



MINISTERIO
DE ENERGÍA Y MINAS
REPÚBLICA DOMINICANA

DOMINICAN REPUBLIC 1ST LICENSING ROUND

Commercial Attractiveness

Juan Agudelo, Director Consulting – Wood Mackenzie

July 10, 2019



MINISTERIO
DE ENERGÍA Y MINAS
REPÚBLICA DOMINICANA

AGENDA

1. THE DR VALUE PROPOSITION

2. FISCAL TERMS

3. CONTRACT HIGHLIGHTS

4. DOMESTIC MARKET & INFRASTRUCTURE

There are unique advantages that position early entrants into DR as leading E&P players in the Caribbean



Attractive fiscal terms

- Top quartile fiscal terms compared with systems adopted in the region and globally
- Progressive, simple and transparent terms



Low cost of entry into DR O&G industry

- **Minimum work commitment of :**
 - Onshore blocks (US\$ 2 million)
 - Offshore blocks (US\$ 5 million)



Frontier fields are larger than typical emerging/mature basins

- Provides larger areas to explore, thus potentially larger prospects



Optimal conditions for developing the infrastructure required for E&P activities

- Government focused on designing and reforming policies that will attract and retain investors



AGENDA

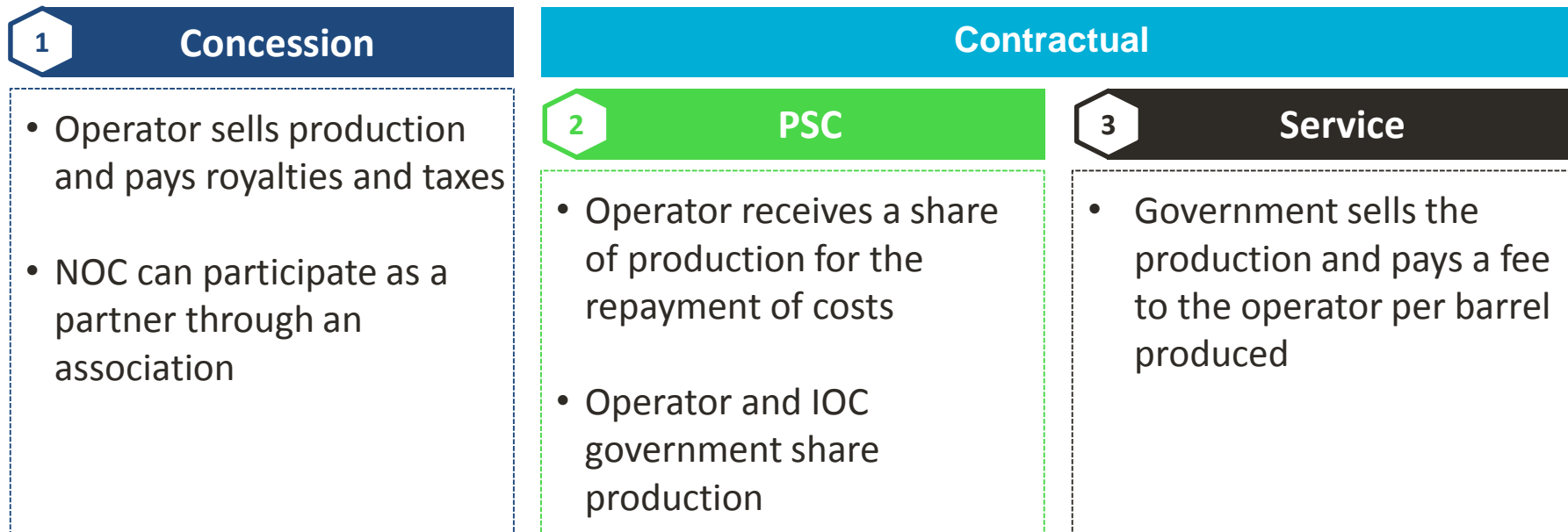
1. THE DR VALUE PROPOSITION

2. FISCAL TERMS

3. CONTRACT HIGHLIGHTS

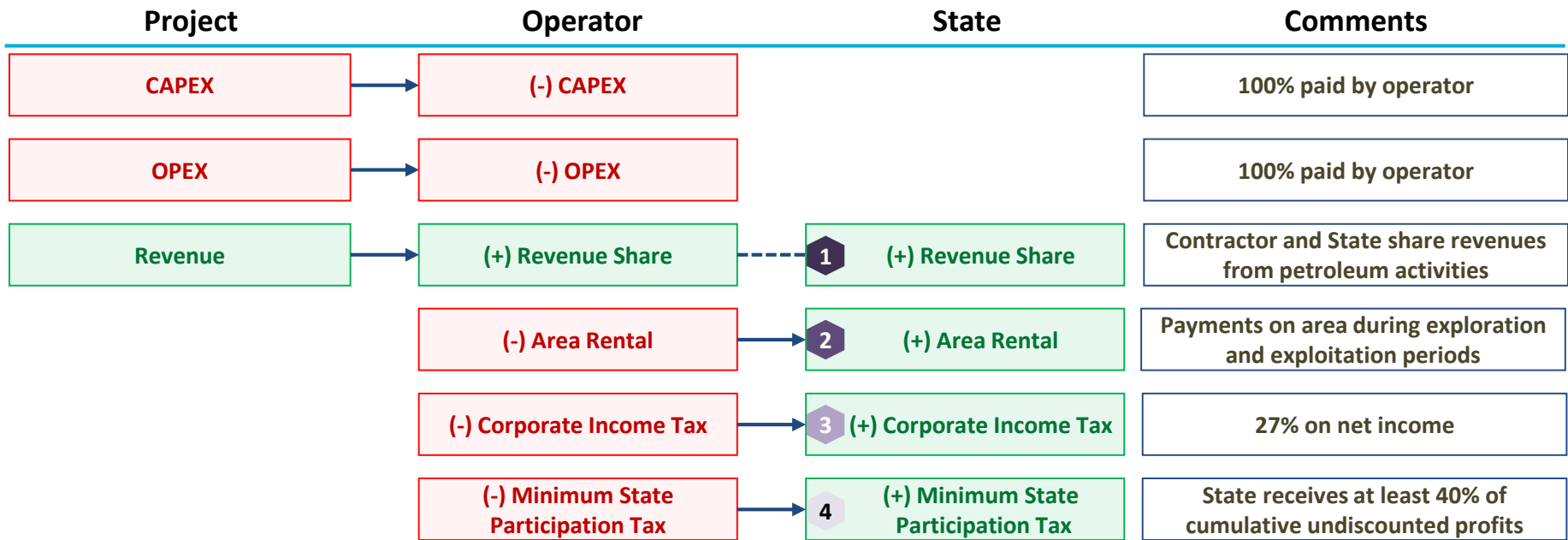
4. DOMESTIC MARKET & INFRASTRUCTURE

The Dominican Republic recently designed its fiscal policy per PSC terms while weighing the objectives of both the State and operator



Tax system selected by the Dominican Republic government

The fiscal regime is designed to be simple, flexible and equitable while allowing the production of projects of all sizes

