Joint Ventures and Contract Negotiations

Tim Lines
Oilfield International
July 05
OBJECTIVES THIS SESSION

• To understand two of the backbone contracts in the industry
  – The EPC and The JVA
• To survey some more recent innovative risk-sharing agreements
• To review negotiation techniques
• Syndicate Exercise 1: To negotiate the sale and purchase of a share in an oilfield
• Syndicate Exercise 2 (Interlude Exercise): To draft the JVA for your agreed sale and purchase
AGENDA

1) THE ENGINEERING, PROCUREMENT AND CONSTRUCTION CONTRACT - Advance Notice: Dry!
2) THE JOINT VENTURE AGREEMENT - Advance Notice: Dry! Sorry!
3) UNLOCKING VALUE THROUGH ALLIANCING
4) CONTRACT NEGOTIATIONS
5) Syndicate Exercise 1
   – Negotiate the Sale and Purchase (“Farm-in”/”Farm-Out”) of a share of an Oilfield
6) Syndicate Exercise 2 (Interlude Activity)
   – Draft and Further Negotiate a JVA for the Agreed Sale and Purchase
Debate is more important than getting through the slides – I will always discuss any material at other times.
Legal Agreements

• Who should draft them?
  – A lawyer of course!
    • But NOT on his/her own, a big mistake
    • Should serve a team led by commercial and technical experts
      – Translating their deal requirements into a sound contract
      – Prompting them about legal issues and contractual opportunities they may not have thought of

• Why are the contracts so tortuous and long-winded?
  – If a contract is “silent” on any issue or eventuality, the “implied intent” defaults to contract law or the judge’s interpretation
  – The ability to dream up all possible eventualities on any material issue and then set them into a legally sound contract is what you are paying the lawyer for

• So the better the contract, the better your chance in a dispute?
  – Actually the talent and persuasiveness of your barrister is often as decisive.
    • He/she may peruse your painstakingly drafted contract for a surprisingly short time before deciding the course of defence/attack!
    • (Because) Winning may have little to do with arguing the actual contract text!
1) THE ENGINEERING, PROCUREMENT AND CONSTRUCTION CONTRACT “EPC”
EPC Contracts
(Usually $50m to $1000m)

• After FEED, tender for one contractor to do the rest.
  – Contractor makes his money on the change orders!
    • Important to have very well defined design if you go for EPC
    • If not well-defined, safer/cheaper to use (e.g.: ) manhours-based contract for detailed design, and then tender a fixed price contract for just procurement and construction

• Unless a “hot” project, tenderers may only bid if their costs are reimbursed if they lose ($1m each perhaps)
EPC Tender Documents
($140m Arctic Russia example 2001-2004)

1) Instructions to Tenderers (30 pages)
   - Bidding procedures (say 8-12 weeks) and Evaluation procedures (say 4-6 weeks) for determining winner.
     - Two envelope system: technical and financial offers.
   - Site visit timetable
   - Company facilities and resources at Contractors’ disposal during EPC
     - Accommodation and air transport especially
   - Other contractors on site, and interactions with EPC
   - **Bank guarantee** before contract signature (10%-15% of contract value)
   - Request for
     - Acknowledgement of tender and decision to bid (within say 7 days)
     - Agreement to attached draft contract (tough one!)
     - Acceptance of accuracy of FEED documents (tough one!!)
     - Agreement to Assignment of Long Lead Items
     - Scope of work required (summary; refer Annexes)
       - “Level 2” and Level 4 schedules; Method statements and HSE statements
     - Formats for company experience statements, key fabrication facilities, organograms, key CVs etc
     - **Unit rates for change orders**
     - Proposed Subcontractors and their facilities
     - **Technical and Commercial Exceptions**

Source: Tim Lines, Oilfield International
EPC Tender Documents

2) Draft Contract and 22 Annexes (400 pages)
   - Tenderer to state his agreement subject to any specific and quantified commercial or technical exceptions

