

E&P investment climate in the Netherlands

The Netherlands has a longstanding, encouraging and supporting E&P investment climate history. It started with the "small fields policy" encouraging the development of all discovered "small" fields by guaranteed offtake of the gas produced. Additionally, the Dutch government participates for 40% in exploration and production of gas fields through its investment agency EBN. The most recent incentives are the measures for marginal fields and fallow acreage.

Tax relief for marginal gas fields and prospects

A prospect or gas field that meets specific criteria (see below) is entitled to 25% investment allowance.

A marginal gas field or prospect is defined as a (potentially) gas bearing structure in the subsurface for which a combination of three parameters: Volume, Productivity and distance results in an above or below a threshold value. The threshold value can be visualized as a plane in three-dimensional space (figure on the right). Fields and prospects plotting below this plane qualify for the measure.

Definition of threshold plane

$$Q_{\text{threshold}} = 1.2 \cdot \text{Volume}^{0.66} \cdot \text{Distance}^{0.15}$$

Parameter definitions

- 1) Volume (bcm): Technically recoverable volume according to envisaged development plan (relates to GHP connected to wells).
- 2) Initial productivity (MMm³/day) of a vertical unstimulated well against envisaged pipeline pressure.
- 3) Distance (km): closest location to which the field or prospect can be hooked on with respect to ullage, capacity, gas composition.

Fallow acreage declaration

The "covenant for the stimulation of exploration and development of hydrocarbon reserves and the storage of substances on the Dutch Continental Shelf" and regulations based on Article 32a.1 of the Dutch mining act for the onshore Netherlands, results in the appointment of *parts of licenses* which are *declared "inactive"*. The criteria for declaration "active" are summarized under the term: "Significant exploration, production or storage activities".

These include the following activities performed in a two years period before the provisional publication date:

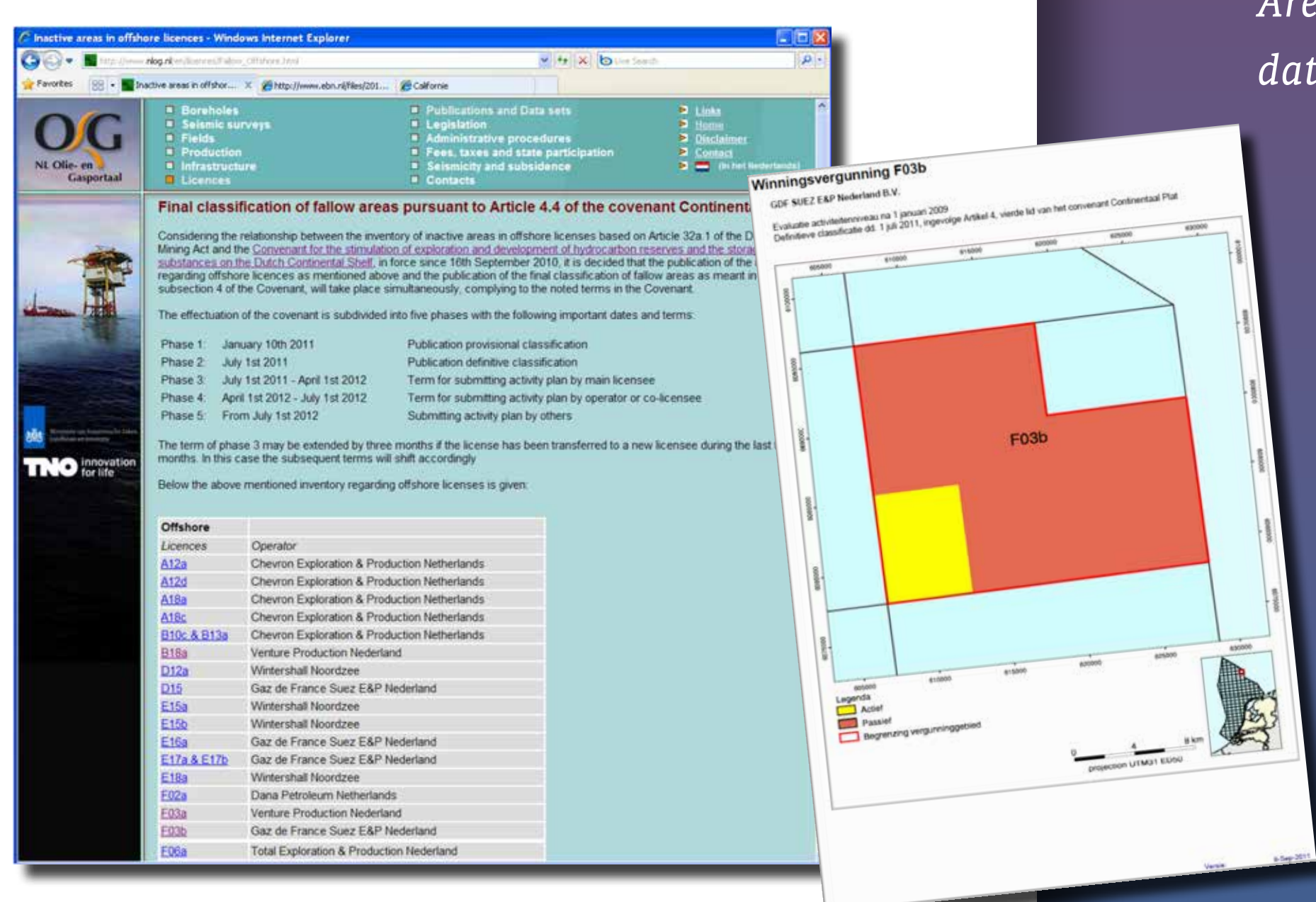
- License application
- Production and/or storage of oil and or gas
- Building, drilling or testing a well site or well
- Shooting, processing and interpreting new seismic data
- Reprocessing seismic data
- 3D reservoir modelling