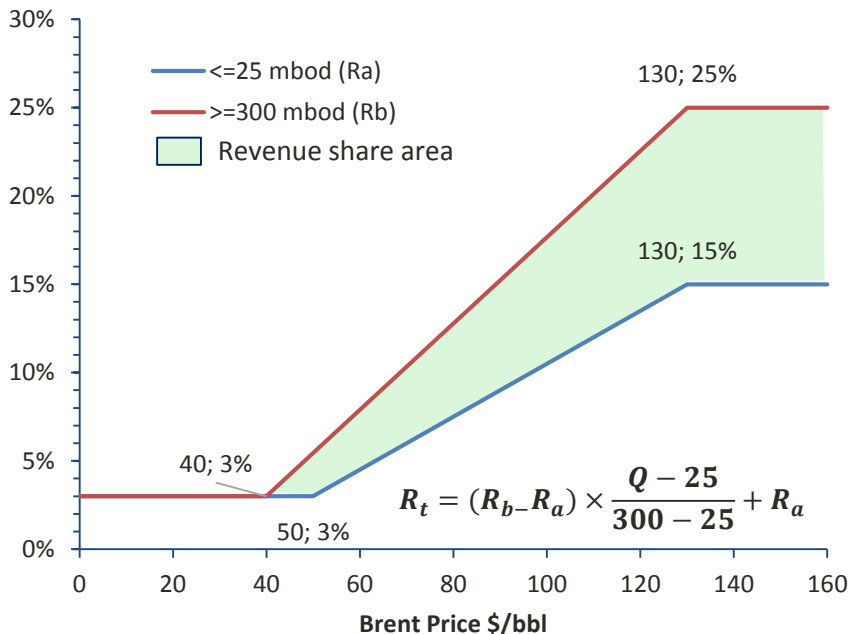


Revenue Share will be adjusted based on price and oil production

1 (+) Revenue Share

OFFSHORE

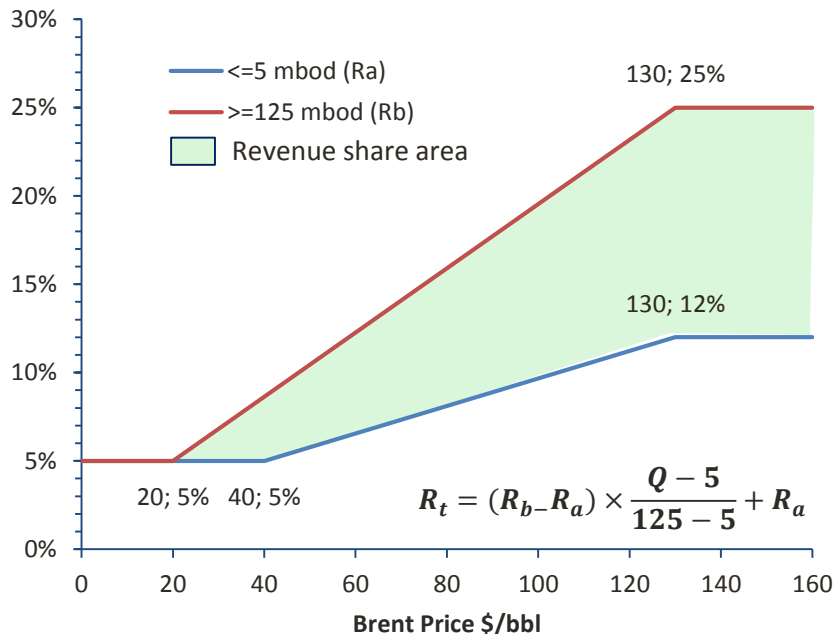
Revenue Share



ONSHORE

Oil

Revenue Share



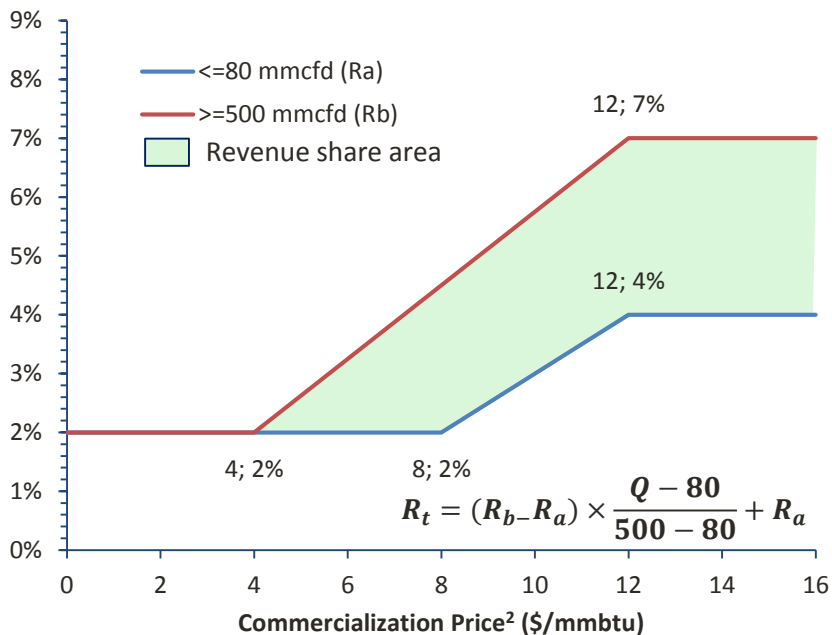
Note: Price is not adjusted by inflation; Offshore includes shallow and deep water
 Source: Wood Mackenzie Consulting