3) FEED documents (6 or more Lever Arch files!)
   - PFDs, P&IDs, Equipment lists and data sheets, Philosophies, Policies, HSE, Studies, Site surveys etc
   - Long Lead Items
     • Bid documents and signed contracts

Source: Tim Lines, Oilfield International
Description of Draft Contract and Annexes

EPC Contract (Main Text): about 7 chapters
1) General
   – Intention, definitions, object, duration
2) Rights and Obligations of Company
   – Rep, approvals, obligations, suppliers
3) Rights and Obligations of Contractor
   – Rep, independence, undertakings
4) Conditions of Performance of the Works
   – Schedules, variations, QA, transfer of property, liens (debt rights), acceptances, warranties, liquidated damages for late delivery, HSE

Source: Tim Lines, Oilfield International
Description of Draft Contract and Annexes ctd

5) Financial Provisions
   - Rates and Prices, Fixed contract price, Bank Guarantees, accounting and payment currencies, invoicing, payment, sums due to company, taxes, reservation, performance guarantees

6) Liabilities and Insurance
   - Liabilities between contractor and company, and third parties, special risks (outside contractor’s control), consequential damages, special provisions, insurances by contractor (e.g.: All Risks Construction Insurance”, “Third Party”, Life Assurance”; “Key Worker Insurance”), insurances by company

7) General
   - Force Majeure, compliance with laws, property and confidentiality, patent infringement, Assignment/ subcontracts, Title, “Termination, Suspension and Default” (and remedies), right to audit, governing law, settlement of disputes, ruling language, amendments and waivers, notices, limitation of contractor’s overall liability, entirety

Source: Tim Lines, Oilfield International
Titles of EPC Annexes

ANNEX 1: SCOPE OF THE WORKS UNDER THE CONTRACT
ANNEX 2: CONTRACT DATES AND SCHEDULE
ANNEX 3: CONTRACT PRICES AND RATES (Lump sum and unit rates for change orders)
ANNEX 4: CONTRACT ADMINISTRATION MANUAL
ANNEX 5: CONTRACTUAL REGISTERED SUPPLIERS AND SUBCONTRACTORS LIST
ANNEX 6: PRECOMMISSIONING AND COMMISSIONING
ANNEX 7: QUALITY ASSURANCE AND FOLLOW-UP
ANNEX 8: INTENTIONALLY LEFT BLANK (there is always one !)
ANNEX 9: LIST OF TRANSMITTED TECHNICAL DOCUMENTS (make sure they sign a document acknowledging receipt)
ANNEX 10: CERTIFICATES OF COMPLETION
ANNEX 11: TECHNICAL DOCUMENTS TO BE RELIED UPON
ANNEX 12: ASSIGNED LONG LEAD ITEMS; TRI-PARTY AGREEMENTS
ANNEX 13/A. BANK GUARANTEE FOR PERFORMANCE (PERFORMANCE GUARANTEE)
ANNEX 13/B DRAFT FORM OF PERFORMANCE BANK GUARANTEE DEMAND
ANNEX 14/A MUTUAL INDEMNITY AND WAIVER OF RECOURSE AGREEMENT (VERSION FOR CONTRACTOR)
ANNEX 14/B MUTUAL INDEMNITY AND WAIVER OF RECOURSE AGREEMENT (VERSION FOR CONTRACTOR’S SUBCONTRACTORS)
ANNEX 15 LIABILITY AND INSURANCE AGREEMENT FROM SUBCONTRACTORS
ANNEX 16 NOMINATED CONSTRUCTION SUBCONTRACTOR
ANNEX 17 CONSTRUCTION ALL RISKS POLICY SUMMARY
ANNEX 18: HSE REQUIREMENTS
ANNEX 19: SERVICES AND FACILITIES PROVIDED BY COMPANY
ANNEX 20: SERVICES AND FACILITIES PROVIDED BY CONTRACTOR
ANNEX 21: ENGINEERING AND DESIGN STATUS
ANNEX 22: STATUS OF SITE AND WORKS

Source: Tim Lines, Oilfield International
What Actually Happened
(best laid plans...)

