



## Midstream

### Ocensa: from a 'cost' to a 'profit center'

by Tomás de la Calle

Within the midstream oil business in Colombia there is a sort of mantra composed of the words: 'initial shippers'. Companies enjoying such a condition exert a unique prerogative: on a merit order scheme they are the first ones entitled to ship their working interest oil. If on a certain day, they find themselves with less oil to ship than their own transport capacity, they would also be the first ones entitled to market the difference along with other partners in the pipeline system.

The Ocensa pipeline goes 830 km from Casanare to Colombia's main oil exporting port of Coveñas on the Caribbean Sea. With a nominal capacity of 575mbd, it was built to serve the Cusiana / Cupiagua fields (Cus/Cup) and the initial shippers used to be Ecopetrol (60%), BP (15,2%), Total (15,2%), and Triton (9,6%). BP bought out Triton's share some years ago, and afterwards sold its Colombian assets to Equion back in 2010, so Equion's current share is 24,8%. Last year Total split their holding in Ocensa into three parts and sold two of them: 5% to Petrominerales and 5% to Cepcolsa; they kept the remaining 5,2% maybe hoping Hurón (formerly Niscota) would prove successful.

Within the scheme of priorities described above it may be the case that Initial Shipper A (whose initial capacity was in line with its production) has its production declining whereas Initial Shipper B may be experiencing the opposite situation. In such a case, B would have a greater incentive to expand the pipeline capacity than A, especially if A is not going to get a

market fee for its unused share. In this case, the owners become stalemated on the issue of expansion. This used to be pretty much the case for Ocensa with B being Ecopetrol and A the rest owners.

Ocensa was initially built to serve the joint-venture partners in the upstream, so there was a match between their share in pipeline capacity and ownership in line with their share in the oil fields. Thus, Ocensa owners and actual shippers used to be the same agents. But now, given the dynamics of the Colombian oil business, this is no longer the case: Cus/Cup oil currently uses less than 30% of Ocensa's capacity implying a mismatch between Initial Shippers (and owners) and actual users of the system.

Ocensa's new business model recognizes this fact (i.e. the mismatch) by splitting the ownership of Ocensa from the assigned pipeline capacity enabling it to migrate from a cost center model to a profit center whereby owners would bear the risks of under-utilization but would also have the potential upside of getting market fees for capacity. This will be traded on an open third-party-access scheme that will provide clear signals about willingness-to-pay by oil companies. This is expected to be at the top end given the risks currently experienced by shippers when they exercise their second-best option: send their barrels via tanker truck at costs as high as US\$25 per barrel.

Another important change in the structure of the transport industry in Colombia that is happening at the same time is the spin out of Ecopetrol's infrastructure assets into Cenit S.A. One of the main purposes is to assure the industry of fair treatment based on willingness-to-pay for pipeline assets previously dedicated or assigned to Ecopetrol.

Under this new model, Cenit will probably benefit from its owner condition in Ocensa; however, Ecopetrol's shipper condition would probably not be as promising, at least in the short term: they will lose their Initial Shipper privileges to use the capacity freed by its partners in the pipeline. This sounds quite fair but Ecopetrol still have another card: they own the capacity (outside Ocensa's scope of operations) to access the pipeline (e.g. the infrastructure required to unload oil from tankers that will enter the system). These vital bottlenecks were not transferred to Cenit. At the end of the day, then, newcomers would still have to 'talk' to Ecopetrol.

**Bottom-Line:** Ocensa's change in strategy is a welcome change in Colombia's midstream industry, making hydrocarbons transport more transparent with pricing based on market forces. But there are still some things to be corrected; especially Ecopetrol's remaining control of on-loading facilities. By not transferring these assets to Ocensa or even to Cenit, the state-owned company controls a key bottleneck and partially undermines the good done by these other changes in industry structure.