

Crown Estate Scotland Heads of Terms for Hydrocarbon Pipelines within the Territorial Waters of the United Kingdom adjacent to Scotland

1 Duration of Heads of Terms

- 1.1. The following are the terms of Crown Estate Scotland for rents and certain other lease or licence terms for offshore pipelines for the transportation of hydrocarbons within the territorial waters of the United Kingdom adjacent to Scotland.
- 1.2. These terms are to cover the period to 31 December 2029. However, Crown Estate Scotland may vary or extend these terms from time to time during this period.
- 1.3. These terms have been adopted by Crown Estate Scotland following a review of market conditions in 2019. They will apply on a non-discriminatory basis to new leases or licences and, where agreed with current tenants, to existing leases or licences.

2. Existing Leases/Licences

- 2.1. In these terms, references to an "Existing Lease" are to a lease or licence of an offshore pipeline granted prior to 1 January 2020 and include any variation of the provisions of that lease or licence which may have been made before 1 January 2020.
- 2.2. Only if agreed with existing tenants, Crown Estate Scotland will apply these terms to an Existing Lease for the period covered by these terms.
- 2.3. When these terms are applied to an Existing Lease, the new rents referred to in paragraphs 4.1 and 4.2 will be documented in a new minute of variation ("the New Minute of Variation") supplemental to the Existing Lease. The New Minute of Variation will be effective from the last date of signing of the New Minute of Variation or such earlier date as agreed between Crown Estate Scotland and the existing tenant (the "Effective Date").
- 2.4. The New Minute of Variation will also provide for three yearly reviews (calculated from the Effective Date) of the Base Rent and the Additional Rent, such reviews to be by indexation in accordance with paragraph 4.4. After the period covered by these terms, rent reviews will revert to an open market basis every three years.
- 2.5. The New Minute of Variation will also, where relevant, contain the provisions referred to in paragraph 6 below.

3. New Leases

- 3.1. References in these terms to a "New Lease" are to a lease or licence for an offshore hydrocarbon pipeline granted during the period covered by these terms.
- 3.2. The initial Base Rent and Additional Rent payable under a New Lease will be fixed in accordance with the rates set out in paragraphs 4.1 and 4.2 and Table 1, indexed up to the commencement of the New Lease in accordance with paragraph 4.4. During the period covered by these terms, rent reviews under the New Lease will be three-yearly by indexation in accordance with paragraph 4.4. After the period covered by these terms, rent reviews will revert to an open market basis every three years.
- 3.3. If the rent fixed under these terms is not acceptable to a prospective tenant, then it may require HM Treasury to determine the rent.
- 3.4. Any new tenant must be of an acceptable covenant strength (in line with current requirements at the time the New Lease is granted) or provide an appropriate security at commencement of the New Lease.
- 3.5. The new tenant will produce confirmation that they (or the granter of any security as applicable) continue to meet an acceptable covenant test (such test including, for example, that the new tenant/the granter of any security is demonstrably capable of fulfilling the monetary obligations in the New Lease) on each anniversary throughout the term of the New Lease.

4. Rent

- 4.1. *Base Rent.* This rent (or licence fee as applicable) is payable annually at all times at the rates shown in Table 1 or Table 2 (except as provided for in paragraph 6.4).
- 4.2. *Additional Rent.* This rent (or licence fee as applicable), according to the diameter of the pipeline as shown in Table 1 or Table 2, is payable annually in addition to the Base Rent whilst the pipeline is available for use.
- 4.3. *Total Rent.* Aggregate of the Base Rent and the Additional Rent at any time as shown in Table 1 or Table 2.

Rentals for Pipelines to 12 nm Limit of Territorial Waters

DIAMETER (INCHES)	BASE RENT	ADDITIONAL RENT	TOTAL RENT
16	£23,250	£69,750	£93,000
18	£25,750	£77,250	£103,000
20	£28,500	£85,500	£114,000
22	£32,500	£97,500	£130,000
24	£36,500	£109,500	£146,000
26	£41,000	£123,000	£164,000
28	£46,250	£138,750	£185,000
30	£51,750	£155,250	£207,000
32	£58,250	£174,750	£233,000
34	£64,500	£193,500	£258,000
36	£70,500	£211,500	£282,000
38	£78,250	£234,750	£313,000
40	£85,000	£255,000	£340,000
42	£92,250	£276,750	£369,000
44	£100,000	£300,000	£400,000

Table 1: Pipeline rents as at 1 January 2020

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.