• Tender issued in English and Russian (for oil field in Russian Arctic)
• Russian contractor won, 12 weeks later
• Russian Civil Code prevailed (since contract now between two Russian companies)
  – Had to transpose contract from English Law, opening flood gates for renegotiation!
• Russian language had to prevail but (luckily!) we insisted only from time of final signature
  – Translators had mistranslated contract (not specialised enough in oil) causing confusion and ill feeling
• Russian Civil Code forbade many of the Chapter 6 insurances
  – in Russia, only three types of insurances permitted, tightly defined
  – Russian State-Owned parent used foreign subsidiary to buy the insurances on Western market

Source: Tim Lines, Oilfield International
What Actually Happened (best laid plans...)

- **Contractor found could not raise bank guarantee**
  - Russian State-Owned “parent” stepped in to act as guarantor
- **Long Lead Item suppliers then refused to reassign contracts from Company to Russian contractor!**
  - So Company retained LLIs, opening flood gates for “disputed-scope” claims by Contractor’s 20-odd lawyers. Hard work for Company’s single contracts manager (your speaker)!
- Company had insufficient resources to approve all documents (1000s of them), so they were approved by default, per Contract. Weakened company’s case against contractor
- Contractor 9 months late, theoretically incurring $10m liquidated damage penalties. Settled before arbitration, price not disclosed.
- Plant operates successfully at 50,000 bbl/d but 9 months late

Source: Tim Lines, Oilfield International
2) THE JOINT VENTURE AGREEMENT

• To agree and set down
  – any initial consideration
  – the subsequent individual contribution obligations and distribution rights
  – and all of the rules of engagement between parties wishing to collaborate…

until the end of the venture’s life.

• To enable an orderly transition of ownership of those rights to third parties

• To specify remedies in case of default

• To ensure the agreement is consistent with other important agreements, e.g.: a PSC
Typical Deal Situations

• A small company has acquired exploration rights and needs 3D or a well paying for. Goes to the market for an investor:
  – Concept of “carry” - carried interest in an investment
  – How much equity does the small company retain
  – How to fund future investments

• Organisations wish to participate in a new business opportunity.
  – Equity value of non-financial contribution (e.g. a patent, a market position or particular expertise)
1) Establishment and Object of Joint Venture

- Who the parties are and what their working interest are
- What the JV sets out to accomplish
  - Ideally in bite-sized specific steps, so that financial limits can be placed on each
- Any important constraints
  - E.g.: “Must be compatible with PSC”
    - And the parties agree can be later modified “mutatis mutandis” (with due alteration of the details), if in contradiction

Source: Tim Lines, Oilfield International
JVA Usual Provisions

2) Financial Obligations
   - Banking and mechanism of requesting payments ("cash calls") to JV account
   - Agreed budgets (and future mechanisms)
     • Ideally broken down into the bite-sized chunks above
   - Mechanisms for dealing (in advance) with minor budget over-runs and serious over-runs
   - Deviations from equitable contributions
     • Initial Considerations
       – For intrinsic value: Into the JV vehicle and/or into existing owners’ bank accounts
       – To match historic costs
     • Carried interest
       – Free Carry and Carry repayable from dividends (with compound interest)
     • Production bonuses
       – Based on actual performance of assets
   - Deviations from equitable distributions
     • Carrying party may recover some or all of carry+interest before distributions are equitable
     • One party may take inequitable share for a period or in perpetuity
       – Often by definition of “E” = equitable shares and “S” = special shares

Source: Tim Lines, Oilfield International
JVA Usual Provisions

3) Execution of Work
   – Who does what and where
   – Cover appointment of operating company may/may not have working interest