The same methodology applies for gas fields

1 (+) Revenue Share

OFFSHORE 1

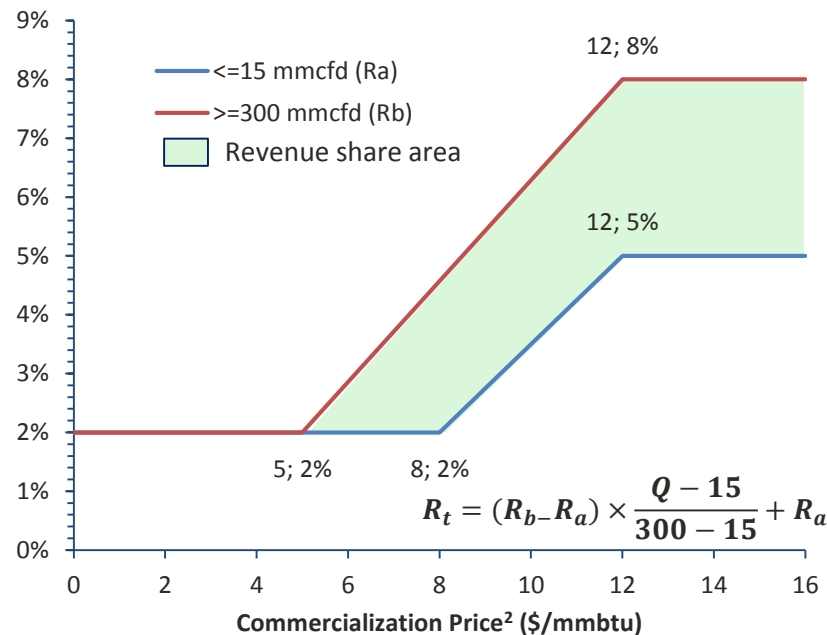
Revenue Share



ONSHORE

Gas

Revenue Share



Notes: 1. Offshore includes shallow and deep water; 2 Commercialization prices for gas are determined by the parity import price for LNG in the Dominican Republic.

Source: Wood Mackenzie Consulting



Area rentals are adjusted for each contract phase

2 (+) Area Rental

AREA RENTALS ONSHORE



- **1st exploration period:** US\$25/km²
- **2nd and 3rd exploration periods (including evaluation period)** US\$50/km²
- **Exploitation period:** US\$500/km²

AREA RENTALS OFFSHORE



- **1st exploration period:** US\$100/km²
- **2nd and 3rd exploration periods (including evaluation period)** US\$150/km²
- **Exploitation period:** US\$1000/km²

The standard CIT rate of 27% will be applied to the oil and gas sector

3 (+) Corporate Income Tax



Rate

- 27% (same as other industries in the island)

Depreciation and Amortization

- Straight line depreciation with first oil:
 - » E&A : 1 year, Development: 5 years and Facilities:10 years

Recoverable cost for CIT

- 100% of cost are recoverable (Opex, depreciation and amortizations), but there is a cost ceiling of 95% of net revenues per period
- Unused deductions can be carried forward indefinitely

