

## **AKER Energy Purchase of HESS Corp's Business: An Eternal Departure or a Temporal Discomfort?**

HESS Ghana Exploration Limited is the operator for the Deepwater Tano/Cape Three Points Project (DWT/CTP) which is currently about 2,100sq.km. It is a leading global independent petroleum upstream giant with notable strides in the midstream sector. HESS Ghana has 40% working interest as per the petroleum register. Partners in the contract area includes Lukoil Overseas Ghana Ltd, Fuel Trade Limited (an indigenous company and a major player in the downstream sector), Ghana National Petroleum Corporation and GNPC Exploration and Production Company Ltd. Partners have working interests of 38%,2%,10% and 10% respectively.

The Petroleum Agreement (P.A) was signed in 2006 and then field is currently at an enhanced stage of pre-development. The Joint Venture Partners (JVP) are expected to submit its full Plan of Development(PoD) in July 2018. If approved by the end of 2018, DWT/CTP field will be developed in 3 years and production is expected to last till 2036 over a 15-year production life “ceteris paribus”.

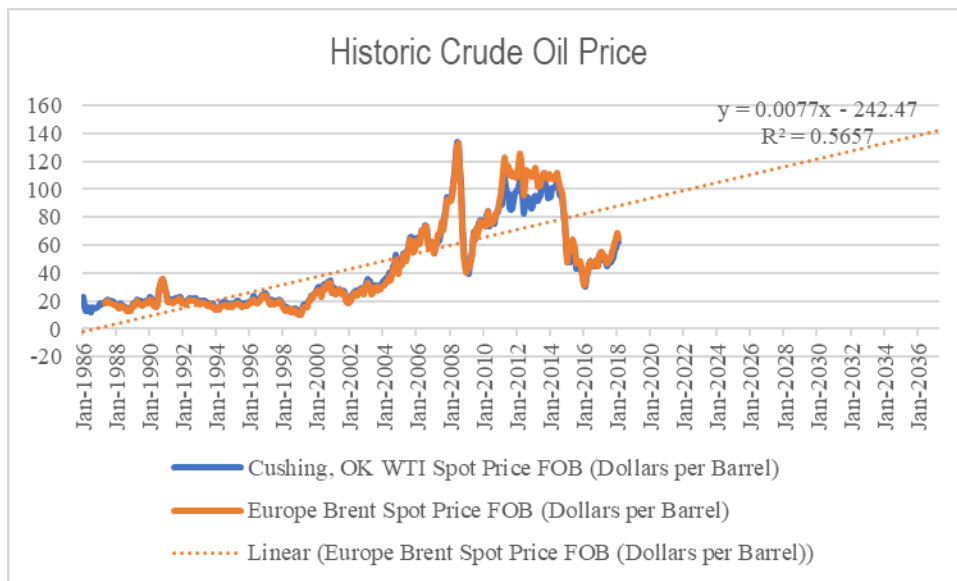
With regards to the fiscal terms, in the P.A, the JVP will pay 4% royalty on oil and 3% royalty on gas. Income tax is 35% and withholding tax of 5%. Surface rentals is \$30, \$40 and \$75 per sq. km (depending on the phase of exploration). They will pay \$100 per sq km per year during development and production stage.

According to a report by Reuters, DWT/CTP oil block holds an estimated 550 million barrels of oil equivalent (boe) and has a supplementary reserve potential of 400 million boe. The estimated reserve of 550 million boe translates into 100,457 barrels of oil per day (boepd). Using a reserve of 950,000,000 boe. its translates to 173,516 boepd an average of 136,986 boepd.

### **Is Purchase A Good Decision?**

DWT/CTP is likened to an oil field in the Norwegian arctic with an estimated breakeven price of lower than \$35 per barrel(bbl). The last time oil price went below \$35 was in January 2016. This price was sustained for two (2) months before recovering, albeit steadily. According to data from the US Energy Information Administration(EIA), the last time crude oil market recorded such lower prices was from 1986 to 2004 (A low pricing situation which lasted for 18 years). The average price for Europe Brent spot crude oil at Free on-board (FOB) over the period was \$24/bbl. The outlook by the EIA projects crude oil price to average \$62/bbl. in 2018-2019 and rise to \$92/bbl by 2030 due to anticipated increased demand and high extraction

cost of oil. A simple the forecast method for the next 15 years shows a fair increasing trend and may mean staying above breakeven price. (See figure below).



