

TECHNICAL ASSISTANCE COMPLETION REPORT¹

Division: PAHQ

| TA No., Country and Name: | | Amount Approved: \$1,000,000 | | | | | | | | | | | | | |
|--|--|--|---|--------------------|--|-----------------|---------------|-----------------|-----------------|----------------------|--|-----------------|---------------|-----------------|-------------|
| TA 4710-PNG: Preparing the PNG Gas Project | | Revised Amount: N.A. | | | | | | | | | | | | | |
| Executing Agency: Asian Development Bank | Source of Funding: TA Special Fund | Amount Undisbursed: \$125,890 | Amount Used: \$874,110 | | | | | | | | | | | | |
| TA Approval Date: 2 Dec 2005 | TA Signing Date: 10 Jan 2006 | Fielding of First Consultants: 21 Dec 2005 | <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center;">TA Completion Date</th> </tr> <tr> <td style="text-align: center;">Original</td> <td style="text-align: center;">Actual</td> </tr> <tr> <td style="text-align: center;">31 October 2006</td> <td style="text-align: center;">31 October 2008</td> </tr> <tr> <th colspan="2" style="text-align: center;">Account Closing Date</th> </tr> <tr> <td style="text-align: center;">Original</td> <td style="text-align: center;">Actual</td> </tr> <tr> <td style="text-align: center;">31 October 2006</td> <td style="text-align: center;">25 May 2009</td> </tr> </table> | TA Completion Date | | Original | Actual | 31 October 2006 | 31 October 2008 | Account Closing Date | | Original | Actual | 31 October 2006 | 25 May 2009 |
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| <p>Description</p> <p>Exploitation of Papua New Guinea's (PNG) considerable petroleum resources has focused on oil production. Associated natural gas has been mainly reinjected for reservoir management purposes and for potential future production and sale. Available recoverable gas reserves are estimated at 11–20 trillion standard cubic feet (TCF) with an estimated ultimate potential of more than 40 TCF. However, domestic demand is insufficient to justify developing gas resources and PNG lacks the infrastructure necessary to deliver gas to foreign markets. At the time of technical assistance (TA) 4710-PNG formulation, the PNG Gas Project (the Project) was to involve (i) developing new gas fields in Hides (Southern Highlands Province); (ii) converting existing oil fields to gas production; (iii) constructing a gas conditioning facility at Kutubu (in the same province); and (iv) constructing associated infrastructure, and a 192 km onshore and a 270 km offshore sales-gas pipeline from the highlands to the PNG-Australia maritime border, from where the gas would be transported by pipeline to Australian customers.</p> <p>In 2005, the PNG Government requested the Asian Development Bank (ADB) to consider financing the State's equity participation in the Project. ADB confirmed that it would consider a major role in the transaction and approved this preparatory TA.² However, in August 2006, the developers of the Australian gas transportation and delivery system discontinued further front-end engineering and design (FEED) work due to a blowout in projected construction costs. After subsequent study, the ExxonMobil-led project proponents announced in February 2007 that they were abandoning the PNG Gas Project (for the transportation of gas by pipeline to Australian customers). Project proponents subsequently began investigating liquefied natural gas (LNG) development options and, in April 2008, the ExxonMobil-led joint venturers reached agreement with the PNG Government on fiscal terms for an LNG project scheme and in May 2008 recommenced FEED activities, which included identifying financing arrangements. As part of these deliberations, the PNG Government and project sponsors decided not to seek multilateral financing, including from ADB. TA activities were subsequently halted and the TA closed.</p> <p>Expected Impact, Outcome and Outputs</p> <p>The TA design and monitoring framework indicated the TA's expected impact was to support the approval of project financing for the PNG Gas Project. The expected TA outcomes were (i) ADB project documentation based on acceptable feasibility analysis; (ii) project technical, economic and financial viability confirmed; (iii) environment and social safeguards in place or plans agreed; and (iv) arrangements for sound fiscal management of revenues accruing to PNG from the project agreed with Government.</p> <p>Expected outputs were (i) acceptable economic and financial returns to Government on financially viable terms; (ii) confirmation of technical soundness; (iii) sound environment impact assessment (EIA) and summary EIA (SEIA); (iv) indigenous people's development plan (IPDP) and involuntary resettlement plan (IRP), including well-defined and effective community benefit arrangements and mitigating measures; (v) measures to strengthen revenue-collection and expenditure capacities; and (vi) compliance with ADB procurement procedures, including Government's investment in existing project assets.</p> <p>The TA design was relevant in that objectives were appropriate, terms of reference (TOR) were clear and executing arrangements were logical. However the original 11-month implementation schedule was extended to 35 months due to extended commercial deliberations which culminated in the LNG project decision.</p> | | | | | | | | | | | | | | | |

¹ In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any legal judgments as to the legal or other status of any territory or area.