Ring Fencing

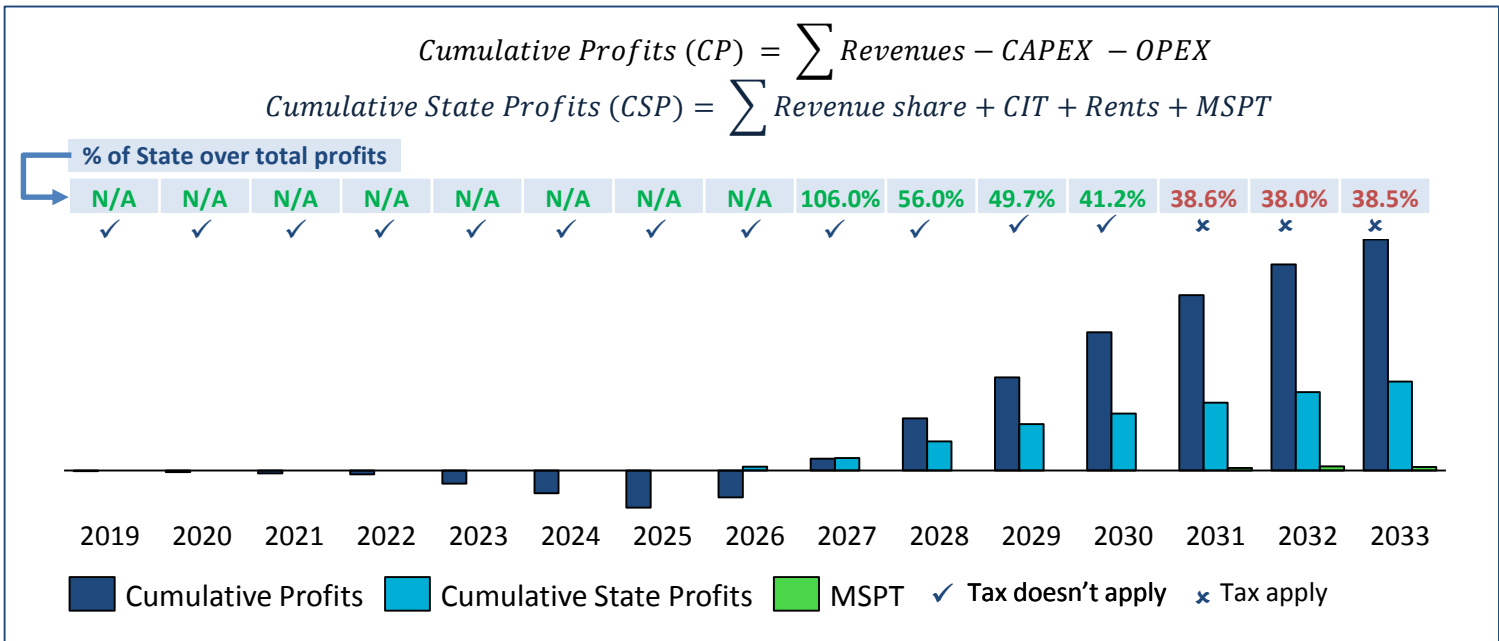
- Ring fencing by contract

Notes: These contracts won't be subject to asset tax that applicable to other industries

There is a Minimum State Participation Tax that limits the lower end of the State Share to be no less than 40% of cumulative undiscounted profits

4 (+) Minimum State Participation Tax

If the State gets less than 40% of cumulative profits, the MSPT is applied to cover the difference



Formula

$$Minimum\ State\ Participation\ Tax\ (MSPT) = 0.4 \times CP - CSP$$

- The calculation will be made annually based on the financial statements of the previous year

Notes: Abandonment fund is not included in the formula
 Source: Wood Mackenzie Consulting

Others key elements of the fiscal terms reduce the cost of the E&P activities



Abandonment Fund

- Funds sent annually to an "Escrow account"
- Based on units of production, starting on the 5th year of production; the fund must be fully funded 2 years prior to the end of the project



Withholding tax

- Tax exceptions for exploration activities
- 10% tax rate for the rest of project and for dividends and debt interest



VAT (ITBIS)

