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USAID ENERGY POLICY PROGRAM

MONTHLY PROGRESS REPORT APRIL 2015

COMMERCIAL ADVISORY SUPPORT FOR
LNG PROCUREMENT

May 2015

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Contract No: AID-EPP-I-00-03-00004

Order No: AID-391-TO-12-00002

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FGE APRIL 2015 MONTHLY PROGRESS REPORT

During the month of April, FGE worked on one task order as follows:

- I. Ongoing LNG Support to the Government of Pakistan
 - a. Continue to review further Doha SPA drafts and strategy, including FSRU compatibility and liaise with Exceletrate.
 - b. Travel to Doha on March 30 to meet with Qatargas to continue to finalize the SPA. Stayed in Doha through April 3. Significant preparation was put into the Doha trip as Pakistan's pricing committee was supposed to attend the meetings. They did not show up in Doha. Instead, FGE, WFW, PSO MD and their external council made further progress on closing out items in the SPA negotiations. The Pricing Committee meeting could be rescheduled in Doha for the following next week, but the meeting is not necessary at this point and is unlikely to happen in light of some of the actions below.
 - i. As QG does not envision being ready to send cargos on q-flex vessels to Pakistan until at least May, PSO will need to procure cargos elsewhere or from QG on an FOB basis.
 - ii. The reason it is an FOB basis is that QG is not yet satisfied with issues pertaining to the port and the channel.
 - iii. QG told PSO that if they find a vessel, they will see if they can make a cargo available. It seems as if QG can do this, but they reported that the price would be significantly higher than the first cargo as they have to divert it from a longer-term customer. We remain skeptical of this claim.
 - c. Meanwhile, we have proceeded to have limited discussions with potential vessel owners. For the owners FGE knows best, this is done discreetly via phone calls. For others, emails are used sparingly but as necessary.

- i. It was deemed best to avoid the likes of ship brokerages as we would alert the whole market to PSO's plight and potentially drive up freight costs as well as potentially reflect negatively on the GOP.
 - ii. As one of the primary issues QG is claiming is that the port is not ready for them yet, we have contacted Excelerate who is clearly comfortable with the port and channel. At present, we are trying to use one of their vessels to see if there is a way to supply some cargos from Petronas on a DES G2G basis, and likely at a lower price than QG (as we've always said). Both Petronas and Excelerate have been contacted with the idea and made an effort prior to the decision to use the FSRU as a shuttle.
 - iii. Other options are for PSO to arrange a vessel to pick up an FOB cargo from QG as QG will not agree to a DES cargo at least on the first cargo knowing their port concerns. We are talking to someone on this and it is the second option, though the FOB basis is a regulatory challenge. The challenge is that this vessel owner may also reject the port and this could have a negative impact on the project. As such, it is the second option.
 - iv. The third option is to arrange for supply from someone else, and this could be done through a supplier who is willing to vet the port and where the GOP would be willing to offer an exemption to the procurement rules to permit this as a one-off.
- d. PSO's best hope looked as if it was with using Excelerate vessels and that is what happened. Using the FSRU was not, however, the original plan. The benefits of this, however, were that PSO would have had to pay for the vessel regardless of usage, therefore if the vessel is used as a shuttle, PSO can avoid the cost of hiring another vessel until QG is ready.

- e. From April 2-April 15, assist PSO and GOP in arranging the second cargo of LNG. Various options were discussed and strategies developed, but ultimately it came down to the GOP waiting so long that the only option was to use the FSRU as a shuttle. This was not recommended. Other options involved Excelerate, Shell, and Petronas were developed to the point of execution, but decisions were not made in a timely fashion to proceed. Meanwhile FGE employed the following people to solicit potential vessels to be chartered to import Qatargas LNG to Port Qasim.
 - i. Alberto to contacted European vessel owners in the Mediterranean
 - ii. Tomoko contacted Japanese vessel owners and Japanese buyers
 - iii. Kang contacted CNOOC and other Chinese LNG importers on vessel availability and willingness to charter to Pakistan.
 - iv. Jeff and Fang both helped to liaise with Petronas and contacted Kogas of Korea.
 - v. Alexis asked Pertamina of Indonesia and contacted various trading houses
 - vi. The results were that MD PSO had conference calls with Excelerate, Petronas and Shell. None of the above mentioned others were interested due to the timeframe and commented that they would prefer to have others go in first.
- f. Another meeting with PSO was requested from Qatargas for the week of April 13 in Doha. WFW and FGE were asked to prepare and travel for it. FGE commenced and Alexis, Alberto and Fang worked with Robert to help review the revised SPA on a pricing basis. For this trip, the SPA review consisted primarily of assessing the value of what clauses could be dropped with the hope of further reducing the price. FGE also prepared and updated its LNG market assessment for mid-April.

- g. PSO requested FGE to review and comment on the National Assembly questions related to pricing during the week of April 13. Alexis and Fang coordinated, with Robert reviewing.
- h. Alberto and Robert worked to review the draft G2G agreement to be given to the nominated companies of China, Russia, and Malaysia during the week of April 20.
- i. Alberto and Robert reviewed the tender documents and began to develop selection criteria also during the week of April 20.
- j. During the week of April 27, it was realized that the selection criteria had to be written into the tender documents. This is due to PPRA rules as they stipulate that the only criteria can be on price. Thus the technical qualifications had to be amended. Also, numerous issues with the port and terminal continue to be flagged that can sink the tender. Alberto, David (who has the same role with the Hawaii Gas LNG tender that I do), and myself began reviewing the documents and exploring how to incorporate the selection criteria into the technical qualifications. This is as opposed to the more traditional way of weighting different criteria to determine who wins. The reason for this is that PPRA rules deem make it the only way forward.
- k. Describe how the rest were involved
- l. As Gas Natural (GN) of Spain has one of the only FOB contracts with Qatargas, Alberto and Robert spent some time discussing swapping the smaller cargo with GN and QG. The purpose was to explore if QG could use smaller GN vessels to deliver LNG to Port Qasim until QG had cleared the port for Q-Flex vessels. This was done separately with each party and continued into May. The reason for the extra discretion was that both parties are not on good terms due to arbitration over European gas prices. Unfortunately, both sides insisted that the other side initiate the contact and would not consider the option.

- m. Alexis, Fang, Alberto and Robert on finding out all vessels with beams under 40m and seeing whether or not the vessels were available. All are not available.
- n. Kang assisted with facilitating CNOOC relations with Pakistan from Beijing and worked on helping to manage their expectations with GoP. Kang also provided pricing insight on recent Chinese LNG deals.
- o. In addition to assisting with the MSPA tender per above, David helped review the current QG price offer on an urgent basis to help Pakistan's positioning for the May 5-6 Qatargas negotiations in Islamabad.

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