

Trinidad and Tobago: Positive indications for 2012 deepwater bid round

Executive summary

The initial results of Trinidad's 2012 deepwater licensing round look promising. Twelve bids were placed on five of the six blocks offered in the round, which came to a close on September 4. Ten companies were involved in the bidding, including incumbents BG and BHP Billiton, and potential new entrants Cairn Energy and Kosmos Energy. The majors were notable by their absence, as were the Chinese and Indian NOCs. However, Azerbaijan's state oil company, SOCAR, was involved in two bids.

Trinidad needs more exploration drilling, for both oil and gas. It is a stated objective of the government to grow the country's liquids output through the expansion of its reserves base. Furthermore, Trinidad faces a gas supply deficit, as outlined in our May 2010 Insight – "Tackling Trinidad and Tobago's long-term gas shortfall". The country needs to make new discoveries if it is to maintain its status as a major gas exporter through the next decade and beyond, and the deepwater is considered to hold the greatest prospectivity.

Following the award of blocks from the 2012 round, the Trinidad and Tobago government plans to launch the 2013 deepwater bid round early next year.

The 2012 deepwater bid round – a successful result

The preliminary results of Trinidad and Tobago's 2012 Deepwater Licensing Round suggest it has been a success. The Ministry of Energy & Energy Affairs (MOEEA) will now assess the bids (based on their technical and commercial components) and intends to announce the winners in November 2012. Initial highlights include:

- Bids were placed on five of the six blocks on offer
- There was competitive bidding on the five blocks – the most sought-after was TTDA 5, which received four bids
- Ten companies placed bids – five incumbent players and five potential new entrants
- The most aggressive bidder was existing player BHP Billiton, with four bids
- The surprise bidder was Elenilto T&T, a joint venture comprising Elenilto, Caspian Drilling and the State Oil Company of Azerbaijan (SOCAR), with two bids

Bids received in 2012 Deepwater Licensing Round

Block	Size (km ²)	Number of bids	Company
TTDA 1	1,189	2	1. BG International/Centrica Energy 2. Elenilto T&T*
TTDA 5	1,092	4	1. BG International/Repsol/Centrica Energy 2. BHP Billiton 3. Cairn Energy/Trinity Exploration 4. Elenilto T&T
TTDA 6	994	2	1. BG International/Centrica Energy 2. BHP Billiton
TTDA 28	1,015	2	1. BHP Billiton 2. Kosmos Energy
TTDA 29	1,000	2	1. BHP Billiton 2. Kosmos Energy
Block 25(a)	1,389	0	

Source: Trinidad and Tobago Ministry of Energy and Energy Affairs

*Elenilto T&T is a joint venture between Elenilto, Caspian Drilling and SOCAR

Deepwater licensing - from disappointment to success

The apparent success of this latest deepwater licensing round contrasts with earlier efforts. In 2006, eight blocks were offered but only one bid was received from Statoil, which ultimately walked away after failing to reach a final agreement over the contract terms. The MOEEA tried again in 2010, with slightly more success – it offered 11 blocks and received three bids (see our February 2011 Insight – “Trinidad and Tobago: bids received for Deep Water round”). The 2012 results represent further improvement; when compared with 2010, the 2012 round saw four times as many bids on about half the number of blocks on offer.

The MOEEA must take some credit for this improvement, learning from the mistakes of previous rounds and building on the successes. For example, it offered just six blocks in the round, allowing both itself and interested companies to focus resources. The Ministry also invested significant resources in the marketing and promotion of the round internationally. Furthermore, it allowed companies to purchase a single data package covering all of the blocks on offer; previously, individual block packages had to be purchased. Fiscally, the cost recovery ceiling was raised from 60 to 80% as a major incentive to invest in exploration.

Additionally, the robust oil price environment will always encourage greater levels of bidding, as does the fact that the industry in general is actively investing more in exploration. Specifically, the Atlantic Margin has seen increasing levels of interest with Tullow's *Zaedyus* discovery in 2011 opening up Latin America's Equatorial Margin, while further south, Uruguay held a highly successful offshore licensing round in 2012.

