

# FAQ

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## **Competitive Bidding Process**

**The comment has been made that the timing envisaged for the entire process is optimistic**

It was initially envisaged that the Competitive Bidding Order would have been published by the end of November 2009 but based on the predominant view expressed in feedback from companies; the Ministry has deferred its publication to facilitate modifications designed to ensure that all relevant concerns are dealt with to the satisfaction of all our shareholders. Our current timeline now proposes its publication in January 2010.

With respect to the Production Sharing Contract companies seem to be having a problem with a public negotiation of the contract before the issue of a final document. . Companies apparently prefer additional negotiating time after award of the acreage. However, from our experience, negotiating time has often been unnecessarily extended, and adds considerably to the frustration of the ultimate goal, the execution of the contract within a reasonable timeframe. The Attorney General is currently vetting the Production Sharing Contract and the Ministry is considering your comments and suggestions. These will be forwarded to the AG's office and it is envisaged that within two and a half months, after the Bid Order is published, the final PSC will be issued.

Companies will still have their four months in which to complete the evaluation of acreage and go through their approval processes.

The PSC to be executed will be a document which incorporates the bidder's proposals in respect of the biddable items into this approved PSC.

**Is the prequalification process for both operators and non –operators?**

Prequalification is expected to be conducted on an ongoing basis. It is principally designed to expedite approval of companies wishing to be considered for operatorship of acreage to be awarded in this and future bid rounds. Companies not wishing to be considered for operatorship have been asked to

provide considerably less data, and this is to be used mainly for determination of their financial competence.

For the Shallow and Average Water Bid Round, because of its timing, it is envisaged that companies wishing to participate will submit all the information required at or before the time of payment of the prebid qualification fee.

### **Will data packages be available from the outside vendors or the Ministry?**

Data packages will generally be available from the Ministry and will be supplied under a Data Use Agreement.

Some external studies and new seismic acquisition were acquired on a speculative basis and are accordingly available for licensing from the respective vendors.

Companies interested in the deep water areas should note that the Ministry has specially commissioned a geotechnical study on these areas. Excerpts from the study have already been shown to interested parties and appointments may be made for viewing this material at the Ministry. Full access – copies will be provided under a Data Use Agreement on payment of a fee of US\$ 90,000.

Please note that it is **not envisaged** that data use and licensing fees for these studies or any data set will be creditable against the minimum work programme.

### **Will the nomination process attract a fee and will there be a right to pre-emption?**

The nomination process will not attract a fee and as of the date of this FAQ all deep water blocks are open for nomination. There will be no pre-emptive rights and the name of the company nominating the particular block will not be published. The Ministry reserves the right to include or exclude any block nominated.

# **Production Sharing Contract**

## **Can the State Carried Participation be clarified?**

The “carried participation” is to be a 20% full carry and will be for the first four years of the exploration period and includes exploration and appraisal. The carry will not extend to any approved development expenditure or phase and any such reference has been removed from the PSC. The carry is only applicable to the shallow marine acreage.

## **Why utilize a “Deemed Fair Market Value” rather than the value for actual sales for the valuation of the Minister’s share of gas?**

This concept has been reviewed in light of the comments and concerns raised by several companies. The current recommendation will be to utilize the mechanism currently provided under the Petroleum Taxes Act, with appropriate modification. To get an idea of the general procedure contemplated companies may look at the SECOND SCHEDULE, Section 18 “SUPPLEMENTARY PROVISIONS ABOUT PRODUCTION BUSINESS, REFINERY BUSINESS AND MARKETING BUSINESS” - PRICES OF CRUDE OIL, NATURAL GAS, PETROLEUM PRODUCTS AND PETROCHEMICALS

## **Is SPT on natural gas applicable only the new PSC?**

SPT on crude oil or natural gas does not apply to this PSC regime. The PSC expressly provides that the Minister’s share of profit Gas/Oil is in lieu of SPT, Production Levy, Oil impost and Royalty. (Art 21.5)

The SPT proposal and its effect on the holders of Exploration and Production Licences is currently being reviewed based on feedback received from the industry. A revised version of the SPT arrangements will be released as soon as these are finalized.

## **Why is Cost Recovery fixed at such a low percentage and is there a term limit for recovery of costs?**

Comments on the proposed cost recovery arrangements have varied. We have been reviewing the current limits in the context of the impact on overall project economics for certain scenarios. The final version of the respective cost recovery limits will be included in the relevant approved PSC

Please note that notwithstanding these limits cost recovery continues to the end of the contract term. Costs not recovered in any particular year may be carried forward for recovery until the end of the contract term.

### **Why does the PSC lack a stability clause?**

With respect to comments on the taxable nature of the PSC and the lack of stability clause, this has been reviewed and a suggestion to address these concerns will be tabled in the near future.

### **Why does the Minimum Work Programme not include 2D seismic?**

The minimum work programme is a key biddable element of the PSC and the point system recognizes the value of new data derived from the respective work items. The point system has been designed to ensure that maximum value is ascribed to work which complements the data that has been already acquired in a block. For example on the north coast, there is already a lot of 2D seismic data and we therefore expect that if any new seismic is to be acquired it should be 3D. With respect to the areas where there are 3D surveys, credit will be given for reprocessing as well as for new seismic acquisition.

### **Why is there a cap on the number of points a company can receive for the Minimum Work Programme?**

The work programme carries a maximum number of points which is based on the Ministry's interpretation of the existing data on the block and our view of the value of additional work. The Ministry has witnessed a disturbing trend of "bid padding" exhibited by certain companies who make aggressive and sometimes unrealistic proposals in order to secure a significant point advantage in this category. These companies however do so with the deliberate intention of re-negotiating these bid items prior to execution of the PSC. We hope that the establishment of a point cap will address this issue. Companies wishing to obtain additional bid value should do so by improving their proposals in the other bid categories (Sharing of Production or Bonuses)

### **Comment: The Gas Commercialisation Article is confusing**

Based on the feedback and comments received, we are currently reviewing the procedure to provide additional clarity, where required.

## **Why is there a requirement for relinquishment of such a large area after the first phase?**

We are addressing your concerns and will revert to you shortly.

## **Why does the term of the contract not provide for the extension of the contract for the time taken to commercialise gas?**

In addition to the other provisions outlined in Article 4 of the PSC for extension of the term to facilitate continued production and for such issues as Force Majeure the Contract also provides for extensions for gas commercialization on the following basis:

1. for any Production area the period of any Market Development Phase granted
2. for any particular production area to allow for the supply of gas subject to the execution of a gas sales contract requiring such extension.

## **Comment: The Reopener Provision (Art 4.7) adds risk to the contract**

We have reviewed your concerns and this provision has been removed from the PSC.

## **Will there be both a Transfer Fee and a Stamp Duty?**

At this point in time, the transfer of the PSC rights does not attract a stamp duty however in the event that stamp duty becomes applicable; the Minister has the right to waive this transfer fee.

## **EOR**

## **Why is there no tax credit for waterflooding?**

We have reviewed your comments and the proposals are being given serious consideration. Further discussions will be held before implementation of any new regime.

## **SPT**

### **Comment: The proposed SPT regime provides no incentive to mature fields and increasing production**

The SPT proposal as it affects the holders of Exploration and Production Licences is currently being reviewed based on the feedback received from industry. New proposals will be made public in due course.

This FAQ will be periodically updated when we receive questions and comments or if there is any material change to the information previously made available.

Ministry of Energy and Energy Industries

December 9, 2009