4) Voting
   – Passmark, usually simple majority with common-sense exceptions (e.g.):
     • Signature of PSC
     • Abandonment, surrender, relinquishment of acreage, PSCs
     • Amendment of work programme already agreed
       – Lead to “Sole Risk” provisions
     • Sole Risk
       – One party funds some work 100%
       – Other party(ies) has opportunity to later opt back in, usually at a premium 100%-600%.
       – Otherwise benefits accrue only to investing party
     • Joint farm-out
   – Appointment of Representatives (in accordance with working interests)

5) Area of Mutual Interest
   – Usually a map or some other business definition

Source: Tim Lines, Oilfield International
JVA Usual Provisions

6) Management and Operations Agreement
   – Commitment to negotiate a Joint Operations Agreement (usually based on 2002 AIPN model agreement)
     • subject to certain progress in the work programme (e.g.: signature of a PSC)

7) Law / Dispute Resolution
   – Applicable Law
     • easiest to get Law of England and Wales in any international agreement
   – International Chamber of Commerce ("ICC") arbitration procedures in London, NY, Paris, Stockholm etc

8) Confidentiality – usual provisions

Source: Tim Lines, Oilfield International
JVA Usual Provisions

9) **Assignment** (of some or all of a party’s working interest and rights to a third party)
   - Right of first refusal
     - “pre-emption” by other equity holders on same terms
   - Time constraints
     - E.g.: no assigns for 18 months
   - Protection of JV
     - Third party must reflect JV interests
   - Joint farm-out of part of equity
     - Say to an oil major with funds/expertise to develop
   - Tag Along Rights
     - Minority has right to join a sale
   - Drag Along Rights
     - Majority can force minority to join a sale

Source: Tim Lines, Oilfield International
JVA Usual Provisions

10) Remedies (i.e.: what can you do if the other side doesn’t play ball?)
   - Failure to respond to cash call (the usual one!)
     • Provisional default
       – Lose rights to vote for a period of time (60 days, 180 days, more)
       – Lose rights to distributions, OR reallocate distributions to “pay” for cash call
         » MUST be explicit
     • Default
       – Dilution pro-rata with defaulted cash call value
       – Annexure of total working interest
         » MUST be explicit
         » Need to be careful about governing law (Australia is hot on “fair and reasonable”)
   - Most others (breach of CA; acting against JV interests; sale to third party without allowing pre-emption. The intent of party is usually pretty clear!)
     • ICC (semi ugh; three experts; $$)
     • Courts (100% ugh!; $$;$; and MANAGEMENT TIME AND STRESS)

11) General
   - Ownership of data; rights of representation; restrictions on binding other parties; notices; entirety; time limit; withdrawals

Source: Tim Lines, Oilfield International
That’s The Dry Bit Over!
3) UNLOCKING VALUE THROUGH ALLIANCING

3.1) BP Andrew
3.2) UK Accelerator Programme
   – Case Study: Beuly
3.3) Halliburton Integrated Service Contract
3.1) BP Andrew
(North Sea)
Andrew: ‘guinea pig’ for Alliance experiment

Andrew discovered in 1974

- 112 million barrels, 115 m water, 230 km from shore

- Original Development Cost $450m, uneconomic

Source: BP
Andrew Alliance - the challenge

• Building the Alliance
  - Two years pre-sanction phase
  - Early selection of key Contractors using 10 Minimum Conditions of Satisfaction (MCOS) e.g. eliminate inefficiencies at all interfaces
  - Seven Contractors selected (Brown & Root, TJB, Barmac, Saipem, Allseas, Santa Fe, Emtunga)
  - Formation of Integrated Management Team (IMT) with BP and all Seven Contractors

Source: BP
Andrew Alliance - the challenge

• **Alliance agreement and cost target**
  - All Contractors involved with development of sanctionable Alliance cost target
  - Finalise Alliance agreement, including risk and reward structure

• **Andrew sanctioned February 1994**
  - Agreed cost target £373m (20% below original estimate)
  - First oil in early 1997

