oil and gas Contracts in Iran

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1. Types of Oil and Gas Contracts in Iran

**Oil Act 1974: Risk Service Contracts**

- IOC → Contractor
- IN the name of and On be half of NIOC
- 5% Discount for 15 years (allocation oil 50%)
- Scope: Exploration, Development
- Financial resources
1. Types of Oil and Gas Contracts in Iran

**SERVICE CONTRACTS**

- The first Service Contract of its kind was concluded between IRAN and the French company **(ERAP)**.

- The first Buy-Back Contract in IRAN was signed with **(CONOCO)** company.

- The first Buy-Back Contract was implemented by TOTAL company for Sirri A & E.

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**1. Types of Oil and Gas Contracts in Iran**

**Petroleum Buy-Back**

- Export
- Financial sources
- Transfer of technology

**Exploration and Development of the field (E,P,C,D,PLANT)**

- CAPEX
- NON-CAPEX
- BC
- OPEX
- REM

**IOC**

**Creditor**

**Project account**

**Buy Oil and Gas**

**NIOC**

**Financial institute**

prepared by: Aye Katebi
2. The history of Buy-Back Contracts in Iran

3. Main Issues on Buy-Back contract

1. **Scope Inflexibility**
2. Fix capital cost and no chance to recover the costs over run
3. Limited amortization period for recovering the remaining costs
4. No coverage the Production operation
5. No further investment in development and IOR/EOR operation by IOC's
6. Approvals time consuming procedures
7. many intervention and difficulty in making final decision
H.E. the minister of oil decided to form Iran Oil Contracts Restructuring Committee in October 2013

- Application of the most appropriate contract models for oil and gas field development plans and increasing the production capacity of the country.
- Study and analysis of Iran current buy back contracts
- Analysis of the experiences got from buy back contracts during the last 20 years
- Introducing a new model in conformity with current policies, petroleum act and other upstream legislations
- Examining the regional contract models considering their advantages and disadvantages for Iran oil industry
- Attracting foreign capitals, latest technologies and learning from our experiences as a valuable asset of the country’s oil industry

4. Main Reasons of Restructuring

<table>
<thead>
<tr>
<th></th>
<th>Reducing of oil production.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Optimized incentive scheme for the investors.</td>
</tr>
<tr>
<td>3</td>
<td>Applying the International normal practices.</td>
</tr>
<tr>
<td>4</td>
<td>Positive international and political developments.</td>
</tr>
<tr>
<td>5</td>
<td>20 years of experience in Iran with Buy-Back contract model.</td>
</tr>
</tbody>
</table>
### Members of Committee

<table>
<thead>
<tr>
<th>Member</th>
<th>Role and Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Seyed Mehdi Hosseini</td>
<td>Former Deputy Oil Minister (Chairman of the Committee)</td>
</tr>
<tr>
<td>Mr. Seyed Mehdi MirMoezi</td>
<td>Former M.D. of NIOC and Deputy Minister.</td>
</tr>
<tr>
<td>Dr. Seyed Mostafa Zeineddin</td>
<td>Former Legal Manager and Board Member of NIOC.</td>
</tr>
<tr>
<td>Mr. Ali Kardor</td>
<td>Investment Deputy Managing Director of NIOC.</td>
</tr>
<tr>
<td>Dr. Gholam Reza Manuchehri</td>
<td>Former Managing Director of PetroPars Company.</td>
</tr>
<tr>
<td>Mr. Esfandi,</td>
<td>Former Managing Director of South Field Oil Company.</td>
</tr>
<tr>
<td>Dr. Salari</td>
<td>Member of International Institute for Energy Studies (IIIES)</td>
</tr>
<tr>
<td>Dr. Hassan Shokrollah Zadeh</td>
<td>Former Engineering Director of the South Fields Operating Company.</td>
</tr>
<tr>
<td>Dr. Ali Emadi</td>
<td>Member of the NIOC Board of Director.</td>
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### Committee Advisors

