

Crown Estate Scotland (Interim Management) Heads of Terms for Oil and Gas Pipelines within the Territorial Waters of the United Kingdom adjacent to Scotland

1 Introduction

- 1.1. The following are the terms of the Crown Estate Scotland (Interim Management) for rents and certain other lease or licence terms for offshore pipelines for the transportation of oil and gas within the territorial waters of the United Kingdom adjacent to Scotland.
- 1.2. These terms are intended to cover the period to 31 December 2019. However, Crown Estate Scotland (Interim Management) may vary these terms from time to time during this period.
- 1.3. These terms have been adopted by Crown Estate Scotland (Interim Management) which were established by The Crown Estate Commissioners following a review of market conditions in 2005. They will apply on an open and non-discriminatory basis where requested by tenants and prospective tenants to existing leases/licences and new leases/licences.

2. Rentals

- 2.1. *Base Rent*. This rent (or licence fee as applicable) is payable at all times. It is £32,700 per annum for all sizes of pipeline (except as provided in paragraph 7.4) and is subject to indexation in accordance with paragraph 2.3.
- 2.2. *Additional Rent*. This rent (or licence fee as applicable) is payable in addition to the Base Rent from the time the pipeline is ready for use. This rent depends upon the size of the pipeline as follows: -

12 mile lease/licence

| Diameter (inches) | Additional Rent (£) | Total Rent (£) |
|-------------------|---------------------|----------------|
| 16 | 35,000 | 67,000 |
| 18 | 42,000 | 74,700 |
| 20 | 50,400 | 83,100 |
| 22 | 62,000 | 94,700 |
| 24 | 74,000 | 106,700 |
| 26 | 86,600 | 119,300 |
| 28 | 102,000 | 134,700 |
| 30 | 118,000 | 150,800 |
| 32 | 137,000 | 169,700 |
| 34 | 155,000 | 187,700 |
| 36 | 173,100 | 205,800 |
| 38 | 195,000 | 227,700 |
| 40 | 215,000 | 247,700 |
| 42 | 236,000 | 268,700 |
| 44 | 259,000 | 291,700 |

3 mile lease/licence

| Diameter (inches) | Additional Rent (£) | Total Rent (£) |
|------------------------------|--------------------------------|---------------------------|
| 18 | 10,500 | 43,200 |
| 20 | 12,600 | 45,300 |
| 22 | 15,500 | 48,200 |
| 24 | 18,500 | 51,200 |
| 26 | 21,600 | 54,300 |
| 28 | 25,500 | 58,200 |
| 30 | 29,500 | 62,200 |
| 32 | 34,300 | 67,000 |
| 34 | 38,800 | 71,500 |
| 36 | 43,300 | 76,000 |
| 38 | 48,800 | 81,500 |
| 40 | 53,800 | 86,500 |
| 42 | 59,000 | 91,700 |
| 44 | 64,800 | 97,500 |

The Additional Rent for any pipeline of a diameter not listed above will be discussed individually between the parties but having regard to the range of considerations set out above.

2.3. *Indexation.* The figures for the Base Rent and Additional Rent in paragraphs 2.1 and 2.2 are the values at 1 January 2005. Both the Base and Additional Rents are subject to upwards only indexation in accordance with the Index of Producer Prices for Output of Manufactured Products (Code PLLU) ("the Index"). Indexation is to be computed using the following formula:

$$IR = \frac{LIF}{IIF} \times SR$$

Where:

"IR" is the indexed rent

"SR" is the 1 January 2005 value for the relevant rent set out in paragraph 2.1 or 2.2

"LIF" is the Index figure for the month which is 2 months prior to the month up to which the rent is being indexed

"IIF" is the Index figure for November 2004

3. Existing Leases/Licences

- 3.1. In these terms references to an "Existing Lease" are to a lease or licence of an offshore pipeline granted prior to 1 January 2005 and include any variation of the provisions of that lease or licence which may have been made before 1 January 2005.
- 3.2. If requested by the tenant, Crown Estate Scotland (Interim Management) will apply these terms to an Existing Lease for the period covered by these terms as follows.

- 3.2.1. The Base Rent and Additional Rent will continue to be payable at the rates applicable under that Existing Lease at 30 December 2004 until revised as provided in paragraphs 3.2.2 and 3.2.3.
- 3.2.2. The Base Rent will be increased with effect from the third anniversary of the last review date prior to 31 December 2004 under that Existing Lease. The increased Base Rent will (subject to the phasing in allowances referred to in paragraph 3.3) be £32,700 indexed in accordance with paragraph 2.3 up to that third anniversary date.
- 3.2.3. The Additional Rent will be increased with effect from the third anniversary of the last review date prior to 30 December 2004 under that Existing Lease. The increased Additional Rent will (subject to the phasing-in allowance referred to in paragraph 3.3) be a sum equal to the appropriate Additional Rent under paragraph 2.2 indexed in accordance with paragraph 2.3 up to the same third anniversary date.
- 3.3. During the first two years covered by these terms (2005 and 2006) a phasing in allowance will apply. The amount of any increase in the Base Rent and Additional Rent ascertained under paragraphs 3.2.2 and 3.2.3 will be adjusted as follows:-
- 3.3.1. during 2005 only 33.3% of the increase applies;
- 3.3.2. during 2006 only 66.6% of the increase applies; and
- 3.3.3. from 1 January 2007 the full increase applies.