These activities should lead to:

- Drilling prospects
- Field development
- Storage of gas or other substances

The sequence of steps and milestones are visualized in the flow diagram. If *no acceptable* work plan is submitted to the government for a fallow license (or part of), the license (or part of) remains with the current license holder. It should be noted that the incentive will eventually result in areal and/or vertical license splits.

Message board Fallow Acreage = www.nlog.nl

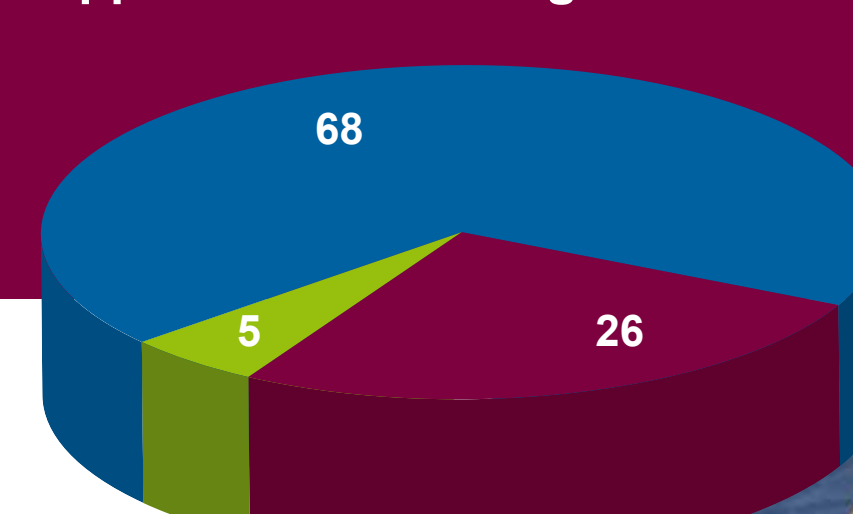


Areas of with status "Fallow acreage" date July 2012

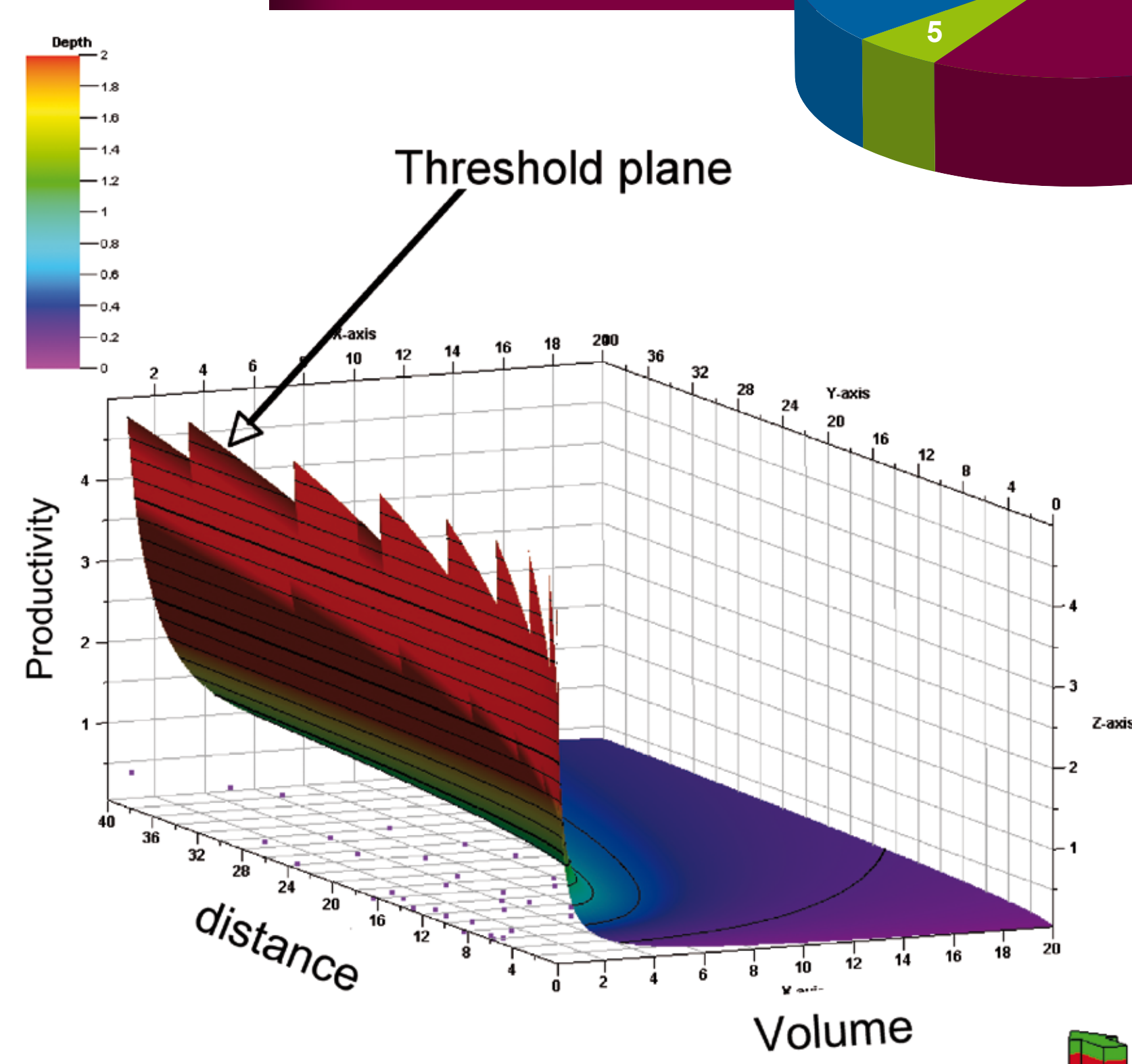
Research, development and deployment

Two specific tax measures recently introduced by the Dutch government - the research and Development Allowance (RDA) and the Dutch Innovation Box (DIB) - also provide incentives for future investments. These tax measures, which are intended to encourage research and development, innovation and the use of innovative techniques in general, are particularly attractive for oil and gas companies performing R&D studies and developing and applying innovative techniques in the Netherlands. Next to this, there is a joint research initiative (government and industry) on E&P technologies for marginal and tough reservoir field developments.

