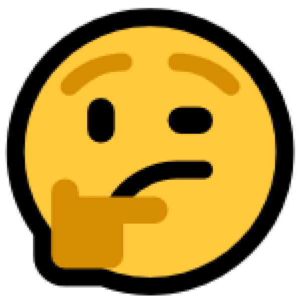
An Idiot's Guide to the Economics of (Ultra) Deepwater Oil and Gas in Two Slides



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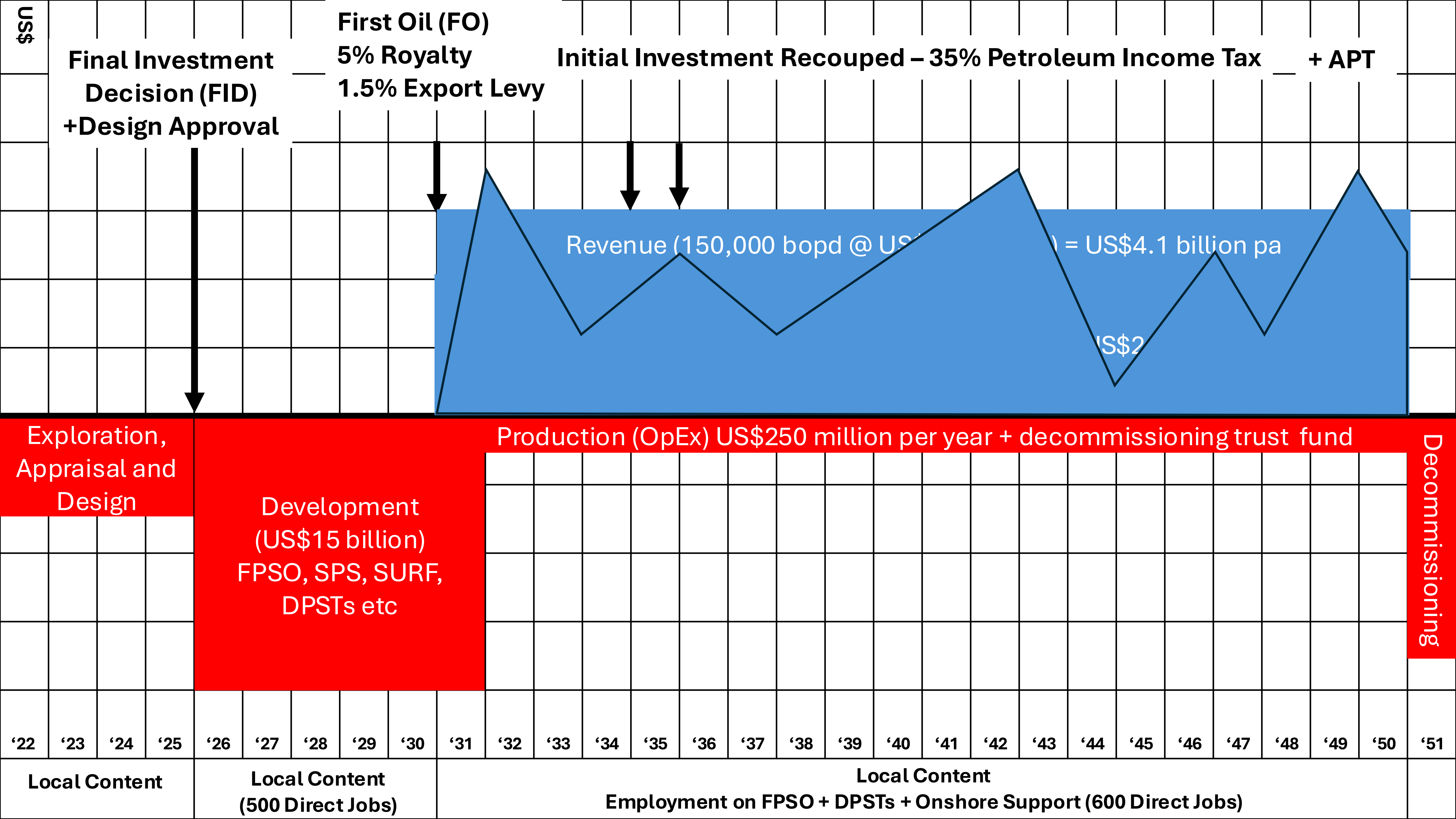
US$
Final Investment Decision (FID) +Design Approval
First Oil (FO)
5% Royalty
1.5% Export Levy
Initial Investment Recouped – 35% Petroleum Income Tax
+ APT
Revenue (150,000 bopd @ US
) = US$4.1 billion pa
Exploration, Appraisal and Design
Production (OpEx) US$250 million per year + decommissioning trust fund
Development (US$15 billion) FPSO, SPS, SURF, DPSTs etc
Decommissioning
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Local Content
Local Content (500 Direct Jobs)
Local Content
Employment on FPSO + DPSTs + Onshore Support (600 Direct Jobs)

Do Interests Align?

IOC	Government
Profit maximiser but price taker	Regulator and also active participant (via Namcor)
Information asymmetry	Information asymmetry (expertise)
Exploration expenditure undertaken at risk	“Maintain at least 30% state carry” (SMIP)
Target IRR (higher than other available projects)	Maximise tax revenue and profits (Namcor)
Recoup investment as quickly as possible	Recoup investment as quickly as possible
GOR and geology determine design	Needs to approve design
Cannot easily stop and start production	Minimise uncertainty wherever possible
Gas reinjection integral to design	Gas used for reinjection rather than sold
No routine flaring	No routine flaring (Petroleum Act)
Safety critical	Safety critical
Maximise local content (commercial sense)	Maximise local content
Sell out at a later stage to junior	Maximise reserve depletion