Source: BP
Andrew Alliance - the challenge

Alliance Risk and Reward Scheme

Sanctioned target cost £373m

<table>
<thead>
<tr>
<th>Contractors' risk</th>
<th>Total £27m</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Additional costs to BP/Partners</th>
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<table>
<thead>
<tr>
<th>BP/Partners savings 46%</th>
</tr>
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<table>
<thead>
<tr>
<th>Contractors' reward 54%</th>
</tr>
</thead>
</table>

Source: BP
Andrew Alliance - the delivery

• Building the Team

- Only one team -- BP & Contractors
- Commitment and enrolment at all levels
- Everyone understood the goals and objectives
- Openness, honesty and trust

Source: BP
Andrew Alliance - the outcome

• The Andrew result

  ➢ The final project cost was £290million

  ➢ £83m (20%) below sanctioned target (£45m contractors’ “gainshare”)

  ➢ Platform started up six months ahead of schedule
Andrew: Key Lessons Learned

- Alliances need established benchmarks and norms to ensure that potential risks and rewards are realistic.

- Early involvement of key contractors is very important – equally true in more conventional contractual arrangements.

- Alliances need to be built by the team – there is no recipe and they are difficult to replicate.

Source: BP
3.2) Satellite Accelerator

The UK’s Problem:

How to accelerate development of sub-marginal small oilfields before the major infrastructure is abandoned?

Solution developed for the UK, but could it work in Trinidad? *And what role for Petrotrin?*

Categories of activity

- Adaptable, non-prescriptive process – small challenges to large opportunities
- Can unlock resources, enthusiasm and innovation
Satellite Accelerator - What is different?

Collaborative, open approach

Commitment from Operators

Provide a Challenge – NOT request a Product

Teams – Facilitation but not “forced” - Interaction with teams

Focus on the challenge NOT the process

LOGIC as independent facilitator (or Petrotrin?)

Source: LOGIC, UK Government
Looking for innovate technical & commercial solutions
Proposals sought from capable teams – potentially including investors
Amerada Hess, BP & Shell first opportunities – Phillips now

Field information is available to teams
Clear challenges / hurdles identified
Interaction discussions with teams before / after proposals
Tight time-line – keep workload down
Aim for ALIGNMENT

Initial challenges include:
- Remote locations
- HPHT well design
- Gas Flaring
- Reservoir difficulties
- Marginal economics

Contacts:
accelerator@logic-oil.com
Charles Miskin
44 – 1224 - 853424 / 853426
FULL DETAILS & REGISTRATION:
www.logic-oil.com

Source: LOGIC, UK Government
**Satellite Accelerator - principles**

- Clear objectives and boundaries (technical, commercial, economic, HSE) provided
- Operators provide sufficient resource & interaction
- Operators open to innovation & willing to share risk and reward
- Proposals both within and outside existing agreements
- Unfunded proposal work kept to a minimum
- Learnings shared through LOGIC

Source: LOGIC, UK Government
Risk and Alignment
Each project will be different

Dayrate
Dayrate + pass through services
Discretionary incentives

Operational Risk

Integrated services
Full Service Rig
Lump sums
Footage contracts
Turnkey / EPIC

Reservoir / Future risk

Full field Alliance
Finance - drill now / pay later
Productivity of well "quality" measures
Pay Proportional to productivity
Pay with production - $/bbl
Limited equity share / carry
Partner / Full operatorship / L&I

Source: LOGIC, UK Government
**Shared responsibility**

*Changing the traditional approach*

- Increasing alignment of operational and commercial goals
- Decreasing operator control & influence
- Increasing contractor’s responsibility and risk

Source: LOGIC, UK Government
Satellite Accelerator
Role of LOGIC - Could this be Petrotrin?

