These Procedures set out what is generally regarded in the Industry as good practice. They are not mandatory and Operators may adopt different standards in a particular situation where to do so would maintain an equivalent level of reporting. Where there is an inconsistency with the Accounting Procedure, the Accounting Procedure will prevail.

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# Introduction

This document provides guidance on recommended accounting practices to ensure the appropriate treatment of costs relating to decommissioning an oil and gas asset. These guidelines provide a methodology for standardising the decommissioning accounting records to be kept across the United Kingdom Continental Shelf (UKCS). The UKCS presents a complex commercial landscape and this document is intended for guidance only.

The recommendations are:

* + Establishing best practice in the standards to be used in estimating the cost of future decommissioning
  + Define best practice for classifying when a cost becomes an decommissioning expense (Abex) and billing practice for Abex costs;

Decommissioning is the process of permanently removing long lived assets from service.

When an Operator installs infrastructure or drills a well it creates a legal obligation to remove it. This obligation is recognised in the financial statements as an Asset Retirement Obligation (ARO) or “Decommissioning Liability”. As the asset matures the decommissioning strategy will become more defined and more detailed decommissioning estimates will be developed.

Offshore decommissioning options and assumptions will be approved by the Offshore Petroleum Regulator for Environment and Decommissioning (OPRED) through the required Decommissioning Programme approval process.

In order to establish a systematic approach to classifying costs, Offshore Energies UK (OEUK) issued: Guideline on Decommissioning Cost Estimation *(Reference 1),* the output from a workgroup who focused on the nature of activities taking place at each stage of decommissioning . Given the potential for variation in practice across the industry a series of examples has been prepared by the workgroup.

1. **Definition of Decommissioning costs**

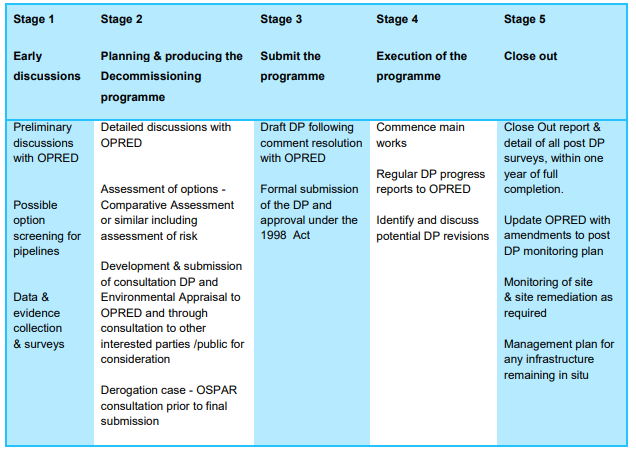
To guide users on what costs are decommissioning related, defined as “Abex” (“Abandonment expenditure”) costs include:

* Costs associated with isolation, cleaning and flushing prior to removal and dismantlement of the field facilities both topside and subsea related are deemed as decommissioning activities;
* Well plug and abandonment costs (Well P&A), in accordance with UKCS Wells Applications and Consent Guidance - *section 114 Abandonment of a* well *(Reference 2);*
* During active decommissioning, costs incurred supporting the above include Operator Project Management and Post-COP Running costs;

As stated in the BEIS Guidance Notes Decommissioning of Offshore Oil and Gas Installations and Pipelines *(Reference 3),* Operators should begin planning for decommissioning during the late life stage of operations, and should initiate decommissioning engagement with OPRED in advance of cessation of production. Most operators will start dialogue with the regulator two to five years in advance of cessation of production, depending on the complexity of the project and start to incur Decommissioning expenditure as a result.

**Decommissioning Programme Process**

There are five key stages in the decommissioning process starting before cessation of production and continuing through the early identification of options, to detailed assessment and drafting of a decommissioning programme (DP), followed by execution and then post completion activity. OPRED will provide support and guidance throughout the process explaining the different data requirements and assessments required at each stage. The different stages are described in detail below



# Cost Estimation

The OEUK Guideline on Decommissioning Cost Estimation *(Reference 1)* provides a useful framework from which Operators can independently develop comprehensive decommissioning cost estimates with a high degree of consistency.

The guidelines provide a work breakdown structure (WBS) for the 11 major decommissioning cost groupings. The various stages involved in the WBS are summarised in the below extract from the OEUK Decommissioning Work Breakdown Structure Guidelines *(Reference 4).*

The number of stages used will differ depending on the decommissioning complexity of each field. It is recommended when preparing AFE’s reference is made to the above where practical, thereby improving transparency in cost reporting.