Rentals for Pipelines to 3 nm Limit of Territorial Waters

DIAMETER (INCHES)	BASE RENT	ADDITIONAL RENT	TOTAL RENT
20	£15,500	£46,500	£62,000

Table 2: Pipeline rents as at 1 January 2020

The rentals set out in Table 2 are to address the rents only in agreements entered into prior to Scotland's territorial waters being extended from 3 to 12 nautical miles by the Territorial Sea Act 1987.

- 4.4. *Indexation.* The figures for the Base Rent and Additional Rent in Table 1 and Table 2 are the values at 1 January 2020. Both the Base Rent and the Additional Rent are subject to upwards only indexation in accordance with the Producer Price Inflation index (Table GB7S) from the Office for National Statistics. 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 2020 value for the relevant rent set out in Table 1.

"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 2019, which is 109.0.

5. Ancillary facilities

- 5.1. Any facilities which are constructed or installed within territorial waters to exclusively 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, matting and intra-field hydrocarbon 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 inter-field pipelines. These lists are not exhaustive.
- 5.2. No additional rent is payable for ancillary apparatus where the rent is fixed under these terms.

6. Suspension of use and decommissioning

- 6.1. If use of the pipeline is to be suspended temporarily for the transportation of hydrocarbons, the Tenant may give appropriate prior written notice to Crown Estate

Without Prejudice

- Scotland of the intended suspension, in which event the Additional Rent will be suspended from the rent payment date following the expiry of an appropriate notice period (subject to the tenant providing reasonable evidence that such use has been temporarily suspended) and only the Base Rent shall be payable from that rent payment date until the pipeline is brought back into use for the transportation of hydrocarbons.
- 6.2. A tenant may terminate a lease or licence on 12 months' written notice, given at any time and in which event the lease or licence will terminate on the rent payment date following the expiry of the 12 months' notice period but that subject to the tenant providing reasonable evidence that the Decommissioning Works (defined below) required under paragraph 6.3 have been completed.
 - 6.3. The works to remove the pipeline together with ancillary works and making good the seabed (the "Decommissioning Works") which a tenant is obliged to carry out at the expiry or earlier termination of a lease or licence, shall be limited to the works required under any applicable statutory decommissioning plan and any additional decommissioning works Crown Estate Scotland may require in order to ensure their interests are not adversely affected.
 - 6.4. 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 £1 with effect from the next rent payment date under the lease or licence. Once this notice has been given the tenant's right to operate the pipeline ceases permanently.
 - 6.5. If a tenant requests in writing to remove parts of the pipeline and ancillary works, which it is not obliged to remove in accordance with paragraph 6.3, this will only be permitted if the tenant satisfies Crown Estate Scotland that such works cause no danger to navigation nor have any other adverse impact on Crown Estate Scotland and subject also to the tenant obtaining all necessary statutory consents.
 - 6.6. The tenant will indemnify Crown Estate Scotland in respect of any loss caused as a consequence of parts of the pipeline and ancillary works not removed at the expiry or earlier termination of the lease.

7. Post Decommissioning

The tenant will be permitted access for non-intrusive survey works required by any statutory authority post decommissioning of the pipeline. Should any intrusive survey works be required, these will be agreed with Crown Estate Scotland and an appropriate small works licence entered into.

8. Change of Use

Any use of a pipeline other than for the transportation of hydrocarbons is prohibited and will require a new lease or licence on separate terms.

9. Miscellaneous

- 9.1. Nothing in these terms implies any obligation on the part of Crown Estate Scotland to grant a lease or licence.
- 9.2. These terms shall not affect the construction or interpretation of any lease, licence or minute of variation (whether a New Lease, an Existing Lease or a New Minute of Variation).