<table>
<thead>
<tr>
<th>Advisor and Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Firozmand, Director, Legal Affairs of NIOC and Member of the Board of Directors.</td>
</tr>
<tr>
<td>Dr. Narsi Ghoban, Managing Director of NarKangan GTL And Member of Energy Committee of Iran chamber of commerce, Industries and Mines.</td>
</tr>
<tr>
<td>Dr. Seyed Nasrolah Ebrahim, Legal advisor of the Committee</td>
</tr>
<tr>
<td>Dr. Fereydoun Barkeshi, Former General Manager of OPEC Affairs, Ministry of Oil.</td>
</tr>
<tr>
<td>Mr. Arshi, Former Director, International Affairs of NIOC.</td>
</tr>
<tr>
<td>Mr. Abdolmohammad Delparish, Director, Corporate Planning of NIOC</td>
</tr>
<tr>
<td>Miss. Aye Katebi, Legal and Contractual Advisor of Petroiran Development Company (PEDCO). She Serves the Committee as an advisor and special assistant to the chairman.</td>
</tr>
<tr>
<td>Mr. Rasoul Shaykhi Nejad, Deputy Director, Financial Affairs, Petroleum Engineering and Development Company (PEDEC)</td>
</tr>
<tr>
<td>Mr. Gholamhossein Zoormand, Former Project Manager of the Petroleum Engineering and Development Company (PEDEC)</td>
</tr>
<tr>
<td>Miss. Goodarzi, Legal Advisor to the Committee</td>
</tr>
<tr>
<td>Miss. Talin Mansurian, Commercial Advisor to the Committee</td>
</tr>
<tr>
<td>Mr. Seyed Hassan Mousavi, Legal Advisor to the Committee</td>
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Committee Meetings

<table>
<thead>
<tr>
<th>Meetings</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official meetings</td>
<td>More than 1900 man-hour</td>
</tr>
<tr>
<td>Internal meetings</td>
<td>More than 740 man-hour</td>
</tr>
<tr>
<td>Expert meetings</td>
<td>More than 1090 man-hour</td>
</tr>
<tr>
<td>Meetings with local and international experts</td>
<td>45 hours</td>
</tr>
</tbody>
</table>

The Gathering of Documents

- Contracts of 33 oil producing countries
  (in **full** or **partial**)

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The Gathering of Documents

- Report from planning department of NIOC
- Many other relative articles from all over the world
- Study of many articles and research conducted into Service contracts by local and international universities (71 dissertation)

The Gathering of Documents

- Analysis from experts, domestic and foreign companies point of views (welcoming experts, domestic and foreign companies comments on Current Buy Backs)
### Principals of New Model

<table>
<thead>
<tr>
<th></th>
<th>Reservoir ownership remain solely and totally under title of the Government</th>
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</thead>
<tbody>
<tr>
<td>2</td>
<td>Preserve the national interest</td>
</tr>
<tr>
<td>3</td>
<td>Dully observance of the Laws and regulations</td>
</tr>
<tr>
<td>4</td>
<td>win-win situation in the contract</td>
</tr>
<tr>
<td>5</td>
<td>Alignment of the parties benefits</td>
</tr>
<tr>
<td>6</td>
<td>Sustainable approach</td>
</tr>
<tr>
<td>7</td>
<td>Partnership</td>
</tr>
<tr>
<td>8</td>
<td>Efficient operations</td>
</tr>
<tr>
<td>9</td>
<td>Technology transfer</td>
</tr>
<tr>
<td>10</td>
<td>Internationalization</td>
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### Flexibility of the IPC for being applied in the following Areas and conditions:

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Exploration</td>
</tr>
<tr>
<td>2</td>
<td>Integrated Exploration and Development operation for new areas.</td>
</tr>
<tr>
<td>3</td>
<td>Enhance Oil Recoveries of the Brown fields (IOR&amp;EOR)</td>
</tr>
<tr>
<td>4</td>
<td>Development of the Common fields with neighboring countries.</td>
</tr>
<tr>
<td>5</td>
<td>Exploration, Development &amp; Production Operation in the “High Risks” areas and Deep Waters.</td>
</tr>
<tr>
<td>6</td>
<td>Integrated Exploration, Development, Production &amp; IOR/EOR</td>
</tr>
<tr>
<td>7</td>
<td>Development of the Green fields</td>
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#### 5. New model Contract (IPC)