Timeline

Description automatically generated

# Audit

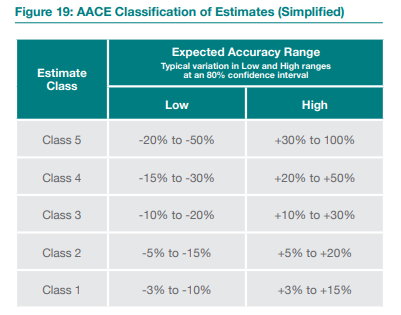
Audit rights will be stipulated within each JOA. It is recommended the frequency of the audit will be determined by the complexity of the project and spend value.

# Standards and Frequency of Estimation

It is recommended that decommissioning estimates should be modelled on a deterministic basis rather than probabilistic, capturing cost and duration assumptions such as rig rates, barge vessels, and DSV’s etc. Assumptions should be determined based on market research and the P50 output used to calculate the Asset Retirement Obligation.

Guidance on standard and frequency of estimation is as follows:

* For fields being abandoned within 5 years it is recommended the cost estimate is reviewed at least annually;
* Key assumptions underpinning decommissioning cost estimates should be documented, such as: rig/barge rates, and assumed non-productive time;
* Lessons learned from experience to date should be applied in updating future estimates;
* It is recommended a minimum range of three years be considered in estimating rig and vessel rates.
* Estimates will reflect a wide range of uncertainties and OEUK recommend referencing the Associate for the Advancement of Cost Engineering (AACE) Estimate Class Ranges *(Reference 5)*



Annually, Operators are required to submit the latest decommissioning cost estimate as part of the annual North Sea Transition Authority (NSTA) UKCS Stewardship Survey. The Survey data will be held by the NSTA in accordance with the Energy Act 2016 and will be used, among other things, to inform asset stewardship reviews and provide meaningful insights into current and forecast activity in the UKCS.

Data for the UKCS Stewardship Survey is collected using the OEUK Work Breakdown Structure

and references the AACE estimate class ranges.

# Recommended Cost Classification

The classification of costs in relation to decommissioning is open to interpretation. The below decision tree can be used as guidance, but also taking into consideration that Operators will have individual internal Accounting Policies, Partner agreements and Commercial aspects to consider.



The following is not an exhaustive list but provides guidance to increase alignment across the industry.



Guidance on the treatment of severance costs can be found in SOAP4. The time writing of individuals or teams for 24 months prior to severance should be used to attribute their severance costs, ensuring the correct allocation by field and also across Opex / Capex / Abex activity within the field. As a result, there may be Opex / Capex spend being recognised in the period post COP.

# Model Billing

It is recommended all decommissioning spend be reported against a specific “Abex node” in the Operators accounting system and Billing Statements. Spend should include Month, YTD & ITD, and may be multi-currency where there is likely to be a high content of non GBP spend. The format and currency of the billing will be determined by the JOA. Refer to Reference 7 for an illustration.

# References:

# [Guideline on Decommissioning Cost Estimation - Issue 3 (oeuk.org.uk)](https://oeuk.org.uk/product/guideline-on-decommissioning-cost-estimation-issue-3/)

# [North Sea Transition Authority (NSTA): Well Consents Guidance - 2022 - Publications - News & <br/>publications (nstauthority.co.uk)](https://www.nstauthority.co.uk/news-publications/publications/2022/well-consents-guidance/)

# [BEIS: Decommissioning of Offshore Oil and Gas Installations & Pipelines](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/760560/Decom_Guidance_Notes_November_2018.pdf)

# [Decommissioning Work Breakdown Structure Guidelines: (oeuk.org.uk)](https://oeuk.org.uk/product/decommissioning-work-breakdown-structure-guidelines/)

# [UKCS Decommissioning Cost Estimate 2021 (nstauthority.co.uk)](https://www.nstauthority.co.uk/media/7680/ukcs_decomm_cost_estimate_2021_single_master.pdf)

# [OEUK's Guidelines on Well Abandonment Cost Estimation - Issue 2](https://oeuk.org.uk/product/guidelines-on-well-abandonment-cost-estimation-issue-2/)

1. Billing Statement – Content & Format

# 

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