

# Hydrocarbons / Upstream

The operational procedures for the implementation of the new standard specifications have been published

16 September 2015

Following the conversion into law of the Unlock Italy Decree (Legislative Decree no. 144 dated 12 September 2014, converted into Law no. 164 dated 11 November 2014) and the adoption of the new standard specifications on liquid and gaseous hydrocarbon prospecting, exploration and production onshore and offshore, the Ministry for Economic Development ("MED") published the new operational procedures containing the detailed rules which upstream operators in Italy shall have to adhere to (Directorial Decree dated 15 July 2015, in Official Journal dated 3 September 2015, General Series, no. 204).

The main changes compared to the previous version of the standard specifications and of the relevant operational procedures (both of which date back to March 2011) have to do with the rules on the "sole concession", the economic and financial requisites to be met by operators,

the pre-qualification procedure and the economic guarantees aimed at covering accident risk.

### The "sole concession"

One of the most important changes, already contained in the Unlock Italy Decree, is the sole concession, an instrument thought by the legislator to be capable of streamlining the procedures for the granting of permits and of overcoming the dichotomy between exploration permit and production concession. In fact, the exploration and production activities can be carried out thanks to a single permit granted at the end of a single procedure; as long as the sole concession is in force, the Ministry has the task of verifying the transition from the exploration stage to the production stage (to begin with, the latter shall last for 3 years, no longer 20 years as provided in current production concessions); all EIA/SEA procedures required by law shall have

to be carried out before the start of each activity listed in the work program.

The purpose is that of increasing the legitimate expectations of operators, before the start of exploration activities, with regard to the assurance that, if an oilfield is found, they will actually be given the green light to production activities.

However, in its current condition, the sole concession is not a feasible instrument: the new operational procedures provide that the relevant applications may be filed only following the approval, on part of the MED, of the new map setting forth the areas open to hydrocarbon prospecting, exploration and production.

### Stricter requisites

The MED has introduced stricter requisites for the assessment of the economic and

## Highlights

technical capabilities of operators or aspiring operators. In particular, with regard to the former, it shall be necessary to provide more detailed information on the conditions of the applicant business (e.g., in relation to the net worth, the ratio of working capital/short-term debt, the ratio of net debt/net worth and the control chain); furthermore, applicants may be exempted from having to provide guarantees in relation to the environmental restoration to be carried out at the end of the oilfield exploitation activities only if their net worth (not the share capital anymore, as provided in pre-existing legislation) exceeds 10 million Euro.

Also with regard to the technical capabilities, more information must be provided in the application to the MED, such as the number of employees, consultants and contractors, the hierarchy of the decision making process, the corporate governance rules.

Furthermore, the technical capabilities in the upstream sector must be set forth in greater detail, by specifying whether the applicant holds them directly or whether he intends to resort to external suppliers. Greater emphasis is placed on the information to be provided

on health, safety, environmental and risk management.

The rules under examination are not just addressed to first time operators: the MED can also assess the observance of the new requisites on part of operators who have already been granted mining titles in the past.

### Pre-qualification

Operators who do not hold mining titles and who wish to obtain the “pre-qualification” introduced by the new standard specifications, may “qualify” at the MED regardless of whether they have submitted an application for the awarding of mining titles, by proving they hold all the ordinary, economic and technical requisites necessary in general for the issue of the latter. The pre-qualification stays in force for two years, and during such term, it allows operators to file an application to obtain a mining title without the need for further assessments.

Operators who have already been awarded mining titles are considered to be “pre-qualified” (although only in relation to the activity referred to in the decree for the award of a mining title), without prejudice to the MED’s power, mentioned above, to verify whether the new requisites are met.

### Economic guarantees to cover accident risk

In accordance with the general principle laid out in the Unlock Italy Decree and reaffirmed in the new standard specifications, the new procedures set forth how to calculate the “economic guarantees” aimed at covering the costs of possible accidents.

Basically, the operator must submit an analysis of the risks that the activities under the application could reasonably give rise to and an analysis of foreseeable costs, based on the worst accident that could occur in the various scenarios envisaged. Adequate economic guarantees can be proven through an insurance policy or an insurance guarantee or other forms of guarantee deemed suitable by the MED.

As for the guarantees for drilling activities, the relevant minimum amounts vary depending on the type of activity to be carried out: from a minimum of 50 thousand Euro for “gas and scaly clay” to a maximum of 500 million Euro for offshore drilling of oilfields with a capacity over 5,000 barrels per day (or in high pressure or high temperature environments).

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