

QUERY FROM THE ETI COMMITTEE HELD ON 11/04/13 IN RELATION TO DETI'S INTENT TO GRANT A PETROLEUM LICENCE TO CHX LLC – (PL1/13)

1. At its meeting on 11 April 2013 the ETI Committee discussed the placing by DETI officials of a notice in the Press during week commencing 25th March, advising of DETI's intention to grant a 'Petroleum Prospecting Licence' (PL1/13). The notice invited any person to make representations to DETI within one month of the 25th March - a copy of the Notice is attached for ease of reference.
2. Committee Members queried why the Committee had not been advised of this given members keen interest in the whole area of petroleum licensing.
3. DETI's activities in granting of Petroleum Licences in NI are informed by the provisions of the Petroleum Production Act (Northern Ireland) 1964 ("PPA"). The PPA places no statutory obligation on DETI to consult regarding the intention to grant a Licence. However, to ensure that DETI has an informed view in relation to any issues that may have the capacity to impact on the granting of the licence or the terms and conditions thereof, notification is provided to a number of organisations including the District Councils, informing them of the intention and inviting them to make representations to the Department.
4. The application to which the press notice refers is in respect of CHx Ltd and has been processed by DETI officials in the same manner as all Petroleum Prospecting Licences processed by DETI since 2010 -- the Department has no grounds on which to fail to process a valid application as DETI currently operates under an "open door" policy that promotes that NI is "open for business" and that any Body can apply for a Petroleum Licence at any time.
5. The legislation makes no distinction between conventional and unconventional petroleum in terms of licensing Having listened to the comments made at the 11 April ETI Committee sitting, it would appear that some of the concern arises from a "misconception" that this application is an application for "fracking" – clearly fracking is a key concern for many of the NI public at present and given the growing momentum around "anti-fracking" in NI, it is difficult to counter the amount of mis-information that is currently at play in the public domain and the perception among some of the public that "fracking" is secretly the "end game" of any potential Petroleum Licence whether the fracking process is pertinent to the area being considered for Licence or not.
6. This "perception" has not been helped by the fact that publication of the Notice coincided with the Easter period. This has added momentum to the perception being championed by some, that this was DETI acting with stealth to secrete "unwelcome" news and limit the proportion of the NI public likely to see or take cognizance of the notice. In reality, this was no more than DETI officials following "standard" procedures for the processing of Petroleum Licensing applications given that, as above, this element of the procedure is not designed in any way to act as a statutory

public consultation exercise – it's primarily designed to inform the earliest stages of the Petroleum Licensing regime in NI.

7. Minerals & Petroleum Branch (MAPB) is aware of the ETI Committee's particular interest in the issue of shale gas and hydraulic fracturing in Northern Ireland. It should be noted that, with respect to this licence application, MAPB can confirm to the ETI Committee that the applicant has stated clearly that its exploration strategy is based on the identification of drilling targets in Triassic, Permian and Carboniferous sandstones which may be prospective for conventional oil or gas accumulations. Highly permeable sandstones of the Triassic Sherwood Sandstone Group form the reservoir for the giant Morecambe Bay gasfield in the East Irish Sea and similar rocks are known to be present in the Lough Neagh sedimentary basin in Northern Ireland and these are the primary target in this licence application.
8. If the ETI Committee desires, MAPB can amend its procedures to provide for the ETI Committee being notified in advance of any/all proposals to grant a Petroleum Licence. However, this being the case, the Committee is asked to bear in mind the following:

notification to the Committee should take place following completion by DETI of the initial assessments of the application – e.g. Company's financial viability, technical competence etc – (if these are not satisfied the application isn't proceeding to Licence as it is a "failed" application);

the amount of information that DETI could share with the Committee at this stage in respect of any individual application may be limited given the Intellectual Property Rights and Commercial In Confidence sensitivities pertaining to some of the information provided to MAPB/GSNI to facilitate assessment;

notification would be **solely for the purposes of informing the Committee** of the Department's intent given the following :

DETI is duty bound under the Petroleum Production Act 1964 (PPA) to process all applications for a Petroleum Licence in compliance with the provisions of the PPA;

MAPB has no legislative basis to enable DETI to "discriminate" in the processing of applications simply on the basis that one engineering process (potential fracking) is less palatable than another;

DETI would have no legal basis for "interrupting" the Licensing process and/or for failing to proceed to Licence if all initial assessments have been "passed" by the Company.

9. By way of attempting to address "misinformation" in the public domain and genuine public concern, MAPB has now amended its procedures to provide that, in future, any press notices inviting responses in respect of proposed licences will not coincide with NI recognised holiday periods.

