



Oil Search

Managing Director, Peter Botten, discusses responsible sustainable development in PNG

Speech Notes: 3rd Annual PNG Petroleum & Energy Summit, Port Moresby

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Honourable Prime Minister, Ministers of State, Members of Parliament, Governors, Members of the Public Service, Distinguished Guests, Ladies and Gentlemen, it is a real privilege to address you all today.

Firstly, I would like to congratulate the Government and Kumul Petroleum for having the vision to bring this conference and its distinguished panel of international speakers to Port Moresby to demonstrate the vitality and importance of the oil, gas and power sectors to this wonderful country and to highlight the outstanding potential for organisations who wish to work with the State, Landowners and communities to develop this nation in a responsible and balanced way.

I have made the title of my talk Papua New Guinea Addressing Future Responsible Sustainable Development on the Threshold of Major New Investment. We are absolutely on the cusp of major new developments of LNG in this country. Much work has been done to bring us to this critical point and we are now very close to making commitments that will lead to expansion of our LNG business. It is a real mark of growing maturity in this country that in getting here we have collectively addressed issues that have arisen from the first project, and in a responsible way, embedding changes to development and fiscal terms which will facilitate further investment in the country and help manage the impacts that these projects will have on the economy.

I believe we have taken lessons from the past and are actively applying what we have learnt to better manage developments in the future. More of this later.

I have a short amount of time to try and capture the status of our business in this country. It is a particularly important and dynamic time for our sector and the country.

Papua New Guinea is on the threshold of substantial new LNG investment which is targeting a doubling of LNG production over the next five to six years. This represents a challenge but a very realisable challenge for us all and we are now at a critical time.

We are facing very significant competition to position PNG in the LNG delivery queue, with several major projects already announced and moving forward intending to capture key LNG markets that can underwrite our projects.

Markets and customers are there now but it is becoming increasingly important for us to meet project milestones, in a timely way, to secure customers and avoid the inevitable cost inflation that will come with a competitive construction market.

Our projects are reaching critical decision points:

- What we are going to build has been agreed between all stakeholders in the Papua LNG and PNG LNG projects. It is a smart and capital efficient cooperative development, where possible using existing infrastructure, saving money and time;
- We are now close to agreeing fiscal terms that I believe take on board experiences, both positive and negative, from the first LNG Project.

More of this later.

I think we are ending up with a balance of economic and development terms that are fair for us as developers, but importantly address key sensitivities of Government and communities in the next phase of development.

We are not there yet but we are getting close.

A big breakthrough on our projects was achieved early last year with agreement on cooperation between Papua LNG and PNG LNG.

It was agreed that Total would develop the Elk Antelope field and underwrite two LNG trains, each with a capacity of about 2.7mtpa, whilst PNG LNG would develop a third train, with all new trains built on the LNG plant site at Caution Bay, thereby taking advantage of existing infrastructure, saving billions of dollars in capital and reducing construction time.

The upstream engineering for the development of Elk Antelope is progressing, with well design, the gas and liquids gathering system, the Central Processing Facility and pipelines to deliver gas and liquids at Caution Bay, all well advanced, in preparation for contracting and a FEED decision, following finalisation of fiscal terms.

The upstream studies supporting a further train from PNG LNG are also well advanced and will sequentially use gas from existing PNG LNG fields and from the P'nyang field, where drilling results last year materially increased the available gas resources for this development.

This simple diagram shows what we presently intend to build at Caution Bay.

As I said, it involves building three new liquefaction trains, two owned by Papua LNG and one by PNG LNG. Gas comes from the PNG LNG fields, plus in the future P'nyang, to support the two existing and one new train for PNG LNG and gas comes from Elk Antelope to support two new trains for Papua LNG. There will be a new LNG storage tank, where LNG is mixed from both projects and sold as a PNG blend.

Substantial engineering and commercial work has already been carried out but our next key milestone for Papua LNG is the confirmation of the fiscal terms applicable for the development. A major step forward in this process was the signing of a MOU between the Government and Papua LNG participants at APEC in November last year. This MOU framed the major fiscal terms, addressing the equitable split of value between the State and Developers, along with important sensitivities that have arisen since PNG LNG commenced production in 2014.

Negotiations have addressed important issues of smoothing taxation revenues for the State, along with ensuring the availability of predictable amounts of foreign currency flowing into

the country, the availability of appropriately priced gas to the local market for power generation and local industry development and definition of robust guidelines for local businesses to be involved in the construction and operating phases of the Project.

Negotiations also discussed the financing model and how the State can be supported through the complex financing process, including a deferral of payment of past costs and equity financing support.

Negotiations have been appropriately robust; however, all parties are pleased with the outcomes that are now being encapsulated in a Gas Agreement. It is anticipated that the Gas Agreement for Papua LNG will be signed at the end of quarter one this year – a few weeks away. The Prime Minister confirmed this morning that the target date for the signing of this Agreement is 5 April.

Focus will then move to the fiscal terms applicable for PNG LNG's third train and the development of P'nyang. Finalisation of this agreement will then result in a coordinated FEED process for both projects.

Major progress has also been achieved on all key commercial terms that support integration and cooperative development of the downstream parts of this Project.

Contracting strategy for the FEED development has reached a very advanced stage, along with definition of the complex financing options for these enormous projects. FEED activities will also trigger an acceleration of gas marketing activities, so we can establish our place in the LNG Project development queue.

With the Gas Agreements signed, a range of commercial agreements resolved, pre-FEED engineering and construction strategies finalised, the Project will embark on full FEED activities to establish construction costs.

There is an enormous amount to be done, including of course engaging with communities and Landowners to finalise benefits sharing agreements and processes, taking once again lessons from the first LNG Project.

Work during FEED will include early works to engage local contractors in infrastructure development. It will also involve final costings and schedule definition. Financing activities will be comprehensive, along with LNG marketing.

We anticipate that it is possible to have final investment decisions in the second half of 2020, hopefully as early as possible in the second half, and if this goes to plan LNG production will progressively ramp up in 2024 – five years away.

Dr Fesharaki has already described the possible, some would say likely, evolution of LNG markets over the coming 10 years or so.

Demand for LNG will grow significantly, especially if it remains competitively priced, and there are many existing contract volumes becoming contestable, as these run out and require renewal. Demand will be strong but competition for these volumes will be enormous.

PNG has some advantages of quality, reliability and proximity to market, but it will be hugely competitive, and we do not want to stumble or delay. There are many projects lined up to take our place.

I thought it would be worth reminding everyone what happened to investment, currency and Oil Search share price from a FEED decision for PNG LNG into production. So, the next two slides highlight the impact of \$19bn investment from PNG LNG.

This slide shows the investment during FEED and construction, with the timing and impact on the Kina versus the US dollar.

During the PNG LNG Project construction phase, around 15% of the US\$19bn investment was in Kina. That is around US\$2.5bn or K6billion. This was injected into the local PNG FX market over this time, contributing to the strong appreciation of the PNG Kina.

The next phase of LNG investment will not reach the same peak as PNG LNG, but it will be sustained over a much longer period. As you can see, investment was very strong in the period 2009 to 2014. The next period of LNG growth will see sustained investment over

around 10 years, as downstream facilities are built, and fields are progressively developed in the Highlands.

This will help manage the exchange rates and provide access to sustained foreign currency.