² The PNG Gas Project has been in development since the mid-1990s. This report refers to ADB involvement through TA 4710-PNG from December 2005 to October 2008.

Delivery of Inputs and Conduct of Activities

Planned TA inputs included 30.5 person-months of intermittent international and 18.0 person-months of national consultants with expertise in areas, including, but not limited to, social development, gender, environmental management, fiscal and financial management, and PNG-specific petroleum sector issues. The Government was expected to contribute \$250,000 for counterpart salaries, transportation, and office facilities and equipment.

Actual PPTA inputs exceeded the initially planned period of engagement. This extension was primarily due to extended commercial deliberations. The consultants engaged for this TA had appropriate qualifications and skills, including environment, social development and resettlement, petroleum sector, legal, and public finance management. Consultants were mobilized in a very timely manner and completed their TOR, to the extent possible, in a competent, efficient and effective manner. As a consequence, consultant performances were rated from satisfactory to excellent.

ADB provided significant input, guidance and review. Given the complex commercial and public policy issues faced, it took longer than expected for the project sponsors and government agencies to agree joint positions. The TA assisted resolution of these issues. Counterpart support was provided as expected. Given these factors, the performance of ADB, which also acted as the executing agency, is rated satisfactory.

Evaluation of Outputs and Achievement of Outcome

TA outputs were evaluated as follows: (i) Acceptable economic and financial returns to Government on financially viable terms. Economic and financial aspects of the Gas-to-Australia pipeline project concept paper were examined, but were no longer valid given the altered project focus; (ii) Confirmation of technical soundness. Technical aspects of the Gas-to-Australia pipeline project were reviewed and confirmed; (iii) Sound EIA and SEIA. The SEIA was posted in June 2006 in relation to the Gas-to-Australia pipeline project, excepting issues relating to the proposed Highlands-to-Kikori road which were subjected to further scrutiny, but not resolved. The work contributed to an improved project design (for instance, some pipeline and road sections were re-routed to minimize environmental impacts) and many agreed mitigants were retained in the LNG project design; (iv) IPDP and IRP. Substantial work was undertaken in connection with IP and IR aspects of the Gas-to-Australia pipeline project, much of which remained valid for the re-scoped project; (v) Strengthened revenue collection and expenditure capacities. The extractive industries transparency initiative was introduced to and gained support from government, industry and civil society and initial plans have been developed for implementation. The TA supported negotiations on fiscal arrangements for the re-scoped project which, among other things, supported the reintroduction of an additional profits tax on project incomes; and (vi) ADB procurement procedures. Some progress was made on examining the applicability of ADB procedures.

The TA outcomes were evaluated as follows: (i) ADB project documentation based on acceptable feasibility analysis. Partly achieved; (ii) project technical, economic and financial viability confirmed. Partly achieved; (iii) environment and social safeguards in place or plans agreed. Partly achieved; and (iv) arrangements for sound fiscal management of revenues accruing to PNG from the project agreed with Government. Partly achieved.

Overall Assessment and Rating

The Project is of critical importance to PNG. However, the drawn-out commercial evaluation and negotiations, which eventually led to the project re-scoping and the decision not to seek ADB financing, fundamentally affected the TA. Nevertheless, the intended TA outputs were still partly delivered and the TA laid important groundwork for the LNG project, including on environmental and social safeguards, and on fiscal arrangements. As a consequence, TA outcomes were partly achieved and overall TA performance is assessed as partly successful.

Major Lessons

Four major lessons can be drawn from the TA: (i) the choice of consultants is critical for such a TA involving as it did complex technical, political and commercial considerations; (ii) strong and ongoing ADB project officer support and commitment is necessary for such projects in such environments; (iii) such kinds of TA should be as flexible as possible if the desired end-results are to be achieved; and (iv) careful consideration should be given to the implementation timeframe of TAs involving such issues as complex commercial negotiations and landowner consultations and negotiations.

Recommendations and Follow-Up Actions

Future involvement in such projects must recognize inherent project uncertainties, particularly in the challenging PNG environment. An implementation modality should be used which can flexibly adjust to changed circumstances and extended implementation timeframes. Such a modality may involve the use of suitably qualified and experienced consultants, who are engaged on an individual basis, and a commitment to providing adequate ADB staff and resources.