10. To date circa 200+ representations have been received by the Department in response to the press notice – these have primarily been from members of the public (both NI and non-NI residents) concerned with the potential for “fracking” and the perception that DETI intentionally went to press on this over a holiday period in order to limit the amount of media attention the notice would attract and to “secrete” bad news.
11. From these representations, there appears to be a misconception among the general public that the advertisement formed part of a statutory consultation process which falls well short of the normal standards of statutory consultation in NI both in terms of coverage and the timeframe for responses. However as Committee members will be aware this is not the case.
- ,
12. Each Petroleum Licence comprises its own terms and conditions.

These terms and conditions are governed by the Petroleum (Production) Act (Northern Ireland) 1964 and the associated Regulations made under that Act. The Model Clauses in Schedule 2 to the Petroleum Production Regulations (Northern Ireland) 1987 [SR 1987 No 196] as amended by the Petroleum Production (Amendment) Regulations (Northern Ireland) 2010 [SR 2010 No 169] (“the Model Clauses”) are incorporated in Petroleum Licences unless otherwise specified in individual licences. The underpinning legislation can be accessed via the following link: http://www.detini.gov.uk/deti-energy-index/minerals-and-petroleum/petroleum_licensing_2.htm

13. Processing of the (pending) CHx Petroleum Prospecting Licence Application (PLA 1/13):

Area under consideration:- Lough Neagh Basin - Counties Antrim, Armagh, Down, Londonderry & Tyrone Area – 1,565km²

Prior to inviting representations to the Department, the Department considered the application and determined that the applicant met all the criteria set out in the Regulations (e.g. financial viability of company/technical capability etc). Once confirmed, DETI notified the following list of organisations of its intention to grant a prospecting licence and invited them to make representations to the Department:

- NI Tourist Board
- The National Trust
- NIE plc
- British Telecom
- Department of Education
- Department of Agriculture and Rural Development
- Department of Health Social Services and Public Safety
- Northern Ireland Environment Agency - NIEA
- Northern Ireland Office
- Department of Environment - Planning Service
- Invest NI
- Department of Culture, Arts and Leisure

Department of Employment and Learning
Office of First and Deputy First Minister
Northern Ireland Water
Roads Service
Department of Social Development
Royal Society Protection of Birds (RSPB)
District Council(s)

Given the large area associated with CHx LLC's application, the Department placed an advertisement in **11** newspapers; namely:

Antrim/Ballymena Times
Belfast Gazette
Belfast Telegraph
East Antrim Gazette
Irish News
Lurgan Mail
Mid Ulster Mail
News Letter
Tyrone Times
Ulster/Armagh Gazette
Ulster/Lisburn/Castlereagh Star

A copy of the newspaper advertisement is attached as Appendix 1.

The District Councils

On 22 March 2013, Minerals and Petroleum Branch wrote to the Chief Executives of the 11 District Councils which the licence area under consideration takes in. Antrim, Cookstown, Dungannon/South Tyrone; Newtownabbey and North Down Councils subsequently contacted DETI seeking further information and were furnished with same.

These may be compiled into an **Initial Guidance Document** which the Department sends to the Licensee along with the Licence documentation. A company will specify its exploration strategy and targets in the technical part of the application. In this case CHx LLC has based its proposed work programme on the premise that oil and gas may be trapped in **conventional** sandstone reservoirs although one of their primary concerns is to establish where mature petroleum source rocks may be present in the area.

Whilst the Department is unable to give details of the exploration programme proposed by CHx LLC in advance of a licence being awarded and a corresponding work programme being agreed with the Company, I would draw the Committee's attention to the information provided by CHx LLC in their company profile, particularly in regard to their track record in Belize, **their intention to use 'low impact' exploration methods** and their stated commitment to environmentally friendly exploration. A copy of the company profile is attached as Appendix 2.

13. Way Forward

The Department has no grounds to refuse any valid application for a Petroleum Licence in the province as DETI operates an 'open door' or 'first come, first served' licensing system based on the petroleum legislation in place. Each application is assessed

against published objective and non-discriminatory criteria in accordance with the requirements of the European Hydrocarbons Licensing Directive (94/22/EC) and the Northern Ireland regulations that implement this Directive.

When an application for a Petroleum Licence is received the Department will continue to seek comments from various government bodies and organisations to obtain an informed and balanced initial view.

If a decision is made to grant a Petroleum Licence then the Department will take note of comments received, the essence of which will be brought to the applicant's attention and may also be used in the preparation of DETI's Initial Guidance to the Licensee and may inform the specific terms and conditions attached to the Licence.

DETI is fully conscious of the level of concern expressed by anti-fracking groups and will continue to engage with these groups in an open and inclusive manner. However, it is important to note that CHx LLC has not stated that it intends to use hydraulic fracturing techniques, nor has it identified shale gas as a specific target for its exploration programme.

If the ETI Committee wishes MAPB will in future, provide the ETI Committee with advance notice of the Department's intention to grant a Petroleum Licence subject to the provisos set out at paragraph 7 above.

