

## Transactions in the NCS License Market

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The NCS has seen a record amount of license transactions over the recent years. A key driver seems to be that some companies are looking at divestments as a tool to raise cash and reduce future investment commitments while other companies are using acquisitions to grow their business.

This shift in market dynamics has given rise to a number of large transactions, often exceeding USD 1 billion in value. The most prominent examples have been Statoil's sale of interests in large producing fields to buyers including Centrica, Wintershall and OMV.

With the introduction of annual Awards in Predefined Areas (APA) in 2003, and a favourable tax refund system for exploration costs, a number of smaller exploration focused companies have entered the NCS. These companies often rely on "cashing out" on their exploration successes rather than participating in a field development project where investment costs are high and no tax refund regime available. As an alternative to selling the discoveries, these companies may buy producing assets in order to be able to take advantage of the tax depreciations generated by the investment project. Det norske's acquisition of Marathon's NCS portfolio is an example of the latter approach.

It is generally recognised that the NCS has a stable and efficient regulatory framework for sale and purchase of license interests. This is important as it gives both parties predictability for its investments and limits the risks associated with the transaction. There are however several key risk factors that need to be properly managed by seller and buyer through the transaction process. These risk factors should be identified and managed through the due diligence process and ultimately addressed in the sale and purchase agreement (SPA) between the parties.

The NCS is now generally recognized as a mature oil province. This means that a number of the transactions involve fields that are approaching the tail-end phase. In these transactions, the decommissioning liability will often be a challenging issue. The Petroleum Act stipulates that a seller of an interest in a producing facility will remain liable for the abandonment cost if it turns out that

the buyer is unable to cover these costs when the relevant facilities are being closed down.

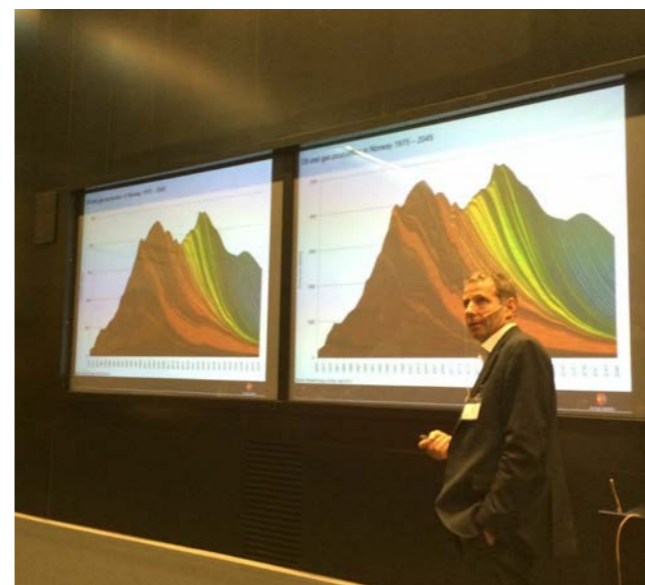
Most sellers will therefore require that the buyer provides some form of security for this potential future exposure. Usually, the parties will negotiate a Decommissioning Security Agreement (DSA) separate from the SPA, which normally are financially backed by a parent company or bank guarantee. The SPA/DSA could also include a repurchase option for seller should its liability enter into effect.

This illustrates that NCS companies looking to grow their business through acquiring producing fields must focus on risk management in the transaction process. Despite these challenges, we are confident that we will see a continued high level of transaction activity on the NCS in the years to come.



In 2013 Statoil sold a share in the Gudrun field to OMV  
Photo Harald Pettersen, Statoil

## Panel discussion: What is the outlook for the Norwegian oil and gas industry?



Picture 1. Jarand Rystad (Rystad Energy) presenting "Oil price outlook and costs in NCS: Activity driven versus price-driven"

Prior to the panel debate Jarand Rystad from Rystad Energy introduced the subject by presenting facts and graphs on the activity on the Norwegian Continental Shelf (NCS), in his presentation "Oil price outlook and costs on NCS: Activity driven versus price driven" (see picture 1).

Speakers on the panel discussion were Henrik Zetlitz Nessler, Partner, PwC; John Olaisen, Analyst, ABG Sundal Collier; Arild Dybvig, VP, Strategy and Business Development, Statoil; Jarand Rystad, Managing Partner, Rystad Energy; Terje Skogen, Regional Sales Manager NCS & Denmark, FMC Technologies; Moderator - Teodor Sveen Nilsen, Analyst, Swedbank (see picture 2).

Some brief excerpts of the Panel Debate can be found on the SPE web site /Resources.



Picture 2. Panel discussion

"SPEs agenda represented a varied and highly relevant agenda from an E&P industry perspective.

Direct participation and interaction by industry players always put an extra edge to the program.

This years' panel debate was no exception. The issues of the debate comprised highly representative of challenges of today, and triggered open and honest views from both from the participants.

As always, Jarands (Rystad) industry analysis and trends acted as an excellent play up to the views from the upstream, (Statoil) supplier (FMC) and "investor" (ABG, PWC, SWEDBANK) perspective. The vibrant activity level and prospective outlook on the NCS must be balanced with the need and efforts to break the industry's non-sustainable cost escalation and efficiency losses. This can only happen in full and con-

structive collaboration between the operators and suppliers. There appears to be a common view that the approach to date is quite different, more constructive and systematic compared to previous cost cutting exercises. As a Statoil representative, I am very pleased to receive such feedback and look forward continue working towards higher industry and NCS competitiveness.

The debate was well orchestrated by Teodor, the views and participation from the panel members well balanced.

I'd like to thank the program committee for the session, repeat it at the next occasion, and do leave even more time and space for the audience to contribute with challenging questions and views."

- Arild Dybvig, VP Strategy and Business Development, Statoil