



## Upstream

### Round ANH 2012: A bittersweet outcome

The National Hydrocarbons Agency (ANH) held its 2012 bid-round in Cartagena last month (October 17th) whereby the expected outcome was an 'Initial' order of eligibility for the participating OilCo's. On October 31st, the ANH published the 'Preliminary' order of eligibility after filtering the initial one through the financial capacity of the participants. The 'Final' list will be published only on November 26th. We focus the discussion on the 'Preliminary' list since we do not expect major changes to happen when the 'Final' list is released.

**The Outcome:** The blocks on offer were classified in three types according to the level of maturity of the basins: Type 1 for mature basins (33 blocks), Type 2 for less-mature ones (34 blocks), and Type 3 for frontier areas (48 blocks). While Type 1 blocks were all on-shore over conventional-prone basins, Type 2 and 3 also included some off-shore ones (12 in total), and some blocks

(30 in total) in non-conventional-prone areas.

Defining 'success ratio' as the quotient of the number of blocks assigned over the total number of blocks offered, it goes from as high as 82% for Type 1 areas, to as low as 17% for Type 3 blocks, with Type 2 sitting in between at 41%. The overall success ratio was 43% (=49/115).

**The 'Sweet' side:** As expected, Type 1 blocks attracted most of the interest by both established players and new-entrants. The principal bidding variable was the premium offered to the ANH on top of normal mandatory royalties. Competition triggered high figures for some blocks: as high as 34%. When royalties are added (by law they range from 8% to 25% according to the production level) to such figures, we wonder how the economics would work!

These mature basins also managed to entice interesting new players into the fray, for example, Bridas Corporation ('BC E&P') owned 50/50 by CNOOC, and the Argentinian Bulgeroni family, that in turn partners (40/60) with BP in Pan-American Energy (200+ mboe/d production). Since Nexen has recently been acquired by CNOOC, the three blocks awarded to BC E&P will enhance the former's portfolio. Other newcomers include Andes (the big winner with seven blocks awarded), Petróleos Sudamericanos (also from Argentina) and Optima/Range from the US. Finally, the extreme note was set by PetroNorte that originally 'won' ten blocks only to end up with four since its financial resources did not allow for more.

In a different 'league', Type 2 and 3 succeeded in drawing the attention of new big players: Exxon, Shell, Anadarko, Gulfsands (all four winning blocks) plus Statoil and Harvest Resources, that unfortunately did not manage to win any block.

#### Type 1 blocks – Initial versus Preliminary Eligibility

	1	2	3	4	5	6	7	8	9	10	
Andes / Integra	LLA-2/11%	LLA-28/9%	LLA-51/13%	LLA-79/15%	VMM-8/10%	LLA-12/11%	LLA-49/9%	← Preliminary Assignment			
	LLA-2/11%	LLA-28/9%	LLA-51/13%	LLA-79/15%	VMM-8/10%			← Initial Ranking			
Petro Norte	LLA-1/31%	LLA-53/33%	LLA-70/13%	PUT-25/19%	LLA-12/24%	LLA-49/26%	LLA-50/24%	LLA-64/27%	LLA-65/23%	LLA-24/20%	
	LLA-1/31%	LLA-53/33%	LLA-70/13%	PUT-25/19%							
Optima / Range	PUT-5/22%	VMM-7/15%	VSM-1/18%	LLA-50/6%							
	PUT-5/22%	VMM-7/15%	VSM-1/18%								
BC E&P	LLA-33/34%	LLA-43/24%	LLA-66/15%								
	LLA-33/34%	LLA-43/24%	LLA-66/15%								
Vetra	LLA-78/22%	LLA-64/22%									
	LLA-78/22%										
C&C	LLA-83/25%										
	LLA-83/25%										
Clean Energy	VMM-39/18%										
	VMM-39/18%										
Geoproduction	VIM-21/3%										
	VIM-21/3%										
OGX	VIM-19/15%										
	VIM-19/15%										
Amerisur / Pluspetrol	PUT/12/29%										
	PUT/12/29%										
Ecopetrol	LLA-65/15%										
Petróleos SudAmericanos	PUT-24/3%										
NO BIDS	LLA-3	LLA-44	LLA-54	VIM-11	VIM-18	VMM-22					

Chart shows what each company bid for each block. The block number is first followed by the bidding criteria in this case royalty premium. The cream color is the bid on the day of the auction. The green color is the preliminary adjudication. Dark-green represents Llanos basin; light-green, Magdalena Valley and Putumayo basins.