LOGIC involvement:

• Marketing & engagement
• Communication internally and externally
• Presentation – conferences, exhibitions, trade associations

• Supply chain contacts & facilitation as required
• Support to asset teams / operators

• Data room procedures / assistance
• Process management and continuity
• Scheduling – aim one project per 4 / 6 weeks

• Feedback, key learnings, continuous improvement

Source: LOGIC, UK Government
Satellite Accelerator Case Study (BEULY)
Beauly - A Submarginal Subsea Prospect

STOIIP 8 - 12 MMstb

Reserve 2 - 4 MMstb

Source: Global Marine Integrated Services (GMIS), LOGIC
The Beauly Context and Challenge

• Very small oil discovery 5 km SE of the Balmoral Floating Production Vessel

• The commercial downside made investment unattractive

• Could new thinking unlock the development?

Source: Global Marine Integrated Services (GMIS), LOGIC
The Consortium

*nisus* - RML, GMIS, Stolt, Wood Gp

– Full corporate backing as core business
– Understands Operator’s commercial objectives
– Innovative and aligns and shares risks

Source: Global Marine Integrated Services (GMIS), LOGIC
The Proposition

• Owners, Development Contractors and Transporters are all Stakeholders with an interest in progressing the development

• Regard all cash flow > cost as “profit”

• No one should profit unless the project profits

Source: Global Marine Integrated Services (GMIS), LOGIC
The Process

• Invite Development Contractors to view data and offer technical and risk sharing commercial solutions
  – Keep offer time short!

• Work with preferred contractor alliance to create investment opportunity
  – Understand each parties’ aims

• In parallel seek innovative risk sharing processing and transportation agreements
  – Align the objectives

Source: Global Marine Integrated Services (GMIS), LOGIC
The Consortium’s Proposal

- Contractor Alliance would develop field for a **fixed price with no profit**, payable on handover
  - Contractor carries project risk
- **Profit to be earned through a tariff related to production**
  - Profit can exceed “normal” levels
- Transportation tariff variable in proportion to oil price and field reserve

Source: Global Marine Integrated Services (GMIS), LOGIC
Effect of Risk Sharing on Stakeholders

Source: Global Marine Integrated Services (GMIS), LOGIC
Beauly - A slice of the cake for everyone!

Risk sharing has created value where none existed

Source: Global Marine Integrated Services (GMIS), LOGIC
3.3) Halliburton Integrated Service Contract (with Shell North Sea)

Contract Value: $120m, 280 Halliburton personnel, 5 years
Halliburton’s return (“profit”) to be earned through performance mechanism

Shell Production
250,000 bbl/d oil (10% of UK production)
8.2 MMm3/d gas (290 MMSCD)

Shell Operating Costs
£250 million pa
## ISC Performance Model - Asset Influence Scorecard

<table>
<thead>
<tr>
<th>Element</th>
<th>Poor</th>
<th>Satisfactory</th>
<th>Good</th>
<th>Very Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; Safety</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>No.HPIs</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TRCF</td>
<td>&gt; 6</td>
<td>6 - 4.7</td>
<td>4.6 - 3.3</td>
<td>3.2 - 1.9</td>
<td>&lt; 1.9</td>
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<tr>
<td>LPI Completion</td>
<td>&lt; 80%</td>
<td>80 - 85%</td>
<td>85 - 90%</td>
<td>90 - 95%</td>
<td>&gt; 95%</td>
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<tr>
<td>Environmental</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas Losses, sm3</td>
<td>&gt; 121</td>
<td>121 - 112</td>
<td>112 - 103</td>
<td>103 - 93</td>
<td>&lt; 93</td>
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<tr>
<td>Oil to sea, ppm</td>
<td>&gt; 15.5</td>
<td>15.5 - 13.5</td>
<td>13.5 - 11.5</td>
<td>11.5 - 9.5</td>
<td>&lt; 9.5</td>
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<tr>
<td>Weighted Incidents</td>
<td>&gt; 2.75</td>
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<td>1.25 - 0.50</td>
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<tr>
<td>Unit Operating Cost</td>
<td>&gt; £2.27</td>
<td>£2.27-1.95</td>
<td>£1.98-1.66</td>
<td>£1.66-1.53</td>
<td>&lt; £1.53</td>
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</table>

HPI = high potential Incident  
LPI = Leading Performance Indicators  
TRCF = total recordable case frequency (LTI+MTC+RWC per million manhours)