Strategic rationale for bids

Ten companies placed bids, five of them existing players and five potential new entrants. The MOEEA will be reassured by the strong interest shown by incumbent players, a positive sign of ongoing commitment to the country – bids were made by BG, BHP Billiton, Centrica, Repsol, and Trinity Exploration. The MOEEA will also be pleased to see new entrants making bids, particularly from companies like Kosmos Energy and Cairn Energy, both of which have delivered frontier exploration success in the past. The possible arrival of SOCAR, the state oil company of Azerbaijan, is interesting and possibly reflects the NOC's desire to grow its deepwater experience.

The most notable absentee is BP, given its leading reserves and infrastructure position, and the fact that it had picked up a couple of blocks in the 2010 deepwater round. Indeed, none of the majors took part, nor did any of the Chinese or Indian NOCs.

Existing players

BHP Billiton placed bids for four blocks, making it the most aggressive bidder in the round. Furthermore, it opted to bid alone. It made offers for blocks 28 and 29 in the north, and TTDA 5 and 6 in the south. The two northern blocks lie on the Angostura trend, a play that BHP is very familiar with given its operatorship of the Angostura field. The company is currently trying to finalise terms for Block 23(b) and a couple of blocks offshore Barbados that also lie on this trend.

The British pairing of **BG** and **Centrica** partnered together and were the second most aggressive bidders, placing offers for the three southern blocks – TTDA 1, 5 and 6. Trinidad has long been a core country for BG, where it holds key positions in the upstream and is a shareholder in Atlantic LNG. Centrica entered Trinidad in 2010 with the acquisition of Suncor Energy's assets and has since built up its exploration portfolio through farm-ins and licence awards. The company is seeking to make Trinidad a material part of its gas business and is aiming to produce around 200 mmcf/d of gas by 2018.

Repsol was quiet in the round, making just a single bid, for block TTDA 5, in partnership with BG and Centrica. The company is a major upstream player in Trinidad, although it is currently seeking to divest its stakes in Atlantic LNG. Finally, **Trinity Exploration** is a local junior entirely focused on Trinidad. Formerly known as Ten Degrees North, the company has ambitious growth plans and spent much of 2011 raising capital from private equity investors. It has produced small quantities of oil from some of the country's mature areas for many years – current output is around 2,500 b/d and it has ambitious plans to grow that to 10,000 b/d by 2015, as well as turning its attention to deepwater exploration. It has placed a joint bid for TTDA 5 in partnership with Cairn Energy.

