



The National Gas Company of Trinidad and Tobago Limited

The Beachfield Compression Project

Employee Communique

1st October 2021

In response to recent media reports based on some confidential documents being shared with external parties on NGC's Beachfield Compression Project, the Company wishes to explain to employees the rationale for the project and the circumstances that led to its termination.

Project overview

NGC's gas supply originates at the Beachfield facility in Guayaguayare, where gas from offshore producers is received at the New Abyssinia Accumulator Station (NAAS). Since the gas comes from different sources, the operating pressure at which it enters NAAS also varies.

Compression is a process which allows the pressure of the gas to be increased, thereby improving its mobility through the network. With compression, NGC would gain operational flexibility at NAAS to use gas received at lower operating pressures and sustain a reliable supply to its customers. This was the rationale behind the Beachfield Compression Project, started in 2012.

As preliminary work began on this project, bpTT informed NGC of its intentions to deliver its own compression initiative - the Trinidad Onshore Compression (TROC) project. Both projects were evolving simultaneously and had overlapping objectives. Developments in relation to the TROC project eventually led to NGC's decision to terminate its compression project.

How did the project unfold?

The timeline below outlines the progression of events in relation to the Beachfield Compression Project:

Jan 2012	The purpose of the Beachfield Compression Project was to compress 480 mmscfd of gas from a pressure of 700 psig at NAAS to 900 psig at the Cross Island Pipeline (CIP) header.
Mar 2012	NGC engaged ABT Engineers and Constructors Limited (ABT) by competitive tender in March 2012 to perform the engineering services for the project.
Feb 2013	The contract with ABT ended before the completion of the works required and design engineering work was paused. A new tender was initiated for the procurement of engineering services for the project.

Sep 2013	A contract was awarded to design contractor Foster Wheeler Corporation (FCW) for the combined Beachfield Condensate Storage and Compressor Facility (BCS&CF). The contractor continued design engineering work until the end of 2013.
Feb 2014	<p>bpTT formally informed NGC of the Trinidad Onshore Compression (TROC) project after NGC started planning for the implementation of the Beachfield Compression Project.</p> <p>TROC would maximise production from bpTT's depleting offshore East Coast wells.</p> <p>TROC would also have operational and commercial impacts on NGC's business:</p> <ul style="list-style-type: none"> • Gas would now be delivered to the CIP header without the need for compression. • NGC and by extension the downstream, could experience a supply shortage of up to 450 mmscfd, should bpTT's Cassia B Platform go offline.
Feb 2014 –Dec 2015	<p>Design engineering for NGC's Beachfield Compression Project paused following bpTT's notification that the TROC project was being undertaken, as the TROC project had the potential to impact the Beachfield project.</p> <p>The pause in engineering continued from Feb 2014 to end 2015, awaiting the outcome of the TROC negotiations.</p>
Dec 2015	Board approval to proceed with revised design scope for compression. The scope was revised to take the TROC project into account. The redesign also included contingencies for compression, should bpTT experience supply outages as well as to manage shortfalls in supply to Point Lisas.
Mar 2016	Board approved NGC's support of the TROC project pending finalisation of the relevant legal agreements with bpTT.
Aug 2016	TROC project sanctioned and agreements approved by NGC Board.
Sep 2016	NGC appointed a new President. Prior to his official appointment, the TROC project would have already been initiated, NGC had already begun discussions for a bilateral agreement with bpTT in relation to TROC, and the Beachfield Compressor project had been initiated based on a revised scope.
Sep 2016	The incoming NGC President signed a commercial framework and TROC bilateral agreement that was previously signed by bpTT in July 2016. The agreement stated that bpTT would fund the cost of the modification works at Beachfield and NGC would install the compressors no later than Dec 2017.
Apr 2017	TROC project completed
Jun 2017	Board approval of award of contract to TOSL to provide the required compressors, following tender process.

