



September 9th, 2021

## Where we are and what's next

### **1. How does the economic value of exclusivity work in regard to extensions, especially if the contractor has liberated the economic value of exclusivity during the 6 years of the exploratory phase?**

**A:** First, from the moment the contract is signed and from the contractual definition, the companies are aware of the conditions under which they can request an extension, which is by paying an economic value of exclusivity for the time requested and additionally they have the possibility of extending it for a second time.

This extension is allowed only if the company is in an exploratory activity and has not had an initial discovery or production, so it may extend the exploratory period. Now, with respect to this particular case, if the company has reached the end of the exploratory period and is interested in continuing, it may request such extension and pay the economic value of exclusivity. In the new version of the draft contract, a discount of this additional payment was incorporated in relation to the retained area. Remember that for this extension, the contractor will return 50 percent of the awarded area.

If the company decides, after having drilled the wells and having discounted the economic value of exclusivity for its initial exploration period, to make a second extension, it may also do so and will have an adjustment in the factor, which will be adjusted by the area to be retained, since in this case it would already contemplate a fourth part of the area initially awarded.

### **2. Does the option to make transfers to new contracts as an exclusive supplementary economic value have to comply with causes A, B and C of Article five of Agreement 001 of 2020?**

**A:** Agreement 05 of 2021 included some measures to soften the grounds established in Agreement 01 of 2020 for the purposes of the transfers of the areas of the Colombia 2021 Round and they refer precisely to these three grounds A, B and C.

The B grounds in particular, no longer require that the company in the contract has an evaluation area in exploitation to request the transfer to one of the areas offered and the same in the C ground, where the flexibility corresponds to the fact that it will not be necessary the total return of the area of the issuing contract. This means that if the company decides to transfer part of its commitments, it will be able to do so keeping the issuing contract and the contract awarded in the Colombia 2021 Round will be the recipient. Therefore, compliance with these three paragraphs of Agreement 01 of 2020 is required, but with the flexibility measures introduced by Agreement 05 of 2021 for the purposes of the areas offered or incorporated to the process of the Colombia 2021 Round.



Additionally, an important element to point out is that, in essence, agreement 05 of 2021 kept all the rules of agreement 01 of 2021. Therefore, companies will be able to transfer to execute activities under the concept explained by Dr. Mantilla of supplementary economic value and the activities allowed by agreement 01 of 2020 are for seismic acquisition projects and also for the drilling of A2 and A3 wells. These may also be deducted, as with the concept of economic value of exclusivity, from the additional economic value in the receiving contract.

### **3. If an issuing contract has a commitment value, is the investment transferred without having to use the table in article 33?**

**A:** Since the agreement 01 of 2020 does not allow transfers of transfers, that is to say, even if this transfer is generated to contracts located in Colombia Round 2021, this transfer cannot be subject to a second transfer due to the provisions of the agreement 01 of 2020.

Complementing this, perhaps it would be illustrative to use an example. And for this I will use a contract that we are going to assume has a remaining value to be executed of three million dollars and we want to develop an activity in one of the contracts to be awarded in the fourth cycle in a well worth 8 million dollars. In this case, the value to be transferred must be recorded if it is a continental exploration and production contract by means of a supplementary economic value, as a specific obligation to include within that supplementary economic value, which for at least three million dollars the contractor undertakes to execute. And up to what value? Well, for that the new table of article 33 is used, the table of activities of points by activity and basin, which has established what is the value of an exploratory well in the area of interest. So, that is how the activity that the contractor undertakes to carry out will be valued in the receiving contract, bringing three million of supplementary economic value and including therein what is necessary for the activity that he wishes to carry out and to which he undertakes to carry out.

### **4. Can the investment transfer be used for counteroffers?**

**A:** The transfer of investment cannot be part of the offers, nor of the counteroffers, nor of the selection process alone, as mentioned a few moments ago, the economic value of supplementary exclusivity is not part of the selection process and it would be wrong to do so, since it generates different competition conditions for those who have obligations or investments to be transferred as opposed to those who are a new player.



## 5. Can you elaborate on the program for the benefit of the communities?

**A:** We made the decision to present it as a resolution that allows, on the one hand, to have a clear regulatory body for the companies and secondly, to make the contract much more direct with respect to the obligation itself. This type of development also corresponds to what was initially established for the programs of the new developments in Agreement 05 of 2011, for the purposes of how the development of the specific programs will be. We have received comments in this regard, we are also reviewing the observations. It is a proposal on the part of the Agency to precisely correspond to the new contract draft. We are very much looking forward to being able to respond to these concerns that have been raised and that serve as a general instrument for the development of the programs for the benefit of the communities.

## 6. Does the exclusive economic value support a payment obligation, or does it support with the guarantee the activity, ex. the exploratory well?

