



Government of the Republic of Trinidad and Tobago

Ministry of Energy and Energy Industries

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MEDIA RELEASE

STATEMENT ON GAS TO LIQUIDS PROJECT

I have been authorized by Cabinet to make the following statement to this Honourable House.

In 2005, the availability of gas fueled the interest by prospective investors in the establishment of gas based industries in Trinidad and Tobago (T&T). One such project was a Gas to Liquids Project (GTL) which was a joint venture between World GTL Inc. (WGTL) and Petrotrin. The GTL project was intended to produce for offtake by Petrotrin high quality diesel which would be blended with Petrotrin's refinery diesel to improve its quality. Given environmental concerns, standards for fuels had been upgraded and Petrotrin ran the risk of not being able to supply markets that adopted the higher standards. This was an intermediate arrangement pending the construction of Petrotrin's Ultra Low Sulphur Diesel Project.

On September 22, 2005, Petrotrin entered into a Project Agreement with WGTL Inc. to construct, and operate a gas-to-liquid plant on Petrotrin's refinery compound at Pointe-a-Pierre. The project economics was based on a plant size 2250Bp/d, a gas requirement of 18.4Mmscf/d to be supplied either by Petrotrin or the National Gas Company of Trinidad and Tobago Limited (NGC), and a gas price of US\$1.50 per Mmscf escalating at 3% per annum.

In January 2006, Petrotrin and WGTL Inc. entered into a Shareholders Agreement in which WGTL held 51% of the equity and Petrotrin 49% in World GTL Trinidad Limited. In early 2007, the Budget and funding for the Project was finalized. The Project Budget of US\$165M was funded by a loan of US\$125M from Credit Suisse, preference shares in the sum of US\$30M from local investors and equity in the

sum of US\$10M from Petrotrin. The Loan Agreement with Credit Suisse stipulated that by July 12, 2009 ('the Date Certain') the project had to be sufficiently completed to produce diesel. In the event that the required amount of diesel was not produced by that date, the loan became immediately due and payable.

The project was plagued by delays and cost overruns and by 2009, the project cost had ballooned to more than twice the initial budgeted cost. Pursuant to the financing agreement budget increases were to be funded by the shareholders. However, WGTL Inc. was unable to fund its portion and therefore Petrotrin had to fund in its entirety the cost overruns. Delays in the Project meant that production milestones would not be achieved and would constitute a default event under the Loan Agreement. In order to avoid the event of a default Petrotrin purchased the Credit Suisse Loan.

On September 25, 2009 Petrotrin placed the Joint Venture Company World GTL Trinidad Limited into receivership. By that date, the budget had increased from US\$165M to in excess of US\$399M. The appointment of the Receiver resulted in the termination of the joint venture and the commencement of arbitration proceedings by WGTL Inc. against Petrotrin for breach of fiduciary duty. The Arbitration Tribunal ruled against WGTL Inc. and ordered the company to pay costs to Petrotrin. With the termination of the joint-venture, Petrotrin moved to complete the Project. By the end of 2010, Petrotrin ceased funding for the completion of the project. Accordingly, the Receiver shifted the focus to the acquisition of an investor to complete the Plant. Following an open process the Receiver identified NiQuan as the prospective investor.

By letter dated April 16, 2012, to the Receiver, NiQuan Energy LLC submitted a proposal in response to the RFP, and by letter dated July 6, 2012, the Receiver notified NiQuan Energy LLC that it had been selected as a prospective investor. In October 2014, the Petrotrin Board approved the Receiver's recommendation of NiQuan as the preferred investor.

The Receiver then entered into negotiations with NiQuan on commercial terms for the acquisition of plant. Arising from the negotiations, a price of US\$35M comprising an initial payment of US\$10M and preference shares to the value of US\$25M payable in two (2) equal tranches was proposed. NiQuan reached final agreement on the commercial terms and all other outstanding issues on or about

August 5, 2015. The proposal was accepted by the Board of Directors and the transaction was subsequently sanctioned by the Minister of Finance, (Corporation Sole).

In 2016, a Sales and Purchase Agreement (SPA) was executed among WGTL Trinidad Limited (In Receivership), the Receiver and NiQuan. The closure of the SPA, is subject to the fulfilling of conditions precedent, which includes the securing of a Gas Sales Contract for a guaranteed supply of natural gas for the period of the Product Offtake Agreement with Petrotrin.

All of the Agreements and Conditions Precedent save the Gas Supply Contract had been satisfactorily settled. A Gas Supply Term sheet was executed between NiQuan and NGC in November 2014 for 26.5Mmscf/d. However, NGC and NiQuan were unable to agree on price, and duration. NGC supported the project but given gas curtailment claims of TT\$4.6Bn was of view that a gas supply to NiQuan would expose it to unacceptable legal and commercial risks.

Given NGC's situation the project was at standstill. The options available were either to proceed or discontinue with the project. If the latter option was pursued the Plant would have to be dismantled at a cost and sold as scrap. If the project is pursued financial benefits would accrue both to Petrotrin and the economy. In order to salvage the project NiQuan approached the Government for support in acquiring a supply of gas of approximately 31Mmscf/d.

A review of the project suggested that it was worthy of Government's support. The financial benefits include US\$35M payment to Petrotrin, a capital injection of US\$125M into the economy and TT\$2Bn in taxes and statutory payments over the life of the project. During the construction phase which is projected at twelve (12) months, seven hundred (700) jobs will be provided and on completion, there will be sixty-five (65) skilled permanent jobs and six hundred and fifty (650) indirect supply chain jobs.

Given the delay in the completion of Petrotrin's Ultra Low Diesel Project, the offtake from the GTL Plant will allow Petrotrin to meet in the interim environmental standards for gasoil. As at October 2013, Petrotrin has been unable to supply the gasoil requirement of Member CARICOM States as the

marketers have moved to Low Sulphur Gasoil. With effect from January 1, 2020, Petrotrin will be unable to supply bunker fuel to ships unless it meets the new global limit of 0.5% Sulphur mandated by the International Maritime Organization.

Following its review of the project, the Government agreed to support the request by NiQuan Energy Limited for a supply of 31MMscf/d of natural gas for its GTL Project, and that consideration be given to the sourcing of the natural gas from arrangements that exclude the NGC and which are on commercially acceptable terms.

The Ministry of Energy and Energy Industries has negotiated and agreed with NiQuan the terms of the Gas Sales Contract. Cabinet approved the Gas Sales Contract, which has been executed on behalf of the Government by the newly incorporated state owned energy company, Trinidad and Tobago Upstream Downstream Energy Operations Company Limited. It is the intention that selected energy assets of the state be held by this company.

This NiQuan project provides Petrotrin with the opportunity to salvage some not insignificant benefit from an investment which, otherwise could not be operationalized. In a wider context, the economy and state stands to benefit from increased commercial activity and taxes. NiQuan requires a maximum of 31Mmscf/d which is not substantial and in the current context of 3.8Bcf/d amounts to 0.8% of daily gas supply. Given projections for gas supply this requirement can be met and thus this project can now proceed.

I thank you.

Senator the Honourable Franklin Khan
Minister of Energy and Energy Industries