- 18% tax rate
- Not applicable for exports
- VAT refunded annually

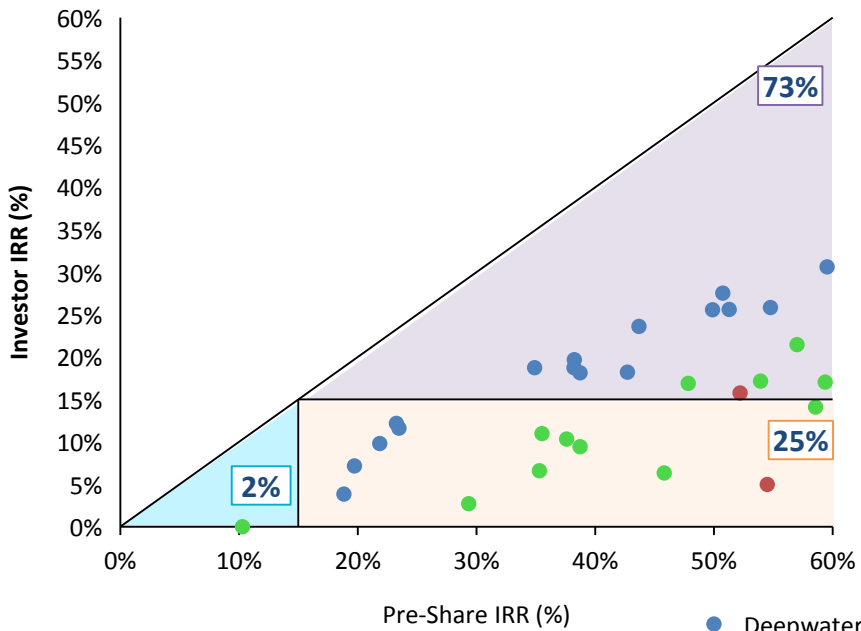
Overall, the proposed fiscal terms incentivize the development of fields, even if marginal, when compared with other regimes

Project IRR vs Operator IRR

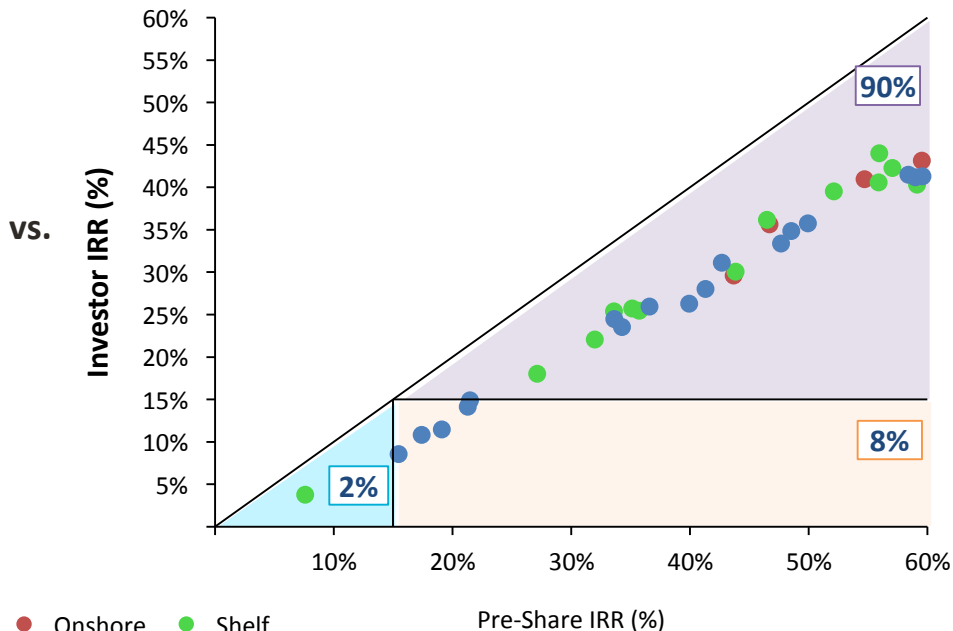


Oil

Country A: PSC, 70-90%



Dominican Republic: PSC, 40-60%



Notes: 1. Prices: 40, 60, 80, 100 \$/bbl. 2. Total cases modeled 60. 3 Each point shows a size of discovery at a price by type of basin. 4 Graph only showing cases with pre-share IRR below 60%

