Guidance Note

Methodology of the Commercial Evaluation of Bids for Lebanon’s First Offshore Licensing Round

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Table of Contents

1 Introduction:

Under Article 9.6.3 of the Tender Protocol (Decree no. 43/2017) for the Award of Exploration and Production Agreements in the First Licensing Round, it is stated that: "*The Commercial Proposals will be evaluated on the basis of the total government take under a number of identified scenarios. The Petroleum Administration shall analyze the Commercial Proposals for any given Block using the same set of scenarios (with the same assumptions regarding costs and production profiles) in order to compare the Commercial Proposals for each Block. The scenarios shall not provide for cost and price escalation*."

The purpose of this document is to explain the methodology that will be used by the Lebanese Petroleum Administration (LPA) to determine the total government take, the scenarios to evaluate the bids and the process to rank the commercial proposals of different bids.

2 Scenarios:

In the creation of scenarios, it is important to develop cases that are representative of what may be discovered in Lebanon as well as the probable market prices. Nine (9) scenarios are developed to compare bids based upon three (3) field sizes and three (3) price cases. These scenarios represent individual fields within a block although in reality there may be multiple discoveries per block.

The same nine (9) scenarios will be used when assessing the bids on all blocks. All of the field cases are considered wet gas fields.

The field sizes and prices used in the scenarios are as follows:

2.1 Field sizes:

- 2 tcf of gas & 14 mmbbl of liquids
- 5 tcf of gas & 35 mmbbl of liquids
- 10 tcf of gas & 70 mmbbl of liquids

2.2 Pricing Cases:

Price Case	Gas Price (US$/mcf)	Liquids Price (US$/bbl)
1	4.0	50.0
2	5.5	65.0
3	7.0	80.0

The gas prices are based upon the range of prices that could be expected from the sale of gas in regional and international markets.

Liquids price assumptions are based upon the range of long-term crude price expectations used in recent transactions, supplemented with an upside price case.

2.3 Cost and Production Profiles:

For each field size, a cost and a production profile are assumed based on a set of hypothetical exploration and production scenarios.

3 Calculation of Total Government Take:

For each bid and under every scenario, the total government take will be calculated as the Net Present Value (NPV) of the cash flow accruing to the Government of Lebanon. The total government take consists of the following elements that are payable on a block by block basis:

- Royalty
- Government Profit Share
- Corporate Income Tax

4 Discount Rate:

The discount rate to be used is specific to the Government of Lebanon. It is based on the Long Term Bond Rate for the Lebanese Government Eurobonds which is around 7%. Hence, a 5% real discount rate will be used to calculate the NPV for each scenario assuming a 2% long-term inflation rate.

5 Selection Process:

For each bid and under every scenario, the NPV will be calculated in line with the assumptions detailed above. The NPVs for each of the nine (9) scenarios will be calculated and the bidding Applicant (Applicant means Consortium as per Article 1.3 of the Tender Protocol) with the highest average NPV will be awarded the maximum 600 points. The average NPV is calculated as the cumulative net present values of the nine (9) scenarios divided by nine (9).

Other Applicants will receive points on a pro-rated basis. The scores for these Applicants will be calculated by dividing the average NPV of an Applicant's bid by the average NPV of the winning Applicant, multiplied by 600.

As an example (the numbers used below are for illustrative purposes only):

- Applicant (A) has the highest average NPV across the nine (9) scenarios, with an average NPV of $1,000 MM
- Applicant (B) has an average NPV of $800 MM
- Applicant (A) will be awarded 600 points since it has the highest average NPV
- Applicant (B) will be awarded a score of ($800/$1,000) x 600 = 480 points

6 Basis of Data used in the Analysis:

The assumptions that are used within the scenarios are created solely for the purpose of comparing different commercial bids. They shall not be considered as an indication of the expectations of the Lebanese Petroleum Administration with respect to pricing and prospect sizes.