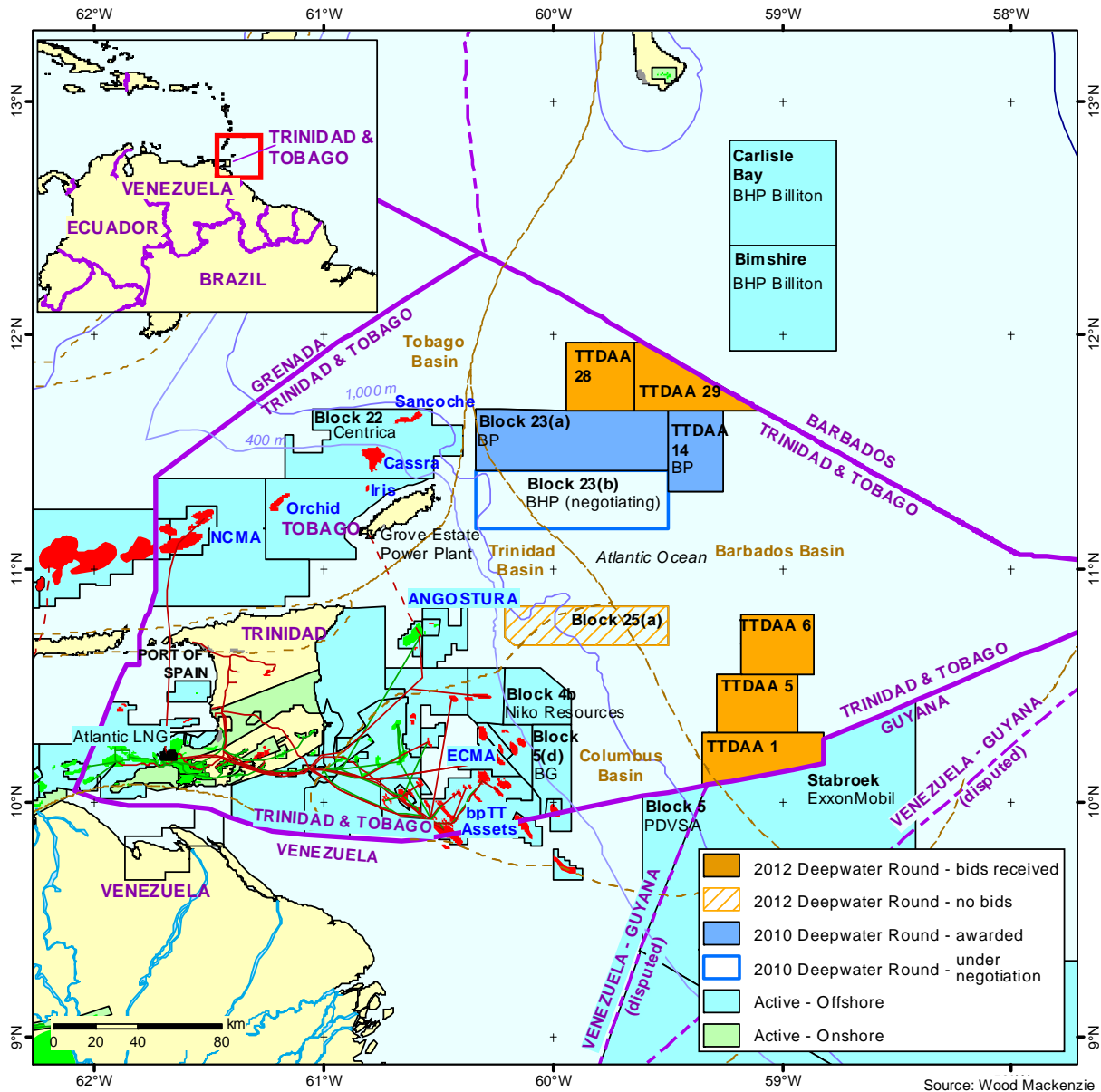
New entrants

The two most high-profile new entrants are **Cairn Energy** and **Kosmos Energy**. For both companies, success in this round would represent their Trinidadian debuts. The UK independent Cairn placed a joint bid for TTDA 5, through its wholly-owned subsidiary Capricorn Energy, in partnership with local player Trinity Exploration. As highlighted in our recent Corporate Service report, Cairn is in the process of transforming its E&P business. It has moved from being one of India's largest oil producers to once again focusing on high-impact, ultra-frontier exploration. It is actively rebalancing its exploration programme into a two-tier strategy of low and high risk opportunities. In the higher-risk category, the company has added acreage in Spain's Gulf of Valencia, Norway, is negotiating access to acreage in Nepal and has entered bid rounds in Cyprus, Lebanon and now Trinidad.

Kosmos Energy is an offshore exploration specialist, with a focus on deepwater frontier areas in Africa. The company holds acreage in Cameroon, Morocco and Ghana, where it was a partner in the play-opening world-class Jubilee discovery. In late-2011, it entered Latin America for the first time, picking up a couple of blocks offshore Suriname and its bids for TTDA 28 and 29 are a continuance of this strategy. The company's portfolio, strategy and performance will be evaluated in our upcoming Corporate Service report.

The surprise bidding of the round came from the partnership of **Elenitlo**, **Caspian Drilling**, and Azerbaijan's state oil company **SOCAR**, which bid on TTDA 1 and 5. With Azerbaijan fast-becoming a deepwater gas province, the NOC has been looking to expand its international operations and build its deepwater experience. Elenitlo is a natural resource company, primarily focused on mining operations in Africa. Its upstream operations are limited, consisting of an exploration block in Georgia and a deepwater block offshore Sierra Leone. Caspian Drilling, a subsidiary of SOCAR, focuses on drilling operations in Azerbaijani waters in Caspian Sea. It should be noted that no company in the JV has any deepwater experience.

Blocks offered in the Trinidad and Tobago 2012 Deepwater Licensing Round



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