SPECIAL TOPIC AGPU DIGEST

1st QUARTER 2019

Daniel Maydanik
Honorary President
Association of Gas Producers of Ukraine

«Present year is very exciting for domestic natural gas production industry. We expect a large number of oil and gas online auctions and PSA tenders. It has to allow the upstream sector to attract big investment and high-end technology without which sustainable development is impossible. The first e-auction was successful and brought UAH 141 million to the national budget, which is significantly more than the initial price. This result became a remarkable record for the domestic E&P industry, because the licenses have been sold at the highest amounts in the history of Ukraine as a result of competitive and transparent bidding.

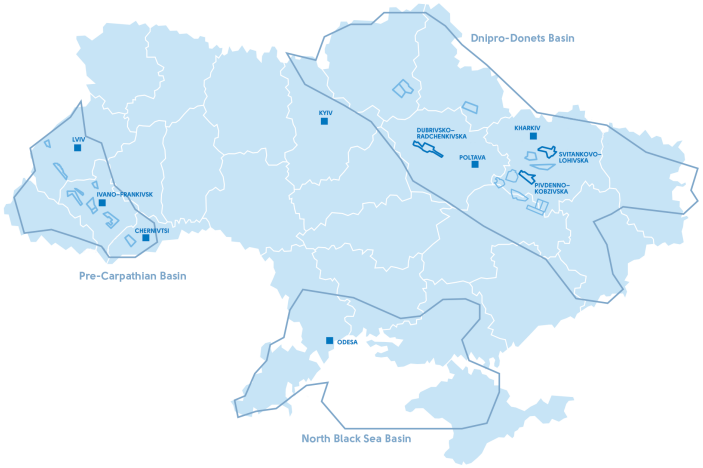
The fact of open bidding with equal access of all interested parties is important for the government and all producers. For the first time, auctions were conducted online, bidders had 90 days for analysis of lots using free access to geoscience reports, as well as a minimum requirements for a work program were introduced.

We are expecting the PSA tenders is going to be a further step. The transparency and equal access in this process are the pillar of the arrival of the major international energy investors».

THE FIRST ONLINE BIDDING BROUGHT $5,2 MILLION TO THE NATIONAL BUDGET

The first licensing round of oil and gas online auctions in the ProZorro.Sale e-system took place in the beginning of spring. Three sold lots have been sold:

- Dubrivsko-Radchenkivska block (Poltava region) - UAH 25.1 million. The price has grown by 43% compared to the initial price. Burisma Group won.
- South-Kobzivska block (Kharkiv region) - UAH 30.9 million. The price has increased by 222%, thanks to UGV.
- Svitankovo-Lohivska block (Kharkiv region) - UAH 85,001 million. DTEK Oil&Gas increased the initial price by 380%.



16 BLOCKS ARE WAITING FOR INVESTORS

The State Geological Service of Ukraine put up 16 blocks for the upcoming online auctions, with a total area of more than 2 260 sq. km, located in six regions. All licenses are for exploration and production of hydrocarbons for a term of 20 years.

There are also minimum exploration program requirements for each license, for instance: processing of legacy seismic data, conducting new seismic surveys and exploration drilling.

Investors will have 90 calendar days to pass the registration and submit a bid.

The second round of online auctions will take place on May 2 and the third one is scheduled for June 18, 2019.

HOW TO IMPROVE UPCOMING ONLINE BIDDING:

- Improve the quality of geoscience data through creation of analog and further online data-room with placement there selected primary information. It is also advisable to involve leading international service companies in reprocessing of existing state-owned geological information.
- Modernize the calculation of the initial price of the lot, as well as introduce the option of reselling the unsold blocks at the auction with a certain discount.
- Preparing lots, take into consideration the acreage size of the blocks and license duration. The larger the area and the longer the license duration are the higher chances to interest investors, especially foreign ones.
- Allow non-residents to directly participate in auctions, with the obligation to establish Ukrainian legal entity, in case of victory, which will obtain a license.
- Create an opened preliminary list of blocks for their analysis and possible nomination for the nearest auctions.

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THE ASSOCIATION GATHERED OPINIONS OF BIDDERS, LEADING EXPERTS AND POTENTIAL INVESTORS ON THE FIRST ROUND OF OIL AND GAS AUCTIONS:

«Due to transparent procedure and fair competitive conditions our company acquired the license for exploration and production of the block, which we studied in conjunction with the branch scientific institutes. This step is a logical continuation of our business development in Kharkiv region. In the coming years we plan to invest more than UAH 300 million in geological surveys, exploration drilling and construction of the infrastructure. In case of discovering the deposit, additional investments in the development and extraction of its reserves will amount to about UAH 1 billion».

Igor Schurov, General Director, DTEK Oil&Gas

«Now Ukraine is close to the ideal as an object for foreign investment. There is the only barrier that is absence of enough large-scale projects. There was no one offered oil and gas blocks that in terms of its geological prospects could justify the new players to create needed investment and technological framework. It is logical that companies currently operating on the market have chosen the blocks that are complementary to their assets already in their possession. Production sharing agreements or offshore projects are a completely different matter. They can raise the interest because of their scale, be of significant attraction for foreign investors».

Ilya Ponomarev, CEO, American company Trident Acquisitions

«In the first round of auctions, 3 blocks got no bids, which are located beyond the limit of verified oil and gas content - in the place where the conditions for the accumulation of reserves are not very favorable. One block obviously did not attract the attention of participants due to the too high initial price, which level was determined by excessively overvalued amount of resources. Another block has surface conditions, which are not the most favorable to geological exploration. Also I note that the natural gas producers did not pay attention to the Western province and Odesa region so far».

Volodymyr Novikov, Chief Geologist, UNB

«The key to interest of the investors is a careful selection of blocks up for the auctions, attracting more participants through large-scale promotion and fair assessment of the initial price of lots. As a first step, applicants might nominate the blocks by themselves, such mechanism is often used in the world. I note that online auctions have been well-promoted and drawn the attention of many international companies. I believe that we will see the share of them as participants in the future. Talking about prices, I would say that valid initial price assessment methodology is out of day, in particular, the price of the offered block in the Western Ukraine, in the geological region where we have been working for many years was excessively high. These assessment standards require modernization, although we have simple solution, which is to reduce the cost of the lot repeatedly put for an auction».

Sergiy Dumenko, Director, Viva Exploration

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