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Overview From Owner's Perspective

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Abstract

This paper focuses on the development of the Independence Project from the perspective of Enterprise Products Partners L.P. ("Enterprise") as an owner of the hub platform and the export gas pipeline. The Independence Project is located in the ultra-deepwater Eastern Gulf of Mexico ("GOM") and is comprised of three major components: the Independence Hub platform, the Independence Trail export gas pipeline and the Independence Subsea infrastructure.

Enterprise and Helix Energy Solutions ("Helix") own 80% and 20% respectively of the Independence Hub Platform which is located in 8,000 feet of water in Mississippi Canyon 920. Enterprise owns 100% of the Independence Trail export gas pipeline. Anadarko Petroleum Corporation ("Anadarko"), Devon Energy Corporation ("Devon"), Dominion Exploration & Production Inc. ("Dominion"), and Hydro Gulf of Mexico L.L.C. ("Hydro") have ownership in the Independence Subsea infrastructure including flowlines and the initial ten gas fields that will be connected to the 1 Billion cubic feet per day ("BCFD") Independence Hub platform.

The Independence Project is a phenomenal technical achievement, setting several world records, but it is important to consider the role that the negotiation of commercial arrangements and the collaboration between infrastructure providers and producers played in the successful development of the project.

Given the unique technological and commercial aspects, the number of parties involved, the depth and breadth of issue complexity and challenges, it took unprecedented cooperation among infrastructure providers, multiple producers and the specialized subcontractors to make the Independence Project a reality. This cooperation led to the fast track development of a 1 BCFD deepwater project with the potential to increase GOM gas supplies by 10% and will provide the infrastructure required to commercialize future Eastern GOM developments.

Introduction

As a leading deepwater infrastructure provider, Enterprise always looks for areas in the GOM in need of new major hub platform and pipeline infrastructure opportunities. Having recently completed a groundbreaking arrangement with Anadarko to develop the Marco Polo Platform in the South Green Canyon area of the deepwater trend of the GOM, we were looking to draw from the experience gained from that project to develop a new opportunity.

In late 2001, Kerr McGee Corporation ("Kerr McGee") announced their Merganser gas field discovery in the Atwater Valley region of the Eastern GOM. With no infrastructure in the area and the potential for additional gas discoveries, we approached Kerr McGee in April 2002 to discuss the concept of a major gas hub platform facility and a new gas pipeline. Over the next one and half years, Anadarko, Devon, Dominion, Spinnaker Exploration Company ("Spinnaker"), and BHP Billiton Petroleum (Deepwater) Inc. ("BHP") announced discoveries in the area. This group of producers along with Kerr McGee formed a consortium called the Atwater Valley Producers Group ("the AVPG") with a collective goal to find a technical and economic solution to develop the fields in the area.

We began working with the AVPG on technical solutions and ultimately made an initial proposal to build a hub platform and natural gas export pipeline. From that beginning, we commenced discussions with the AVPG on the initial design concepts and commercial arrangements under which the Independence Project would ultimately be developed.

This paper outlines the commercial negotiations and technical collaboration required to move this significant project forward, from the owner's perspective.

Commercial Negotiations

As an infrastructure provider, we approached the AVPG negotiations with a goal of earning their business by providing the following benefits:

1. Expedite the start-up date for first production which would improve the net present value ("NPV") for the AVPG;
2. Transfer the capital burden of platform and export pipeline infrastructure from the AVPG while assuming a reasonable amount of reserve risk with the AVPG which would free up the AVPG capital to drill wells and provide them some downside protection;