HMRC - OT18270 - Re-Determinations - Unitisation Agreements

As part of the legal framework to enable this to be done a unitisation agreement is drawn up in addition to the field operating agreement. Unitisations do not normally take place until each party has fully explored and appraised that part of the field which lies in his block i.e. normally at about the time the Annexe B (application to the Department of Energy & Climate Change for approval of the field development) is submitted.

Under the unitisation agreement the licensees/participators in both blocks agree to commute their share of the production from that part of the field extending into their own block for a smaller share in the total production from both blocks. This overall share is calculated so as to give each participator the same estimated quantities of oil as if he had produced on his own from his own block and each participator’s economic interest thus remains substantially what it was before unitisation took place. These production shares are calculated initially on the basis of the proven recoverable reserves of each block as at the date of the unitisation agreement.

Example

If A has a 20% interest in licence area 1 in which a field extends into area 2 (where A has no interest) and the recoverable reserves of 1 are 300mbls and of 2 are 200mbls, A would be entitled to a 12% interest (20% x 300/(300+200)) in the unitised field. A’s share of the reserves of the unitised field would then be 12% x 500 = 60mbls, equal to its share of the reserves of licence area 1 (ie 20% x 300 = 60mbls.)

As field life progresses and production experience is gained the reserves need to be re- evaluated in the light of changes in flow rate, high water cut ratios etc. Such a re-appraisal often leads the parties to conclude that the recoverable reserves in one or perhaps both of the blocks are not as was originally calculated. Adjustments are therefore required to each participator’s equity interest in the field retroactive to the date of the unitisation. The adjustments arising from this re-determination, though occasionally achieved by make up oil, are normally settled by cash payments often involving interest.

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