

Panel Discussion

Legal Framework for Offshore Exploration and Production in Lebanon

Model Exploration & Production Agreement “EPA”

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- E&P Consulting Company and Geosciences Software Editor
- Advisor to the Lebanon Government
(Ministry of Energy and Water - MEW) *from April 2011*
 - **Integrated interpretation of regional 2D and 3D seismic surveys offshore Lebanon**
 - **Petroleum systems assessment through basin modeling**
>> Presentations on Day 2
 - **Advice on economic issues**
 - **Advice on the licensing process**

- **This presentation represents Beicip-Franlab's views.**
- ***It does not commit the MEW, which is under the process of reviewing and finalizing the draft package.***

- The EPA is a **Production Sharing Agreement**
- Draft Model under finalization
- Rights and obligations of the **Parties** (State / Contractor) in the conduct of **petroleum operations** with respect to a **Block**
- Includes the terms open to Bid:
 - *Minimum exploration work obligations*
 - *Cost recovery and Production sharing*
 - *Annual training budget*

Typical Exploration and Production phases

EXPLORATION



3-10 years

EVALUATION

of a discovery



1-2 years

DEVELOPMENT

of a commercial discovery

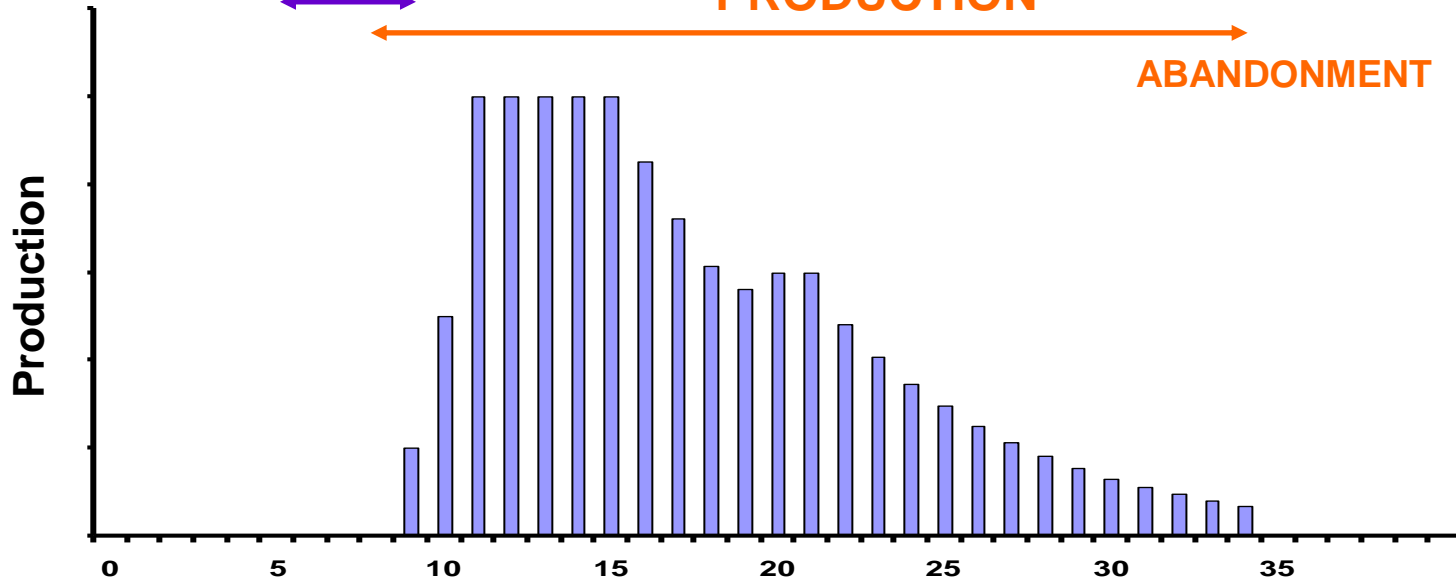


2-3 years

PRODUCTION

ABANDONMENT

10-30 years

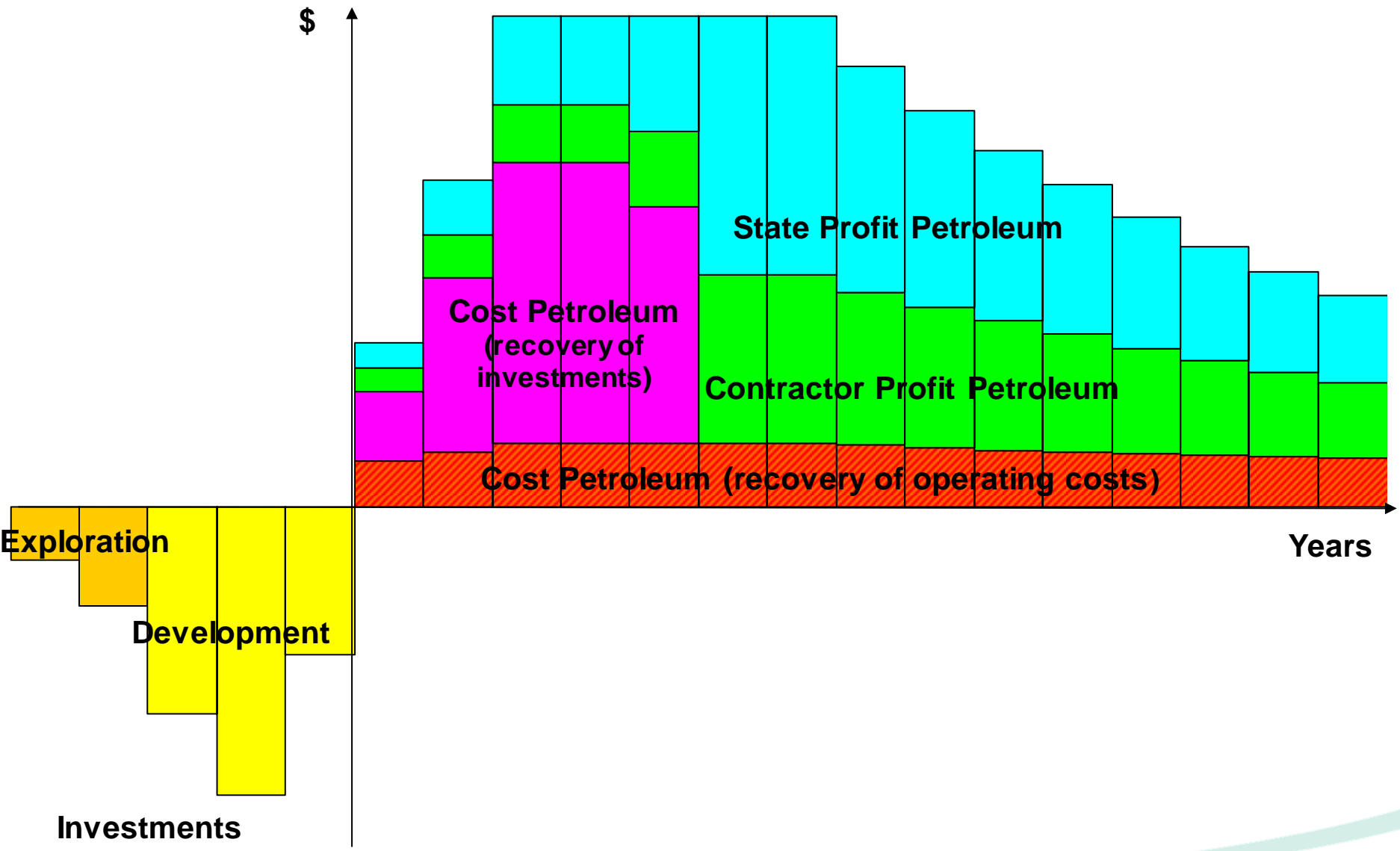


- Exploration risk: possible relinquishment if no commercial discovery
- Long-term process, high costs (offshore)
- Specific economic and fiscal terms

To be proposed by the Bidders

- Breakdown by sub-period within the Exploration Phase
- Breakdown by item, such as:
2D seismic / 3D seismic / Exploration wells