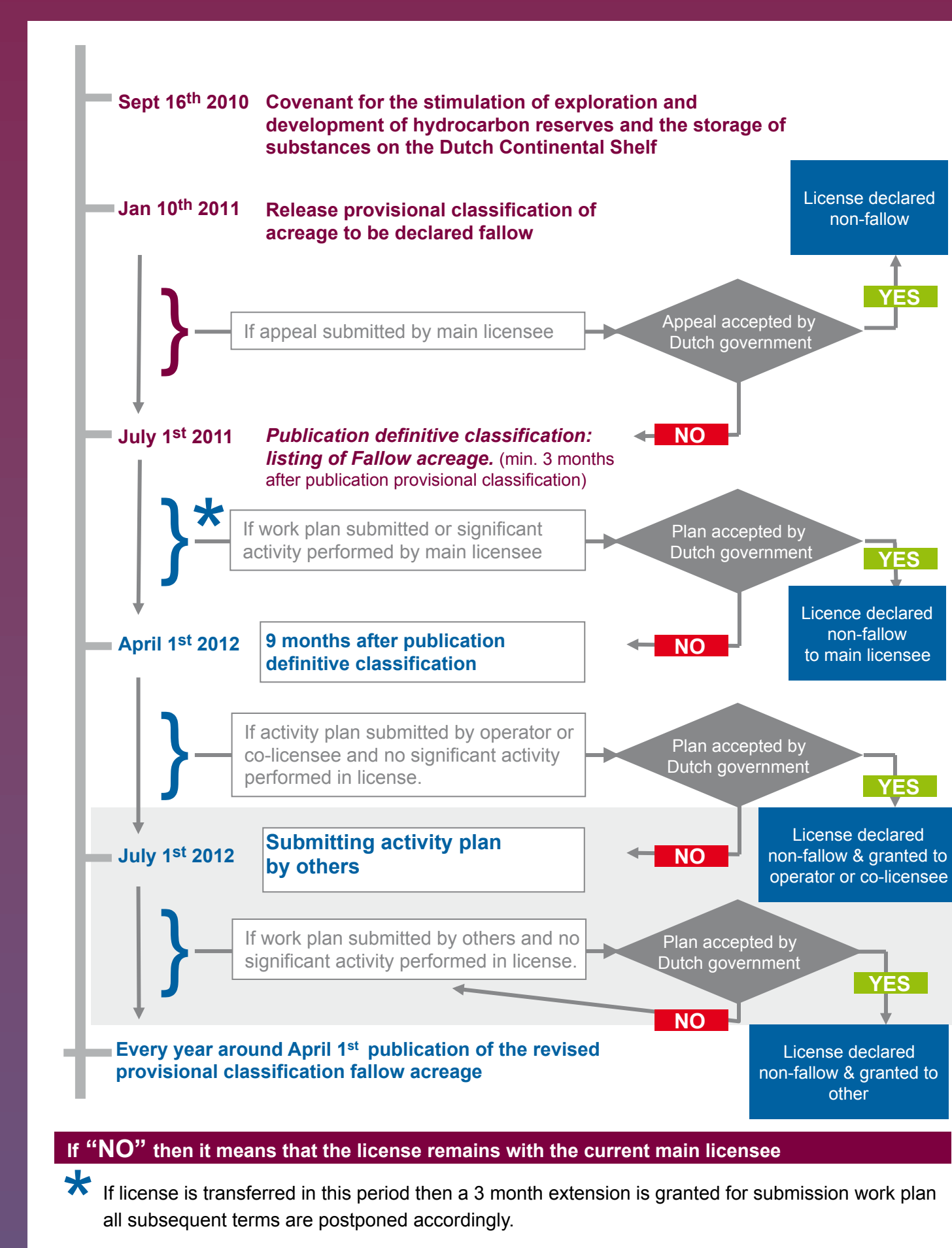
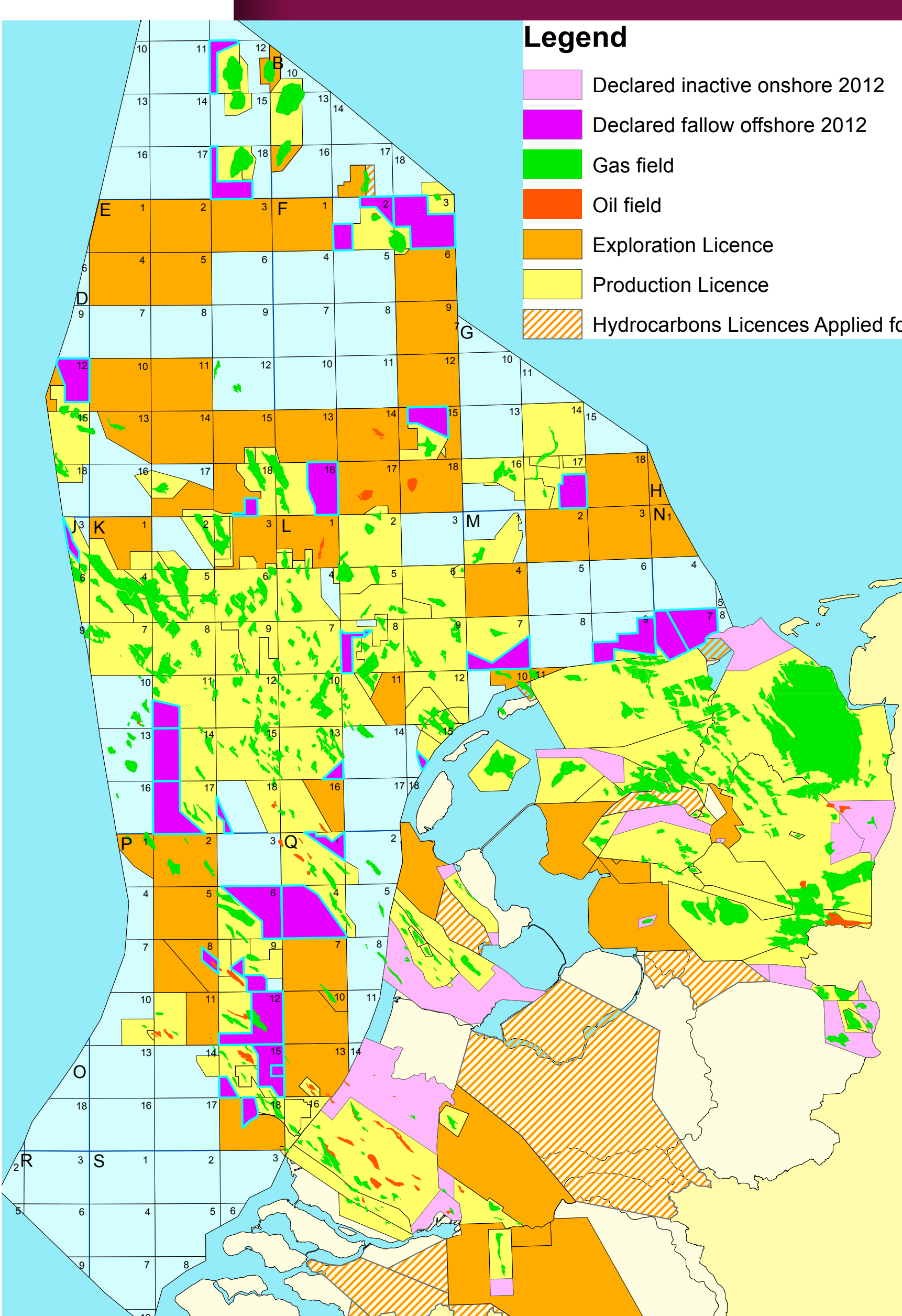
Applications for marginal fields allowance



Successful development with the marginal field tax incentive of K&Z (Total)



Visualization of the threshold plane defined by the formula



Lots of fallow acreage (3570 km² offshore & 3000 km² onshore) is now available for third parties!



For all information and data on Exploration and Production in the Netherlands, see the Netherlands Oil and Gas Portal

www.nlog.nl & www.ebn.nl

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