**A:** The exclusivity value is a payment obligation, therefore, it is not endorsed. The question here would be, how is this payment obligation calculated when it is only discountable through processes A2 and A3? In this case the payment unit is calculated, which would be the exploratory wells and what was done with the last adjustment is that there is no longer a direct payment that has to be made by the contractor at the time of signing the contract or after the preliminary phase, but he can present a guarantee to make it a little more flexible, where the activity that has been developed in this case for A2 and A3 wells is discounted from the value of that guarantee, when the ministerial forms are presented, that would be a little bit of the structure.

## 7. Please explain better the waiver issue in case of having executed activities. If it is the case of two wells and I execute one, the value to be paid would be 50 percent of the value of the commitment, that is, the value to be paid would be the well that is pending?

**A:** Let's follow the line of the numerical example of the relocation. If there are two exploratory wells whose equivalent, to put a round figure, is five million dollars each, for a total exclusive economic value of 10 million dollars and during the exploratory period, the first phase, the company drills one well, the equivalent of five million dollars can be discounted from the exclusive economic value offered, since in this waiver clause we specify that a discount of 50 percent of the value offered will be given if it is done during the first phase. Therefore, in this example, since the value offered was 10 million dollars, the discount will be five million dollars and since the company has already drilled a well and five million dollars had already been discounted, this means that its payment obligation will have been reduced to zero. That was the precision that was included in the waiver clause in this latest version of the draft contract.



**8. In the current bid format, there is only one space for the value in VEE points, but it does not specify whether they correspond to the additional value over the minimum program or to the minimum total value plus the additional one, while in the previous round there was a format that differentiated these two values.**

**A:** First of all, it should be noted that the agency no longer establishes a minimum program or an additional program, which is why there is no such space and there is going to be a space in the value of the VEE.

**9. Is the unit of payment for the exploratory well calculated on the date of submission of the bid or is there another time when the unit of payment is calculated?**

**A:** On the date of the presentation of the proposal, which corresponds to the valuation it will have according to table 33. Therefore, the valuation at the end, for purposes of the payment obligation, will correspond to that valuation of the equivalent of the well and for purposes of the guarantee it will have to correspond to the moment in which the corresponding obligation is also established, in this case the effective date.

As for the economic value of exclusivity, it is not an exploratory commitment. Therefore, if a well is not drilled, it will not be subject to the incentive of discount of the guarantee and the corresponding payment obligation. So, for the concept of economic value of exclusivity it is not about exploration commitments, it is a payment obligation that has a discount incentive for the exploratory wells drilled. The model is different, there is simply no object to any transfer.

**10. What is the benefit of transferring before a contract is awarded versus after it is awarded, since they are two different stages?**

**A:** At this moment, it is precisely because Agreement 05 of 2021 introduces flexibility for the areas that are awarded in the Colombia Round 2021, which makes it different from the general framework in Agreement 01 of 2020.

**11. Once the well is drilled, is the value that is deducted from the economic value of exclusivity the one established at the time of the offer, not the value that corresponds to the date it was drilled?**

**A:** Correct, the offer will always be correlated with what will be credited and what will be deducted from the guarantee. That is to say, for us there will always be the reference of the activity equivalent to that economic value of exclusivity with respect to the incentive that the company will receive once it is executed and as mentioned before, verified with the ministerial forms of what corresponds to that well that will receive the incentive.



## **12. Can you please confirm if transfers to these 2021 Contract Rounds are applicable due to waivers?**

**A:** If the grounds of article 3 of agreement 01 with the adjustments of agreement 05 apply, then the answer is yes.

## **13. Is it necessary for the transfer of investment that the receiving contract is in phase 1 or can it be done up to a preliminary phase?**

**A:** In the transfer of investments, when considering the possibility of transfers to contracts of the Colombia Round 2021, will have the possibility of contracts that have the obligation to execute the preliminary phase because of communities and the development of prior consultation processes and those that go directly to the effective date and start their exploratory period. In both cases and here the agreement 05 of 2021 and 01 of 2020 did not create differences with respect to whether or not the contracts required consultation processes. Therefore, the possibility of relocation is open regardless of whether or not it requires consultation processes in the preliminary phase.

There is a need to constitute the guarantee corresponding to the transfer that is approved because in the case of a preliminary phase for purposes of economic value of exclusivity, will take some time while the consultation process is developed for the economic value offered, but for the value of the transfer as a supplementary economic value, a guarantee will be required from the moment the other one corresponding to the approved transfer is formalized.

## **14. Do we have a preliminary phase and a defined time frame for the preliminary phase of the contract drafts?**

**A:** The exact same scheme that had been operating in the contract draft is maintained, depending on the extension of the consultation and with a limit as currently established, which has not been changed.

*(This Workshop took place on September 9th)*