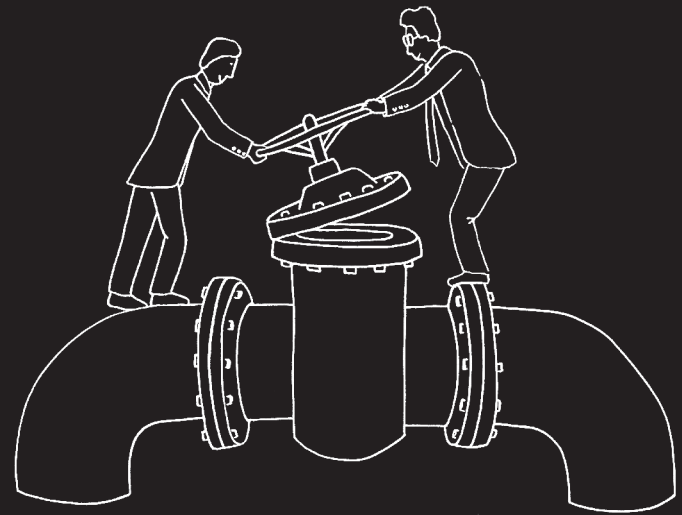


ceg

COMPETITION
DISPUTES
REGULATION

Asia-Pacific | Europe | North America

Oil and Gas



CEG experts provide specialist advice to oil and gas companies and Governments around the world

The oil and gas industry is one of the most important parts of the energy sector, and is a major stakeholder in all economies around the world – it provides c.60% of energy needs and accounts for some 10% of the world's stock markets. Over the last 10 years the dynamics of the industry have changed immensely, with new technologies, more stringent environmental standards and global economic turmoil. The industry is continually navigating new challenges in a globalised market.

The development of the shale gas and more recently shale oil industry in North America and beyond has disrupted oil and gas markets and is having knock-on effects into the petrochemical sector. The "shale revolution" has directly had an impact on market supply and prices and is providing for heated debates in Europe on the likely direction of the industry.

Developments in gas markets may provide a catalyst for the potential future direction of transportation fuels – could gas replace gasoline or will the market move towards hydrogen or electric power?

The recent low oil price environment has hit maturing oil and gas regions, as well as new frontiers, hard. Governments are now facing significant challenges as to how to maximise their revenues through fiscal and other regimes whilst trying to maintain investment and environmental standards from oil and gas companies.

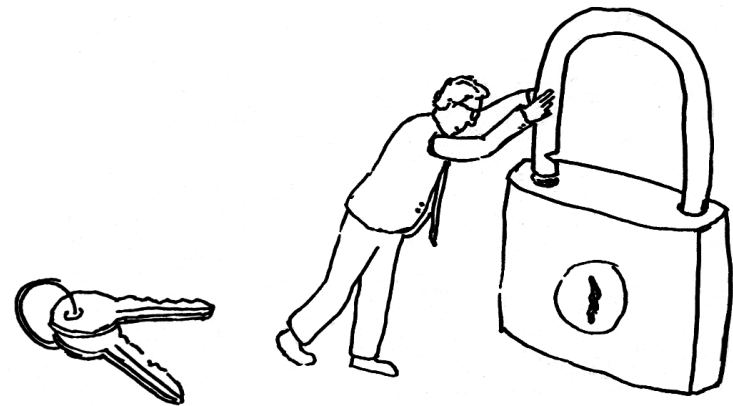
The development of capital markets and derivative products within the oil and gas industry is bringing ever more transparency to product pricing as well as greater volatility. Long term pricing contracts are now under pressure, as can be seen by recent arbitrations. Information transparency is

slowly opening up markets, although the ramifications of alleged market manipulation are yet to be quantified.

These rapidly evolving markets and technologies provide many uncertainties for all stakeholders in this sector. Planning, developing and executing a strategy that has the robustness to deal with the potential outcomes is likely to provide a competitive edge over rivals.

CEG provides independent advice to energy companies, both IOCs and NOCs, from around the world, as well as governments and regulators. Our experts provide advice and support to clients on many of the headline issues within the industry – the team has a broad range of backgrounds within the industry which include project development, operations, trading and finance, as well as contractual disputes. We are therefore well placed to help clients clearly understand the real issues that they face and to develop workable solutions.