Source: Halliburton
# ISC Performance Model

<table>
<thead>
<tr>
<th>Cost Containment</th>
<th>Contractor Influence</th>
<th>Asset Influence</th>
<th>Value Adding</th>
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<tbody>
<tr>
<td>Maintenance Compliance</td>
<td>Poor</td>
<td>%</td>
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<tr>
<td>Production Deferment</td>
<td>Satisfactory</td>
<td>%</td>
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<td>%</td>
<td>Good</td>
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<td>%</td>
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<td>%</td>
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<tr>
<td>%</td>
<td>Excellent</td>
<td>%</td>
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</table>

## HS&E:
- No.HPIs
- TRCF
- LPI Completion
- Gas Losses, sm3
- Oil to sea, ppm
- Weighted Incidents
- Unit Operating Cost, £/boe

## Major Projects

## Production Challenge

## Extraordinary Return

Source: Halliburton
ISC Performance Model - Production Deferment

Performance Parameter = % of annual oil production deferred.

Source: Halliburton
ISC Performance Model - Maintenance Compliance

Performance Parameter =

% of safety critical (cat 1) maintenance routines completed on time.

All return eroded if compliance falls below 95%

Source: Halliburton
Example Project - Produced Water Quality Improvement

Scorecard Return = £343k
Project Budget = £2.6M

- Extensive technical studies undertaken to arrive at IGFU (Induced Gas Flotation Unit)
- Weather deck proposal @ £3.5M challenged to bring ‘end of line’ solution @ £2.6M
- Costs minimised through deviations to Shell material standards and synergies with other projects.
- ‘Novel’ tie-in technique to minimise shutdown and hence production deferment

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>WEIGHTING</th>
<th>PARAMETER</th>
<th>Poor</th>
<th>Satisfactory</th>
<th>Good</th>
<th>Very Good</th>
<th>Excellent</th>
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<td>04-May-00</td>
<td>28-Apr-00</td>
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<td>-£10,000</td>
<td>£7,500</td>
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<tr>
<td>ENVIRONMENT</td>
<td>35%</td>
<td>OIWOB ppm</td>
<td>40</td>
<td>25</td>
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<td>Shutdown Days</td>
<td>5</td>
<td>3.5</td>
<td>2</td>
<td>1.5</td>
<td>1</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>-£47,500</td>
<td>£13,750</td>
<td>£75,000</td>
<td>£112,500</td>
<td>£150,000</td>
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</table>

Source: Halliburton

ISC Performance Model - Major Projects
## ISC Performance Model

### Cost Containment
- **Poor**: %
- **Satisfactory**: %
- **Good**: %
- **Very Good**: %
- **Excellent**: %

### Maintenance Compliance
- **Poor**: %
- **Satisfactory**: %
- **Good**: %
- **Very Good**: %
- **Excellent**: %

### Production Deferment
- **Poor**: %
- **Satisfactory**: %
- **Good**: %
- **Very Good**: %
- **Excellent**: %

### HS&E:
- **No. HPIs**
  - **Poor**: > 121
  - **Satisfactory**: 121 - 112
  - **Good**: 112 - 103
  - **Very Good**: 103 - 93
  - **Excellent**: < 93

- **TRCF**
  - **Poor**: > 15.5
  - **Satisfactory**: 15.5 - 13.5
  - **Good**: 13.5 - 11.5
  - **Very Good**: 11.5 - 9.5
  - **Excellent**: < 9.5

- **LPI Completion**
  - **Poor**: > 2.75
  - **Satisfactory**: 2.75 - 2.00
  - **Good**: 2.00 - 1.25
  - **Very Good**: 1.25 - 0.50
  - **Excellent**: < 0.50

- **Gas Losses, sm3**
  - **Poor**: > £2.27
  - **Satisfactory**: £2.27 - 1.98
  - **Good**: £1.98 - 1.66
  - **Very Good**: £1.66 - 1.53
  - **Excellent**: < £1.53

