

Extension Negotiation Strategy

Case Study – IOC Field Development



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Endeavor

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Overview

In this case study, we review how Endeavor Management’s Decision Analysis expert supported client efforts to develop a negotiation strategy for a new PSC. Subsequently, we supported the negotiating team’s evaluation of various PSC term proposals in real time. Consultative services included framing, team and partner facilitation, and Decision Analysis modeling.

Challenge

The lease (PSC) for a West African producing asset was going to expire in a few years. This mature asset needed new investment to maintain production and profitability. New investment only made sense if the government first granted a new or renewal PSC. However, the trouble was the recent new petroleum law, passed at the end of the high oil price period, required much tougher terms and taxes which would make any investment at current oil prices uneconomic.

The client needed to show the government what new investments they were contemplating and what the new investments would mean for added government revenue. Also, they needed to make the case that this new investment and even current production and revenue would not happen without a new PSC. The client needed to understand the impact of new PSC terms on asset profitability to guide their negotiation strategy with the government.

Solution

Endeavor developed a Decision Analysis style economic model detailing the future resulting economics from the planned new investments. This included uncertainties on future oil prices, drilling success / production levels, drilling and other costs, and potential new PSC terms.

Client analysis using this model supported what-if scenarios:

- Different drilling / timing scenarios
- Uncertainty on well productivity and drilling success
- Oil price scenarios
- New PSC terms.

The client technical leadership, CEO, CFO, negotiation consultant, and Board vigorously exercised these capabilities to gain insight around which PSC term trade-offs made sense, where the negotiating bottom line was, and the risks to a position.

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Possible new PSC terms included:

- Higher royalties and profit oil
- Lower cost recovery
- A new income tax
- Other petroleum taxes
- Higher social contributions
- A cash bonus

The model was actively used to evaluate positions during negotiations.

Results

This fact-based analytical approach enabled the leadership and the partners to unite around a negotiating position with high clarity on what was needed from negotiations. The analysis identified key PSC terms and levels for maximum leverage. It guided negotiating positions towards economically desirable proposals that also addressed government needs and concerns. It also enabled the negotiators to demonstrate economically to the government the value to the partners vs. the value to the government from different proposals.

Ultimately, client feedback was that the model provided the key tool for negotiating success. The analytical insights guided the negotiating strategy. The client felt it was easy to address what if questions in real time during negotiations.

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About Endeavor Management

Endeavor Management is a management consulting firm that leads clients to achieve real value from their strategic transformational initiatives. We serve as a catalyst by providing the energy to maintain the dual perspective of running the business while changing the business through the application of key leadership principles and business strategy.

In 2012, Gelb Consulting became an Endeavor Management Company. Our combined experience (Gelb founded in 1965) offers clients unique capabilities to focus their strategic initiatives with a thorough understanding of customer needs to drive marketing strategies, build trusted brands, deliver exceptional customer experiences and launch new products. Our experienced consultants and analysts use advanced marketing research techniques to identify customer needs and spot high potential market opportunities.

The firm's 40 year heritage has produced a substantial portfolio of proven methodologies, enabling Endeavor consultants to deliver top-tier transformational strategies, operational excellence, organizational change management, leadership development and decision support. Endeavor's deep operational insight and broad industry experience enables our team to quickly understand the dynamics of client companies and markets.

Endeavor strives to collaborate effectively at all levels of the client organization to deliver targeted outcomes and achieve real results. Our collaborative approach also enables clients to build capabilities within their own organizations to sustain enduring relationships.