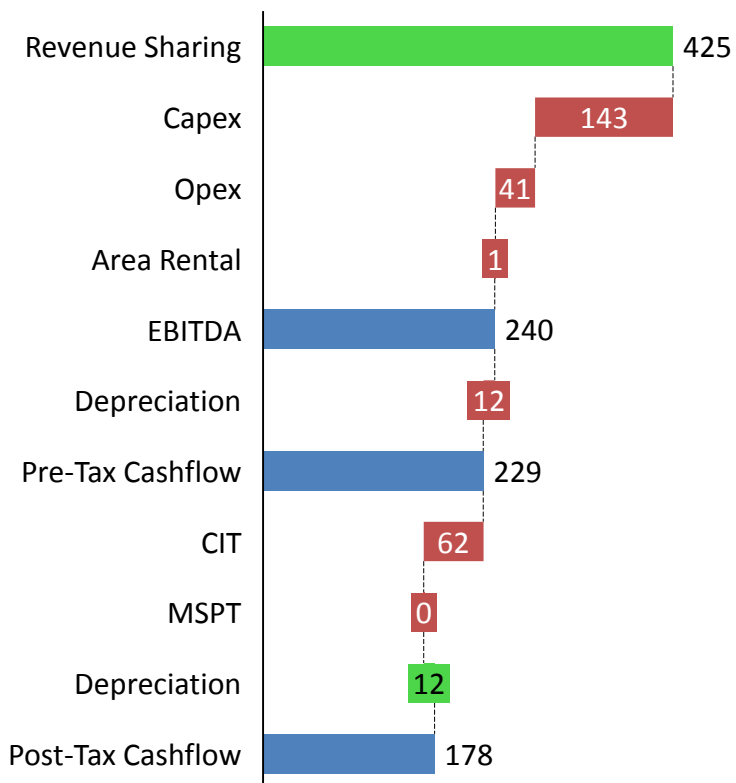
Source: Wood Mackenzie Consulting and Wood Mackenzie Fiscal Service

The state revenue will depend directly on the applicable fiscal terms and on the characteristics of the development

ILLUSTRATIVE EXAMPLE

Onshore, Oil

Cashflow



Comments

WTI = \$60/bbl , Revenue Share @ 6% for State

100% paid by operator

100% paid by operator

Paid by operator, varies by contract period & shore status

Earnings before applicable depreciation and taxes

Straight line depreciation on CAPEX (3rd year production)

Cashflow before CIT & MSPT are applied

27% standard CIT paid by operator

Current State Share (~\$97M) is >40% of cumulative undiscounted profits

Depreciation added back after tax calculation

State Share (~58%) within 40-60% PSC fiscal term

Notes: Illustrative example of operator on onshore oil field in third year of production

Source: Wood Mackenzie Consulting

The contract competes with the most recognized contractual systems and has a State Share between 40-60%

Discounted State Share Deepwater Fiscal Schemes



State Share → ■ 30-50% ■ 50-70% ■ 70-90%

Central America & Caribbean



-  **Cuba**
Production share
-  **Dominican Republic**
Production share
-  **Jamaica**
Production share
-  **Nicaragua**
Concession
-  **Belize**
Production share
-  **Guatemala**
Production share

Notes: USA - GOM Terms; Canada – Nova Scotia; Brazil Concession Terms

Source: Wood Mackenzie Fiscal Service, Scenario: Medium field, Medium costs, Deepwater terms. Oil Price 80US/BBL. Discounted @10%.





MINISTERIO
DE ENERGÍA Y MINAS
REPÚBLICA DOMINICANA

AGENDA


1. THE DR VALUE PROPOSITION

2. FISCAL TERMS

3. CONTRACT HIGHLIGHTS

4. DOMESTIC MARKET & INFRASTRUCTURE


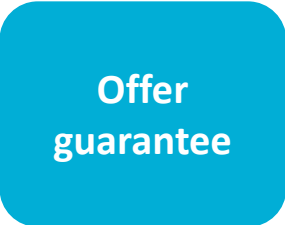

The operator has long periods for exploration, evaluation, and exploitation

	Activities
 Exploration	<ul style="list-style-type: none"> • Onshore: 8 years total (Initial period 3 yrs; second 3 yrs; third 2 yrs) • Offshore: 10 years total (Initial period 4 yrs; second 3 yrs; third 3 yrs) <ul style="list-style-type: none"> » Possibility of 1-year extension per period (MEM authorization)
Evaluation	<ul style="list-style-type: none"> • Onshore: 2 years; Offshore: 3 years <ul style="list-style-type: none"> » Non-associated gas – 10 years » Possibility of extension of 2 years (MEM authorization)
Relinquish-ment	<ul style="list-style-type: none"> • > 25% of orig. exploration area returned at end of first exploration period <ul style="list-style-type: none"> » Excludes areas designated as evaluation and exploitation » >34% of remaining area at end of second exploration period