- **Oil to sea, ppm**
  - **Possible Incidents**
  - **Unit Operating Cost, £/boe**
  - **Extraordinary Return**

<table>
<thead>
<tr>
<th></th>
<th>Poor</th>
<th>Satisfactory</th>
<th>Good</th>
<th>Very Good</th>
<th>Excellent</th>
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<td><strong>Return</strong></td>
<td>£</td>
<td>£</td>
<td>£</td>
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</table>

**Total Financial Return = £x**

Source: Halliburton
4) CONTRACT NEGOTIATIONS

• Two or more parties attempting to arrive at a mutually satisfactory end point starting from different interests
• By means of interaction, bargaining, movement and compromise
Before the Process – Preparation

• What do you think the other side wants
  – What is their “walk-away” position?
  – What is more valuable to them than to you? (It might cost you nothing as a bargaining chip!) And vice versa.

• What are your objectives (S.M.A.R.T.)
  – Target position
  – Walk-away position

• What are the salient facts

• What are the strengths and weaknesses of the two sides
  – Is anyone short of time?
    • S&W change over time
  – How you relate to your adversaries affects balance of power (over years not months)

• Composition of your team
  – Leader, shouter (!), note-taker, figures person etc

• Tactics
  – Conventions
    • E.g.: Go in strong then more substantive etc
  – Is this negotiation in the public eye?
    • People behave differently
The Process

• Opening
• Testing
• Moving
• Closing

• You will lose out if
  – You do not know which stage you are in
  – You attempt to move to the next stage too early
Opening

• Introductions
  – Clarify roles
  – “Box off” what you are about to do
  – A bit of one-upmanship

• Claim
  – Keep cards hidden but be flexible

• Counter Claim

• Attitudinal Structuring
  – Moral pressure
  – Impact on third parties
Testing

• Questioning
  – Information
    • What is important?
  – Relationships
    • Interested, concerned
  – Share control of process
    • Be careful what you reveal!

• Repetition
• Tactical use of emotion
• Observing
  – Pick up things about their case
    • What is weak / not really believed
    • What is and is not important to them
    • Identifying negotiating ploys

• Adjourn
  – What have we found out?
  – How to get from here to our target position
Moving

• Conditional concessions
  – “if we were prepared to.., would you..”
• Keep moves small
  – Avoid losing credibility
• Never give a concession for nothing
  – Only move when they are ready to move

• How to move together:
  – summarise position
  – clarify where you both are
  – suggest a break so both sides can think about it / “come back more positive”
Closing

• Need to know when reached
  – Smaller concessions
  – More summing up
  – People not knowing when to close

• Big opportunity
  – One side trying to close when other still negotiating
    • Things get given away
    • Use time / other urgent pressures
Socialise

- Congratulate
- Drinks
- Next Year
Accrued Wisdom

- Nothing for Nothing
- Speed is not a virtue
- The power of tomorrow
- The importance of convention but...
  - Everything is right, in the right place
- Different teams do achieve markedly different results
  - Some correlation with number of questions asked
5) SYNDICATE EXERCISE 1: NEGOTIATING THE SALE AND PURCHASE OF A SHARE IN AN OILFIELD

- 30 mins to prepare negotiating plan
- 30 mins of negotiation
- You MUST get a deal
Syndicate Exercise 1

• Syndicate Results
  – Sellers
  – Buyers
Syndicate Exercise 1

• Replace this page with Seller’s Handout 1/1
Syndicate Exercise 1

- Replace this page with Buyer’s Handout 1/2
Syndicate Exercise 1

• Replace this page with Buyer’s Handout 2/2
6) SYNDICATE EXERCISE 2: DRAFTING JVA FOR THE AGREED SALE AND PURCHASE

• Before we meet again!
• Handout of a pro-forma JVA
  – Ask around in Petrotrin to improve it!
Syndicate Exercise 2

• Replace this page with Proforma Joint Venture Agreement (8 pages)