Jul 2017	<p>At this point the understanding was that the compressors would not be delivered until Feb/Mar 2018. However, the terms of the bilateral agreement with bpTT stated that the compressors should be operational by December 2017.</p> <p>There was an understanding between NGC and bpTT that the terms of the agreement would be honoured even if NGC were to miss the agreed deadline.</p>
Jan to Dec 2017	<p>In the background of Beachfield project developments, NGC was facing significant claims, outages and complex negotiations in 2017. Management was making a concerted response to reduce NGC's risk and exposure, but the matter of the Beachfield Compression commercial resolution remained open. NGC's ability to bring it to closure by the end of 2017 was hampered by the complex external environment.</p>
Dec 2017	<p>TROC bilateral agreement date of 31/12/2017 passed and the compressors were not installed.</p>
Feb 2018	<p>TOSL delivered compressor packages to Beachfield.</p> <p>Management initiated review of business case.</p>
Apr 2018	<p>Given ongoing cost exposure to finish the project, and the sustained precariousness of the operating external environment, the Board made the decision in April 2018 to pause further work on the Compression project pending further due diligence on the business case and cost recovery.</p>
July 2018	<p>bpTT's advised NGC that there was no business case to support the Beachfield Compression project and was of the view that bpTT's obligations with regard to the project expired on Dec 31st 2017.</p>
Dec 2018	<p>Based on bpTT's position the Board made the decision to cancel the project.</p>
Dec 2018	<p>Asset write-off on 2018 end-of-year financials</p>

Decision to terminate

The TROC project was completed in April 2017 and improved the reliability of bpTT's supply to NGC and its other customers. However, it reduced the technical need for compression at NAAS. Both technical and commercial assessments were conducted and, in alignment with NGC's governance process, NGC's Board accepted management's recommendation to mothball the compression project in December 2018. This recommendation was based on:

- the reduced likelihood of operational scenarios that would trigger the need for the compression of low-pressure gas due to the TROC project;
- the NGC/bpTT Operational Procedure was highly effective in managing any incidence of TROC downtime; and
- improvements in NGC's network management capabilities by that time.

The cost incurred at that juncture was TT\$197.5 million. However, the decision to terminate the project at that point avoided an additional cash outlay of TT\$127.5 million to complete the project, and a further TT\$15.0 million annually in operating costs.

Learnings

The Beachfield Compression Project gave NGC an opportunity to improve its project management process. It led to:

- Reorganisation of Project Management workflows to comply with NGC's PMM stage gate process;
- Deepening of the integration between Supply Chain Management (SCM) and Projects to improve work-flows, adoption of use of SAP ARIBA software, implementation of e-Auction software and processes, and use of technology to reduce cycle times for tendering evaluation and award process within governance processes;
- Implementation of improved reporting of project performance, including tracking of project stage gate compliance, project risks, costs schedule key performance indicators to ensure compliance to governance requirements; and
- Establishment of regular coordination meetings between Operations, Projects, Commercial and Supply Chain Management teams/units to foster greater collaboration, and monitoring/action tracking of key issues and their closure.

Since 2018, with these interventions, project management performance has strengthened as follows:

- Schedule performance improved from 30% of planned performance in 2017 to 85% of planned performance by the end of 2020
- Cost performance improved from 80% of planned performance in 2017 to 94% of planned performance by the end of 2020.
- Reduction in project costs of over TT\$ 90 million over the last two years from use of e-auctions

Moving forward

At the time it was sanctioned, NGC's Beachfield Compression Project had a clear operational purpose in the context of the Company's business. External developments beyond NGC's control undercut its utility before the project could be completed. The Company therefore stands behind its decisions, both in the initiation and termination of the project, as those decisions were driven by operational needs at their respective moments in time.

NGC is currently assessing the options regarding disposal of the purchased compressors, and is exploring whether compression infrastructure will be needed in future, based on the long-term development plans of upstream gas suppliers.

NGC wishes to underline that at every juncture, decisions in this matter were informed by the most complete information and projections available to Management at that point in time. As with any investment, the Beachfield Compression Project involved a measure of risk. However, decisions were taken only after careful and balanced analysis of possible risks and potential returns, and were driven by operational needs at their respective moments in time.

We wish to underscore our commitment to transparency and accountability, and our strict adherence to our internal governance processes. Over the past few weeks, we have had to defend the integrity of our Company against a number of allegations. We are grateful for your ongoing support as we seek to dispel untruths and shed light on matters being discussed.

Mark Loquan

President, NGC