**Integrated Operations for:**

- **Exploration**
- **Production**
- **Development**

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5. New model Contract (IPC)

**Partnership**

- internationalization
- more efficient operations
- more financial transparency
- less intervention in operation
- transfer of technology and management skills

Joint Operating Company for Production operations:

JV for Development operations

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**Chronology of IPC**

**Exploration Phase**
- 7-9 years

**Appraisal and Development Phase**

**First Production**

**Production Phase**

**JDC**
- 15-20 years

**JOC**

**Term:** as required

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**In case of success**

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5. New model Contract (IPC)

Costs of project:

1. Direct Capital Costs (DCC)
2. Indirect Costs (IDC)
3. Cost of Money (CoM)

Cost Recovery

5-7 years after first production
5. New model Contract (IPC)

for avoidance (Gold Plated)

Incentive for decreasing costs

“CSI” Costs Saving Index

Decrease the costs

5. New model Contract (IPC)

:( Fee)

ED

20 YEARS

FIRST PRODUCTION

Cost Recovery and fee

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5. New model Contract (IPC)

Financial scheme of the IPC
FOR
Development- Production

Green Fields
Fee
(OIL): A
(Gas): B

Area & Risk factors

Low Risk
Onshore
(A) 1
(B) 1

Medium Risk (onshore) Low Risk (offshore)
(A) 1.2
(B) 1.2

High Risks (onshore) Med Risks (offshore)
(A) 1.4
(B) 1.4

Very High Risks (onshore Offshore) Common fields
(A) 1.6
(B) 1.6

5. New model Contract (IPC)

Financial scheme of the IPC
FOR
Exploration-Development- Production

E & D & P Fee
(OIL): A+ 1
(GAS): B +1

Area & Risk factors

Low Risk
Onshore
(A+1) 1
(B+1) 1

Medium Risk (onshore) Low Risk (offshore)
(A+1) 1.2
(B+1) 1.2

High Risks (onshore) Med Risks (offshore)
(A+1) 1.4
(B+1) 1.4

Very High Risks (onshore Offshore) Common fields
(A+1) 1.6
(B+1) 1.6

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5. New model Contract (IPC)

### Fee base on level of production

<table>
<thead>
<tr>
<th>Production Rates: (Kbd) For crude oil field:</th>
<th>RI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 50</td>
<td></td>
</tr>
<tr>
<td>50 to 100</td>
<td></td>
</tr>
<tr>
<td>100-200</td>
<td></td>
</tr>
<tr>
<td>More Than 200</td>
<td></td>
</tr>
<tr>
<td>Remarks:</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Production Rates: (mCFD) For natural Gas fields:</th>
<th>RI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 1(bcfd)</td>
<td></td>
</tr>
<tr>
<td>1 to 2(bcfd)</td>
<td></td>
</tr>
<tr>
<td>2 to3(bcfd)</td>
<td></td>
</tr>
<tr>
<td>More Than 3(bcfd)</td>
<td></td>
</tr>
<tr>
<td>Remarks:</td>
<td></td>
</tr>
</tbody>
</table>
### Flexibilities of New Model

1. **Flexible Development Plan**
2. **Annual Work Program and Budget instead of fixed caped costs**
3. **Full Cost Recovery**
4. **Balance Risk- Reward approach**
5. **Flexible Reward considering the oil price changes**
6. **Flexible fee for different areas with different risk involved**

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7. **Cost Saving Index**
8. **Reforming the Decision Making process**
9. **Chance of further Exploration operations in neighboring blocks in case of failure**
10. **Flexibility for long term cooperation**
11. **Flexibility for longer term in case of EOR**
12. **Flexible in partnership**

*prepared by: Aye Katebi*
Thank you
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