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**The 'Bitter' Side:** Inside the Type 2 group, two sub-classifications were established: Type 2a that required companies to demonstrate (among other things) a production over 5 mboe/d, and Type 2b areas that, as well as Type 3 blocks, required a production over 20 mboe/d. This effectively excluded most of the players whose base is only or primarily Colombia. According to our proprietary Colombian oil production data base, only a dozen, that is,

around 20% of the circa 60 companies currently producing in the country would surpass the Type 2a hurdle.

Moreover, just four companies (Ecopetrol, Pacific Rubiales, Oxy and PetroMinerales) produce over 20 mboe/d within the country and so were able to bid for Type 2b and 3 based on their Colombian production alone.

**Bottom-Line:** The ANH put on a brave face for the press but the government has to be disappointed with the overall outcome. Yes, there was success in the Type 1 Llanos basin and majors like Shell or Anadarko won blocks. But the government's stated goal is building reserves and the next Piriri/Rubiales or Caño Limón will not come from Llanos fields left over from previous rounds. It will come from someone taking a chance on the Type 2 or Type 3 blocks that were left without a dance partner. The ANH's head, Orlando Cabrales, said it was because not enough geological information had been provided. But the sight of a completely empty bid-box for Type 3 non-conventional blocks was as clear a statement as any: the industry views Colombian hydrocarbons investment itself as inherently risky. Unless the Colombian government removes the uncertainty around licensing, environmental permits, etc., the industry has other countries in which to spend its exploration money. See José Vicente Zapata's commentary on Page 3 of this edition.

### Type 2 blocks – Preliminary Eligibility

	1	2	3	4	5	6	7	8	9	10
Ecp	FUT-13	GUA-2	VIM-8	VIM-15	CAT-3	VMM-5	VMM-16			
Exxon / Ecp	COR-62	VMM-29								
Anadarko / Ecp	URA-4									
Gulf sands	FUT-14									
Mansarovar	LLA-69									
GTE / Perenco	SN-3									
ONGC	SUA Off-2									
NO BIDS	GUA-1	LLA-68	SN-5	SN-9	SN-10	VMM-14	VIM-15	VSM-4	VSM-5	VSM-36
	CAT-2	COR-8	COR-54	COR-56	VMM-9	VSM-6	VSM-24			
	GUA Off-4	GUA Off-5	SN Off-2							

Note: dark-green is for Conventional-prone areas; light-green for Non-Conventional, and blue for off-shore blocks.

In other words, it is apparent that these blocks were aimed not at strictly local players but at new entrants. If this was the strategy, the outcome is fairly poor: taken together only eight (out of 82) Type 2 and 3 blocks were awarded to new

entrants, and five blocks were awarded to existing players, excluding ECO, or fourteen blocks including ECO that all in all was by far the biggest winner with one third of the total blocks assigned.

### Type 3 blocks – Preliminary Eligibility

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Ecp	PUT-17	AMA-4																
Exxon / Ecp	COR-46																	
Anadarko / Ecp	COL-5																	
Repsol / Ecp	GUA Off-1																	
Shell	COL-3																	
Anadarko	COL-2																	
GTE / Pluspetrol	SN-1																	
NO BIDS	PUT-15	PUT-16	PUT-18	PUT-19	PUT-20	PUT-21	PUT-22	PUT-23	COR-45	GUA-6	LLA-80	LLA-81	SN-4	SN-7	SN-8	URA-3	AMA-5	VM-10
	COR-2	COR-8	COR-25	COR-47	COR-48	COR-49	COR-50	COR-51	COR-52	COR-53	COR-55	COR-57	COR-58	COR-59	COR-60	COR-61	COR-63	VMM-38
	COL-1	GUA Off-5	TUM Off-6	TUM Off-7														

Note: dark-green is for Conventional areas; light-green for Non-Conventional, and blue for off-shore blocks.