For example:

Base Rent increased with effect from 1 July 2005

Base Rent payable under Existing Lease up to 1 July 2005 = £25,000 (figure for purposes of illustration only)

Increased Base Rent (assuming for illustrative purposes only a 2% increase in the Index November 2004 – May 2005) = £33,354 per annum (ie, £32,700 plus 2%)

Increase = £8,354 (£33,354 – £25,000)

Base Rent 1 July 2005 – 1 January 2006 = £27,757 per annum (£25,000 + 33% of £8,354)

Base Rent 1 January 2006 - 1 January 2007 = £30,514 per annum (£25,000 + 66% of £8,354)

Base Rent 1 January 2007 onwards = £33,354 per annum

- 3.4. The new rents referred to in paragraphs 3.2 and 3.3 will be documented in a new deed of variation ("the New Deed of Variation") supplemental to the Existing Lease. The New Deed of Variation will provide for three yearly reviews of the Base Rent and Additional Rent, such reviews to be by way of indexation in accordance with paragraph 2.3. After the period covered by these terms, rent reviews will revert to an open market basis. The New Deed of Variation will also, where relevant, contain the provisions referred to in paragraphs 6 and 7 below.

4. New Leases

- 4.1. References in these terms to a "New Lease" are to a lease or licence for an offshore pipeline granted during the period covered by these terms.
- 4.2. If requested by the prospective tenant, the initial Base Rent and Additional Rent payable under a New Lease will be fixed in accordance with the rates set out in paragraphs 2.1 and 2.2 and indexed up to the start of the lease in accordance with paragraph 2.3. During the period covered by these terms, rent reviews under the New Lease will be three yearly by way of indexation in accordance with paragraph 2.3.
- 4.3. If the rent fixed under these terms is not acceptable to a prospective tenant then it may require the Valuation Office Agency to determine the rent.

5. Ancillary facilities

- 5.1. Any facilities which are constructed or installed exclusively to serve the pipeline will be treated as ancillary. The following are ancillary: secondary or associated facilities to the pipeline including valves and manifolds, control lines, [cables], chemicals or gas injection lines and matting [intra field gas and oil gathering pipelines which feed into the pipeline]. The following are not ancillary: well heads, production platforms, provision of third party telecommunications services, [provision of third party] electricity generation or transmission apparatus and interfield pipelines. This list is not exhaustive.
- 5.2. No additional rent is payable for ancillary apparatus where the rent is fixed under these terms.

6. Minerals

- 6.1. This paragraph 6 applies to both Existing Leases and New Leases but only during the period covered by these terms.
- 6.2. If a pipeline or ancillary facility (as referred to in paragraph 6 below) passes or is intended to pass through an area which contains mineral deposits then, in addition to the rents in paragraph 3, the tenant shall pay yearly payments by way of compensation for any measurable loss of the right to win minerals on the part of Crown Estate Scotland (Interim Management).
- 6.3. The yearly compensation payments referred to in paragraph 6.2 shall be an additional and appropriate yearly payment in respect of the extent to which the yearly value of the loss of the right to win minerals exceeds the aggregate of the Base Rent and Additional Rent payable for the time being in respect of the pipeline. The yearly compensation payments will not exceed 25% of such aggregate of the Base Rent and Additional Rent.
- 6.4. These compensation payments shall only be paid to the extent that Crown Estate Scotland (Interim Management) are able to show:-
 - 6.4.1. the existence of mineral deposits in commercial quantities in the area affected by the pipeline or ancillary facility; and
 - 6.4.2. the presence of the pipeline or ancillary facility would prevent Crown Estate Scotland (Interim Management) from securing income from the exploitation of those mineral deposits.

7. Suspension of use and decommissioning

- 7.1. This paragraph 7 applies to both Existing Leases and New Leases but only during the period covered by these terms.

- 7.2. If use of the pipeline is temporarily suspended and appropriate notice is given to Crown Estate Scotland (Interim Management), payment of the Additional Rent will be suspended from expiry of the notice until the pipeline is brought back into use.
 - 7.3. The works of removal and making good to the pipeline and ancillary works ("Decommissioning Works") which Crown Estate Scotland (Interim Management) can require a tenant to carry out at the end of the lease shall be limited to the works required under statutory requirements and such further Decommissioning Works as Crown Estate Scotland (Interim Management) may require in order to ensure the interests of Crown Estate Scotland (Interim Management) are not adversely affected.
 - 7.4. If a tenant wishes to remove parts of the pipeline and ancillary works which it is not required to remove in accordance with paragraph 7.3 then this will only be permitted if the tenant satisfies Crown Estate Scotland (Interim Management) that there are no dangers to navigation in respect of the additional works of removal and there will be no adverse effect on Crown Estate Scotland (Interim Management)' interests.
 - 7.5. If a tenant has completed the Decommissioning Works it may give notice terminating its obligation to pay the Additional Rent and reducing the Base Rent to one peppercorn with effect from the next rent payment date under the Lease. Once this notice has been given the Tenant's right to operate the pipeline ceases permanently.
 - 7.6. A tenant may terminate a lease on 12 months' notice given at any time but the notice will only take effect if the tenant has carried out the Decommissioning Works required under paragraph 7.2 prior to expiry of the notice.
 - 7.7. The tenant will indemnify the Crown Estate Scotland (Interim Management) in respect of any parts of the pipeline and ancillary works which are not removed at the end of the lease and this indemnity will continue in force after the end of the lease.
- 8. Miscellaneous**
- 8.1. Nothing in these terms implies any obligation on the part of Crown Estate Scotland (Interim Management) to grant a lease or licence.
 - 8.2. These terms shall not affect the construction or interpretation of any lease, licence or deed of variation (whether a New Lease, an Existing Lease or a New Deed of Variation).