Source: US Energy Information Administration

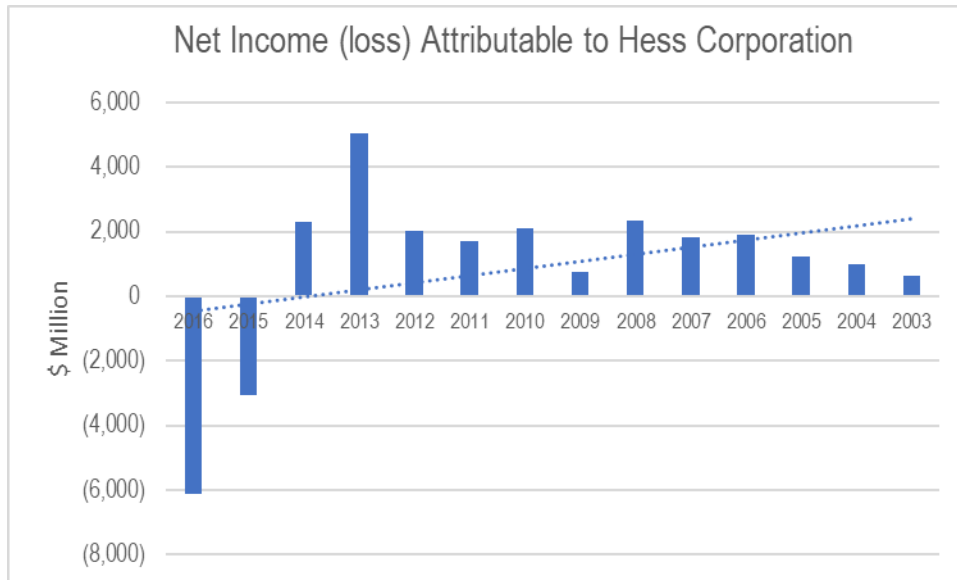
Despite the many limitations of this method and the numerous bank of uncertainties in the energy markets, it indicates the soundness of AKER's move to purchase HESS Corporation's business interest in DWT/CTP.

### How has HESS Fared?

The US\$100 million deal is the second between an AKER group company and HESS, following AKER's purchase of the Norwegian assets of HESS in a US\$2 billion transaction. AKER has stronger financial muscle and technological prowess compared to HESS. DWT/CTP is a large ultra-deep block. Appraisal and development of natural gas requires huge technological abilities and capital investments because they are more complex than crude oil.

A trend analysis of HESS performance on the on the New York Stock Exchange (NYSE) market showed a decline over the last Five (5) years while Aker has seen an increasing trend (See [www.reuters.com/finance/stocks/chart/AKER.OL](http://www.reuters.com/finance/stocks/chart/AKER.OL) and [www.reuters.com/finance/stocks/chart/HES.N](http://www.reuters.com/finance/stocks/chart/HES.N) ).

When the US\$100 million deal was announced on 19 February, 2018 a HESS share traded approximately at US\$46 with share closing at US\$48.39 at 20 March, 2018. In December 2017 Elliott Management Corporation criticized what it called “continuing underperformance” at HESS. (See figure below).



Source: HESS Annual Reports

HESS oil and natural gas production has dropped 7% in three years due largely to depleting petroleum reserves in production areas especially in North Dakota. In 2013, HESS conceded to an agreement that added three Elliott Management Corporation appointees to the board.

## Recommendations

Because the departure of HESS is subject to the approval of the Petroleum Commission (P.C), the P.C must make public, the lessons learnt by HESS during its operations in DWT/CTP. This will help deepen citizens' understanding on the subject matter as well as the industry. Whatever the P.C's decision, HESS Corporation's plans in Ghana may be dependent on improved business performance indicators.

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