Our team of experts provide Commercial Advice, Regulation and Policy Advice and act as expert witnesses in Disputes.



Commercial Advice

We provide informed and practical advice on the big commercial issues faced by oil and gas companies.

Whether it is an appraisal of the strengths and weaknesses of a prospective acquisition target, or an analysis of the real economics of a new project, we have the skills to get to grips with the market, commercial, technical and financial aspects of each case and deliver a frank and honest opinion backed up by facts and clear reasoning.

- Commercial and technical due diligence, valuation and negotiation support for an inward investor in a greenfield refinery and petrochemical plant in China
- Assistance to a UK oil and gas exploration company during its acquisition of onshore production in the UK
- Commercial due diligence and valuation of petroleum products refining and distribution businesses in Europe and the Middle East on behalf of clients considering their acquisition
- Prepared a bankable feasibility study on behalf of the plant's owners to fund a major upgrade of a refinery in Central Europe
- Developed netback pricing models as part of a decision support tool for both a government in East Africa evaluating options for a new oil export pipeline and an independent oil company wanting to understand the cost implications of liquefying gas and transporting it to market prior to bidding on a licence
- Assisted a major African National Oil Company with its medium term gas business and commercialisation policy and strategy, looking at not only LNG and "gas to wire" options but also petrochemical opportunities
- Provided economic analysis to a UK industry association in relation to the prospective development of shale gas in North West England

Case Study – Commercial Advice

TRADE FLOWS IN THE MEDITERRANEAN

For a client looking to buy a Mediterranean refinery, our team analysed the global flows of the key products to explain how local fuel pricing worked and derive future price scenarios based on an overall oil price projection and specific demand assumptions.



Gasoil



Jet Fuel



Diesel

Regulation and Policy Advice

CEG experts have extensive experience in helping firms formulate and present economic arguments and evidence during Government inquiries, market investigations, public consultations and other regulatory proceedings that affect oil and gas companies across the globe.

We understand how regulation needs to work in a free market to minimise distortion and achieve objectives that can at times seem contradictory.

Our focus is on helping Government define and prioritise those objectives to give clarity to decision making and regulatory design. But we also bring commercial expertise into the policy debate to ensure that market realities are given appropriate consideration.

Our expertise spans a wide range of policy and regulatory matters including fiscal terms, market analysis, price controls, open access to shared infrastructure and security of supply.

- Expert advice on whether pricing by a dominant gas transmission pipeline owner constituted the exploitation of market power and, consequently, whether regulation should be imposed
- Design and implementation of a regulatory structure for the wholesale supply of petroleum products in a Middle Eastern country
- Worked on developing the economic and market arguments justifying the exemption for a European energy infrastructure company to the Third Energy package
- Review of the market and regulation of retail petroleum outlets in a Middle East state and development of a strategy to expand coverage and price competition by change of regulatory regime and privatisation
- Advised a group of Australian gas pipeline businesses on the cost of capital to be determined as part of a regulatory process
- Expert statement for Envestra on the economic reasonableness of alleged related party contracts for outsourcing of the management of gas distribution assets
- Expert advice to owners and regulators on the appropriate valuation of existing gas pipelines newly subject to regulation
- Advice on the cost of compulsory stock holding regulations under different regimes around the world
- Review of the prospects for unconventional gas globally and the potential consequences for local gas prices for a Western European Government ministry

Case Study – Policy Advice

ECONOMICS OF IN-PROVINCE UPGRADING AT A GREENFIELD OIL SANDS REFINERY AND PETROCHEMICAL COMPLEX, CANADA

The Province of Alberta needs to resolve a range of issues that have arisen from the ever-increasing production of oil sands. These include:

- Ensuring that already planned oil sands production can be delivered to markets, both within Canada and elsewhere.
- Find mechanisms to broaden and enhance the economic benefits of oil sands production for the Province, which to date has mainly been exported.

