Third Party Access to Infrastructure and The Future Recovery of Oil And Gas Reserves In The UKCS

Alexander Kemp, Euan Phimister, Linda Stephen

Aberdeen Centre for Research in Energy Economics and Finance, Business School, University of Aberdeen

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Work in Progress
UK Continental Shelf

Mature Province
Typical Remaining Fields Small

Operator structure changed
New Developments
Small/Medium E&P Companies

Access to Existing Infrastructure
• Transport System
• Hubs - Processing

Existing Infrastructure Ageing
Industry
Key Access to Hubs Processing

Source CDA DEAL
Third Party Access - Regulatory framework
Negotiations - Field Developers & Infrastructure Owners
• Industry’s Infrastructure Code of Practice (ICoP)
• If negotiations fail - DECC can intervene - “Determination”.

Current Industry Review – Oil & Gas UK

Field Developers
• Delays – Infrastructure owners prioritize own developments
• Terms - Extraction of Field Rents

Infrastructure Owners – emphasise access costs
Two referrals to DECC - No Determinations

Improvements to Infrastructure Code of Practice
Full Unbundling & Regulation (Onshore electricity/gas network)

Could changes affect exploitation remaining UKCS resources?
Decisions
Develop New Field?
Which Tieback?
Timing Hub Shutdown?
Timing Field Shutdown?

Hub

“Tie Backs”

Developed Field

Developed Field

“Tie Back”

Potential Field

Hub

To Shore

Developed Field

Developed Field

Ownership Structure

Local Monopoly Power

Indivisibilities (Ginsburgh & Keyzer, 1997)

Vertically Integrated Hub Owners (Armstrong, Doyle & Vickers, 1996) – Prioritizing Own Production

Information asymmetries

Modelling Aim Impact of Ownership Structure & Indivisibilities
Mixed Integer Programming Model

Maximizes the Post Tax NPV of area production

Finding optimal set of new developments
Tiebacks from fields to hubs
Timings of hub and field shutdown

Hubs Treated as Entry Point to Transportation System

Basic Tax Corporation Tax + Supplementary Charge + Allowances

Explore
Single Ownership - First best solution
Impact separation of infrastructure and field ownership
Negotiation Delays
Unbundling + Non Discriminatory Pricing
Case Study Area: Northern North Sea

70 fields and potential developments
34 “sanctioned”/existing fields, 36 probable/possible/technical.
12 hubs (and sub-hubs) identified

Source CDA DEAL
Data
Hub & field location - GIS data available from DECC and CDA
DEAL + Assumptions.

Field database based on OGUK data (Kemp & Stephen)
Each (potential) development) profiles 2010-2050
Expected oil and gas production
Real capital expenditure
Operating and abandonment costs, and pre-tax revenues

Values exclude tariff revenue.
Assumed prices: Oil - $90/bbl, Gas - 60p/therm.
Base Model - “as if” single operator for NNS Standard MIP Approach, e.g.

Production at Hub = Sum Field Production Tie-backed to Hub

\[ y_{oh} = \sum_{i \in D}^{t_i \cdot p_{ih} \cdot o_{ih}} \]

Tieback Production to Hub Forces Tieback Active

\[ t_{o_{ih}} + t_{g_{ih}} \leq M \cdot t_{b_{ih}} \]

\[ t_{b_{ih}} (binary) = 1 \text{ if Tieback Field to Hub Active} \]

Activate New Tieback

\[ t_{bs_{ih}} \geq t_{b_{ih}} - t_{b_{ih-1}} \]

\[ t_{bs_{ih}} (binary) = 1 \text{ Tieback Activated (Fixed Cost Incurred)} \]

Similar Constraints Hub & field shutdown/Decom Cost
Hubcfr – Base + individual financial constraints field/hub

Split ownership structure across fields/hubs implies basic economic viability individual elements.