Initial exploitation period is 25 years with possible extension to the end of field’s economic life

The round will require guarantees from operators at different stages



	Purpose	Duration	Value
 <p>Corporate guarantee</p>	Guarantee from parent company to fulfill contractual obligations in the DR	Contract duration	Limited to \$350 million
 <p>Offer guarantee</p>	Ensures the seriousness of the bid during the round	Valid during the bid process and until blocks are awarded	US\$100,000
 <p>Exploration period guarantee</p>	Ensures companies will fulfill their work commitments during the exploration round	Valid during the exploration period	100% of minimum work commitment and 20% of additional work commitment

The environment licensing process promotes responsible execution of E&P activities



- Licensed Operators must follow a process to get environmental licenses for E&P activities, defined by the Ministry of Environment
- Final approvals will be granted by the Ministry of Environment and Natural Resources
- Periods of delay caused by approval/permit process could be added to contract phase

Investors can operate confidently with contract provisions that ensure stability and minimize delays in resolving disputes



Dispute Resolution

- The Contract establishes procedures for direct dispute resolution
- Arbitration under the rules of the International Centre for Settlement of Investment Disputes (ICSID)
- Contract provision ensures disputes involving foreign investors are resolved within two months



Stability Clause

- Contractual terms and fiscal terms stable during the contract duration
 - » Contract is signed by or on behalf of the President and then sent to and approved by Congress making it law
- The contract establishes a **Legal Stability clause** protecting the interests of the parties



MINISTERIO
DE ENERGÍA Y MINAS
REPÚBLICA DOMINICANA

AGENDA

1. THE DR VALUE PROPOSITION

2. FISCAL TERMS

3. CONTRACT HIGHLIGHTS

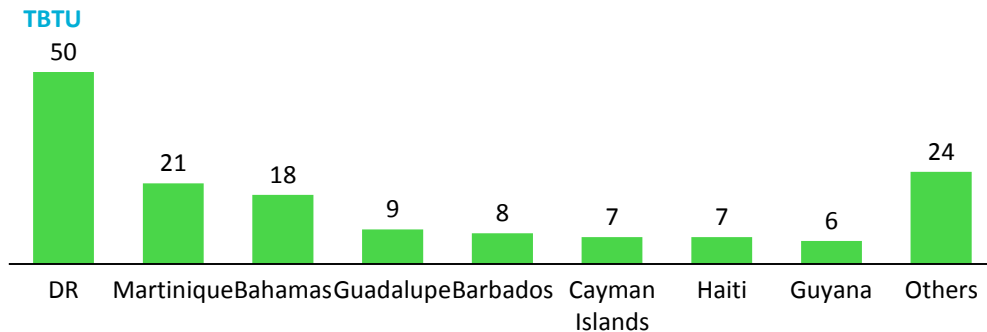
4. DOMESTIC MARKET & INFRASTRUCTURE

DR is a key contributor to the flow of natural gas in the Caribbean, opening up the broader regional market to investors

DR is located in strategic position for LNG redistribution to the Caribbean

- DR annual natural gas demand 50 TBTU and bound to almost double this year with **Conversion of power plants** to gas 910 MW units at San Pedro de Macoris
- The best way to bring natural gas to the Caribbean is through a **Hub and Spoke** strategy
 - AES initiated re-export of LNG in ISO containers e.g. Barbados and Guyana

Potential Caribbean NG demand ~150 TBTU



Hub & Spoke model – DR as hub



DR offers other critical non-upstream infrastructure beneficial to investors

DR Infrastructure Snapshot

- ✓ **1 LNG regas**
- ✓ **1 Refinery** (Capacity ~31kb/d)
- ✓ **8 international airports** (400 daily flights)
- ✓ **12 commercial ports**
- ✓ **3 cruise ports**
- ✓ **Well connected road network**
- ✓ **Commercial rail network**

Energy

Transportation
network

DR air & maritime transportation





MINISTERIO
DE ENERGÍA Y MINAS
REPÚBLICA DOMINICANA

Thank you!