CEG was retained to carry out an appraisal of the likely economic performance of an oil sands upgrading scheme which had been developed in 2006 for the Government of Alberta by the Hydrocarbon Upgrading Task Force. CEG combined a desktop market analysis and with a high level economic model of the potential complex. Our work suggested that the proposed configuration is likely to generate favourable economic returns and other non-financial benefits.

Our approach consisted of:

- An assessment of the suitability of the proposed technical design.
- Development of supply / demand balances for the envisaged products in domestic, regional and global markets, together with a set of crude oil and product prices.
- Combining all of the above components to derive a range of enterprise values, under various assumptions and scenarios.

Our findings showed that oil sands upgrading in the Province is likely to be economically favourable in many respects. Given the current focus of the main oil companies in the region on exports of oil sands, however, the onus will be on the Government of Alberta to facilitate such a project, at the initial stages at the very least, rather than leaving it purely to the private sector.

Disputes

CEG has been in the forefront of economic consultancies advising on high profile disputes including equity and commercial damages, private actions against those in breach of competition law in Europe, intellectual property and judicial reviews.

CEG assesses both the question of liability as well as estimating the quantum of damages incurred. Our experts have presented analysis before competition authorities, arbitration tribunals and courts.

- Expert reports for PGNiG in its UNICTAD arbitration with Gazprom. PGNiG achieved a substantial reduction in the price paid for natural gas and the price formula
- Advice to a CEE wholesaler on new Gas Supply Agreements for pipeline gas
- Assessment of damages in a breach of contract case involving Alpiq Ltd and PGE Polska Grupa Energetyczna Spolka
- Evaluated alleged manipulation of spot oil prices in Europe
- Acted as accounting and finance experts in a dispute related to a loan agreement repayable through the production of a North Sea oil field
- Provided expert evidence on pricing and netback values of gas and alternative fuels in the Middle East and Eastern Mediterranean to support an expert valuation of a gas field
- Supported a client in a case involving disputed valuations of undeveloped oil reserves in the Russian Arctic
- Prepared an expert report on best practice in corporate finance, which was compared to the 2004 sale of Yuganskneftegaz by auction. The arbitration Tribunal subsequently ruled in favour of the client (Yukos' Spanish shareholders)
- Provided expert testimony to support the defence of a leading news journal in a libel case brought by an oil trading company
- Independent valuation of a number of producing oil fields for a legal case

Case Study – Disputes

OIL TRADING ANALYSIS – LIBEL ACTION AGAINST 'THE ECONOMIST'

The Economist newspaper was being sued for libel in the UK by Gunvor, the world's third largest oil trading company, following the publication of an article in the newspaper's November 2008 edition entitled "*Grease My Palm*".

One of our experts was asked to review and analyse the claimant's activities in the international oil market. The findings of the study were presented in a confidential report to the client and their lawyers.

Our remit was to demonstrate, using public information, that Gunvor did not behave as a "normal commercial trader".

Our approach was to review information in the public domain. What emerged, however, astonished *The Economist* and their lawyers:

- There was clear evidence, on the part of Gunvor, to selectively enter Platts' "Market on Close Process" (i.e. "the MOC window") so as to lower the price of the subject commodity (in this case, Russian Urals crude oil).
- Our analysis showed that when Gunvor was trading, the price of Urals fell due to its practice of offering steadily lower prices. Gunvor then would exit the MOC window for several days or weeks. In the absence of the downward pressure exerted by Gunvor's presence, the price of Urals typically staged a recovery – until such time as Gunvor returned to the market and offer the price down again.

The lawsuit was settled prior to the first hearing.

CEG brings together experts in the leading competition and regulatory agencies, academia and industry

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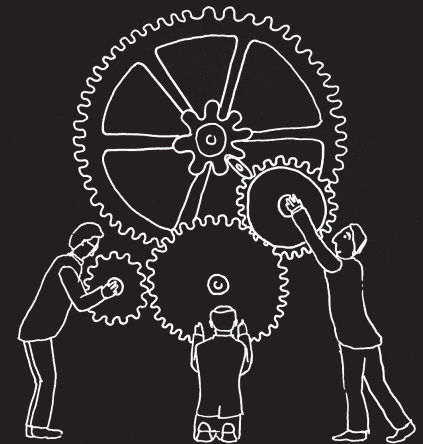
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