DETI will now consider all representations made to the Department in relation to CHx Ltd's application and an informed decision will be made in due course.

The ETI Committee will be informed of the outcome of that decision.

APPENDIX 1

DETI PRESS NOTICE



Petroleum (Production) Act (Northern Ireland) 1964 [1964 c.28 (NI)]

In exercise of its powers under Section 2 (1) of the above Act the Department of Enterprise, Trade and Investment proposes to grant a prospecting licence in Counties Antrim, Down, Tyrone, Londonderry and Armagh.

A map showing the areas affected may be inspected at the addresses below from between Monday and Friday, 9.30 am to 12.30 pm and 2.00 pm to 4.30 pm.

Any person may make representations to the Department about the proposed licence within one month from 25th March 2013

Map inspections are available in the following:

Department of Enterprise, Trade and Investment

Minerals Branch, Colby House, Stranmillis Court, Belfast, BT9 5BF

Antrim Borough Council

Antrim Civic Centre, 50 Stiles Way, Antrim, BT41 2UB

Armagh Borough Council

Council Offices, The Palace Demesne, Armagh, BT60 4EL

Ballymena Borough Council

Ardeevin, 80 Galgorm Road, Ballymena, BT42 1AB

Belfast City Council

Cecil Ward Building, 4-10 Linenhall Street, Belfast, BT2 8BP

Cookstown District Council

Burn Road, Cookstown, Co.Tyrone, BT80 8DT

Craigavon Borough Council

Civic Centre, PO Box 66, Lakeview Road, Craigavon, Co.Armagh, BT64 1AL

Dungannon and South Tyrone District Council

Council Offices, Circular Road, Dungannon, BT71 6DT

Lisburn City Council

Lagan Valley Island, Island Civic Centre, The Island, Lisburn, Co.Antrim, BT27 4RL

Magherafelt District Council

50 Ballyronan Road, Magherafelt, BT45 6EN

Newtownabbey Borough Council

Mossley Mill, Newtownabbey, BT36 5QA

North Down Borough Council

Town Hall, The Castle, Bangor, BT20 4BT

www.detini.gov.uk

Appendix 2

CHX – COMPANY PROFILE

CHx Capital LLC DBS Clannah Natural Energy

CHxCapital LLC is a private family exploration and production company in the energy business with interests in all forms of energy, including wind, wave and tidal energy.

CHx Capital LLC has offices in USA, Belize, Central America and Northern Ireland.

CHxCapital LLC and its partner, BNE, discovered the first oil in Belize, against all odds and within 3 years became the number one revenue generator in the country. The operation in Belize has won the Green Award, the first for an oil company and the employee of the year award. Our reputation is one of “holistic” development in the country, contributing to the environment and the entrepreneurial spirit of the local communities by means of educational programmes and local communications.

Ms Susan Morrice has 35 years worldwide experience in the exploration industry. She is a geology graduate of Trinity College, Dublin and has extensive first hand knowledge of the geology of Ireland, North and South. Ms Morrice has a long history of exploration work in Northern Ireland and in the past 25 years has been involved in 5 exploration wells and many geophysical and geochemical studies across the province. Ms Morrice wants to bring the successful exploration and the business model developed in the Belize operation, back home to Northern Ireland.

Mr. Melvyn Ennis the exploration manager of the Northern Ireland operations has extensive experience throughout the world in both mining, oil and gas and drilling sectors of the industry. He is the owner and managing director of Tec Rock Ltd., a local drilling and exploration company.

The team of geologists and engineers both in USA, Belize and Ireland have developed a play concept based on the plate tectonics of the region and have assembled information locally and relevant data in Canada and Scotland to aid in the discovery of oil and gas. With satellite technologies and exploration methods we plan an exciting but low impact exploration program integrating all the original information and collecting new geophysical data to select focus areas.

Our environmental team is headed by the locally based company Marengo Ltd., a leading independent environmental consultancy firm. Marengo consultants are highly qualified, experienced and respected in contemporary environmental consultancy in Northern Ireland. The Company is a corporate member of IEMA and our Senior Consultants are IEMA registered Principal Environmental Auditors and Chartered Environmentalists.

CHx Capital LLC are committed to developing the natural resources of Northern Ireland in a safe, balanced, productive and environmentally friendly manner and in “igniting the energy” in people for the benefit of everyone.

Contact :Ms. S. Morrice, Global Corporate CEO

susan@susanmorrice.com

Mr. M. Ennis, Regional Exploration Manager

tr@tecrock.com

Mr. P. McArdle, Environmental Consultant

paul.mcardle@marengo.co.uk

Reply Prepared by Mike Thompson (Head of DETI Tourism, Telecoms and GSNI Policy Division) 02/05/13