsibility and cannot subcontract their licence responsibilities and obligations. It is against these criteria that we will assess HHDL's capacity.

Therefore, the OGA requests that HHDL provides the OGA with the following information by **5 p.m., 26 April 2018**:

### **Operational**

**Question 1:** Please provide HHDL's:

- in house technical capability to organise, monitor and perform the extended testing and production activities;
- corporate and governance structure for the expanded operations; and,
- arrangements to respond to unexpected events and the extensive stakeholder engagement likely to be required.

**Question 2:** Given HHDL's intention to rely heavily upon the technical expertise of one of its shareholders (UKOG), please supply the details of the contractual relationship between HHDL and UKOG including the rights and responsibilities of the parties, the arrangement of liabilities, dispute resolution and emergency response.

**Question 3:** Given that you are the Chair of both HHDL and UKOG, and have duties to both, please detail the arrangements in place to avoid a conflict of interest, particularly when dealing with unplanned events.

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<sup>1</sup> [https://www.ogauthority.co.uk/media/4622/160218\\_consolidated-onshore-guidance-compendium\\_vfinal.pdf](https://www.ogauthority.co.uk/media/4622/160218_consolidated-onshore-guidance-compendium_vfinal.pdf)

## **Financial**

The guidance also sets out the financial criteria that Licensees must meet to demonstrate that they have the financial capacity to undertake operations under the licence. Your letter indicates that HHDL does not anticipate and any issues in demonstrating financial capacity. Therefore:

**Question 4:** Please provide HHDL's:

- gross EWT costs including potential well abandonment and site restoration;
- how the EWT costs will be funded;
- how those funds will be secured for use by HHDL (for example a Deed of Guarantee from UKOG, as primary shareholder of HHDL, in the prescribed format to cover the Horse Hill licences); and,
- the executed cost carry agreement between HHDL and Magellan

**Question 5:** I note that you consider that Magellan has recourse to the financial capacity of its parent, **Tellurian Inc.**

Please include the documentation that demonstrates this facility and its security in the information passed to the OGA (e.g. by means of a parent company guarantee).

*Please note that having considered the information above, the OGA may wish to discuss with you a mechanism that ensures funding for final abandonment for the (success) case where the well continues to be suspended following the test.*

## **Other matters**

You note that HHDL does not consider that the request for EWT consent by OGA constitutes a request for production approval nor that an EWT in this case constitutes production. Your view is informed by your understanding of planning and Stock Exchange considerations relating to production.

From the perspective of the OGA's statutory licence regime, if the OGA were to agree to HHDL's proposals for the EWT, the OGA would issue an approval under model clause 13 of your licence to "get" petroleum; model clause 13 is under a heading "*Development and production programmes*" and your EWT proposals are considered a programme for the purposes of that model clause. Our guidance (see note 1 above) sets out our views of an EWT and indicates its relationship to exploration, appraisal and development.

## **Change of Control**

Finally, I note that OGUK currently has a 49.9%<sup>2</sup> shareholding in HHDL, having held a 30%<sup>3</sup> direct interest when Horse Hill-1 was drilled, and draw your attention to the provisions of model clause 36(3) of the underlying licences as, *prima facie*, there appears to have been a change of control of HHDL. I would be grateful if you would confirm that our understanding is correct so that we may properly consider our response under that model clause.

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<sup>2</sup> RNS Number: 9715G, 07 March 2018

<sup>3</sup> RNS Number: 0849X, 26 August 2015

I look forward to your response on these matters.

Yours sincerely,



Tom Wheeler  
Director of Regulation