*Cost Shares introduced* Contributions by Fields to Hubs Opex

Hub - Sum of *Cost Shares* paid by Tie in Field = Hub Opex

Field – NPV of future net cash flow ($ncf$) non-negative each year

$$\sum_{\tau \in T} \frac{1}{(1 + r)^{\tau-t}} \cdot ncf_{i\tau} \geq 0,$$

Hubcfr 3 year delay – Hubcfr with 3 year delay all potential developments.

Ad hoc Potential costs of negotiation delays
Unitpr - Hubcfr with implicit price paid per boe at each hub same for all tiebacks

Extreme Non-discriminatory pricing with Hubs unbundled?

Restrictions on Cost Shares

\[ cs_{iht} \quad \text{Cost Share Field to Hub Operating Costs} \quad \text{Period} \quad t \]

\[ uch_{iht} \quad \text{Unit Cost Contribution by Field to Hub Operating Costs} \]

\[ cs_{iht} = uch_{iht} \cdot (\text{TieBack Volume in BOE}) \]

Integer Constraints ensure

\[ uch_{iht} = 0 \quad \text{if TieBack Not active} \]

\[ uch_{iht} = up_{ht} \quad \text{if TieBack Active} \]
For Each Active Hub

Cost Share paid each Tie back = HubPrice*Volume

Single HubPrice for Each Hub (different prices across hubs and time)

Indivisibilities Impact

HubPrice – Dependent on which Fields Tie-backs.

Which Fields Tie-backs – Dependent on HubPrice
## Model Results

<table>
<thead>
<tr>
<th></th>
<th>Base</th>
<th>Hubcfr</th>
<th>Hubcfr 3 year delay</th>
<th>Unitpr</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Post Tax NNS NPV £m</strong></td>
<td>7982.4</td>
<td>7889.8</td>
<td>6662.6</td>
<td>3261.4</td>
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<tr>
<td><strong>Tax NPV £m</strong></td>
<td>6861.1</td>
<td>7321.5</td>
<td>6776.0</td>
<td>5496.7</td>
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<tr>
<td><strong>No New Developments</strong> (out of possible 36)</td>
<td>29</td>
<td>30</td>
<td>30</td>
<td>23</td>
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<tr>
<td><strong>Total Number of Production Periods</strong></td>
<td>663</td>
<td>682</td>
<td>676</td>
<td>471</td>
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</table>
## Model Results

<table>
<thead>
<tr>
<th>Year Hub Decommissioned*</th>
<th>Base</th>
<th>Hubcfr</th>
<th>Hubcfr 3 year delay</th>
<th>Unitpr</th>
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<tbody>
<tr>
<td>Cormorant</td>
<td>2014</td>
<td>2020</td>
<td>2025</td>
<td>2017</td>
</tr>
<tr>
<td>Alwyn North</td>
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<td>2031</td>
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<td>Heather</td>
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<td>2020</td>
</tr>
<tr>
<td>Magnus</td>
<td>2026</td>
<td>2026</td>
<td>2026</td>
<td>2013</td>
</tr>
</tbody>
</table>

*Note these are simulated model outcomes only.
Figure 1  NNS Oil Production Thousand Barrels per Day (tb/d)
Figure 2: NNS Gas Production Million Cubic Feet per Day (mmcf/d)
Figure 3 Non-Discriminatory Pricing Scenario (Unitpr): Unit Hub Prices 2011 £/boe
Figure 4 Non-Discriminatory Pricing Scenario (Unitpr): Unit Hub Prices by Year

- Cormorant
- Alwyn North
- Dunlin
- Tern
- Dunbar
- Thistle
- Heather
- Magnus
- Murchison
Summary & Conclusions
Ownership differences some reduction Province NPV.
Hub viability constraints – Mixed Impact shutdown date
Cost of delay is high - mostly postponement
Difficulty applying “extreme” non-discriminatory pricing regime – variable field costs.

Caveats
No modelling individual firms behaviour/bilateral bargaining
No risk and uncertainty
Timing of new field developments
Multipart Tariffs

Should UK Government
Enhance negotiated settlements efficiency
or
Instigate full regulation?
Thank you for your attention