- **Specific context offshore Lebanon:**
 - 2D seismic available for the whole offshore area
 - 3D seismic available for several large sub-areas
 - The Bidders have already a lot of valuable information
 - >> *reduced risk*
 - >> *reduced exploration time*
 - >> for some areas, possibility to *drill a well quickly*

Illustration of the annual breakdown of gross income under a Production Sharing Agreement



- Cost recovery ceiling:
% of « Disposable Production » (after Royalty)
- Production sharing based on a « R-factor »

	State share	Contractor share
R < N1	A %	100% – A%
N1 < R < N2	B %	100% – B%
N2 < R < N3	C %	100% – C%
.....

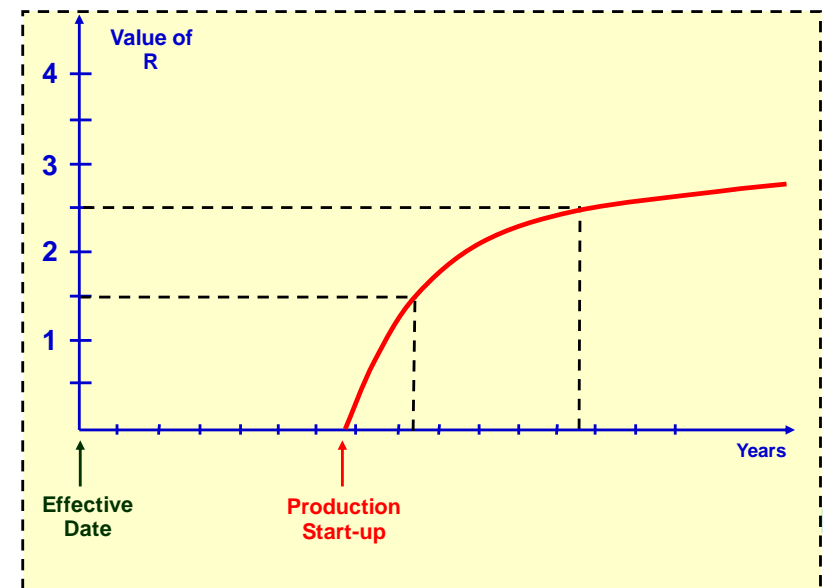
- Note: this is a « before-tax » production sharing

% to be proposed by the Bidders

$$R = \frac{\text{Contractor Cumulative Net Revenue}}{\text{Contractor Cumulative Investment}}$$

- Measurement of **Contractor Profitability**
- Captures both Production, Price and Cost effects: *enhanced progressivity*
- Ratio computed periodically (quarterly)
- Cumulative amounts computed *from the Effective Date of the Contract until the period of determination*

Typical evolution over time:



- Terms fixed by the **Law** or **Regulations**
 - **Royalty** on production:
oil / gas, progressive rates: *stated by Regulations*
 - **Income tax**: *stated by Law*
- Terms open to bid included in the **EPA**
 - **Cost petroleum annual ceiling**
 - **Profit petroleum split** based on a “R factor” mechanism, which allows a progressive State take
- **Incentives** considered for the First Round
 - *No signature bonus*
 - *No area fees during the initial exploration phase*
 - *No State participation*

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