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## Ichthys LNG Launches Amid Contractor Disputes

Japan's Prime Minister Shinzo Abe on Friday will help celebrate the successful start-up of Inpex's \$40 billion Ichthys LNG project on a visit to Darwin in Australia. Ichthys represents the largest investment ever by a Japanese company in Australia, but it hasn't been smooth sailing for Inpex and its partners, who remain embroiled in cost disputes with contractors.

Ichthys will produce 8.9 million tons per year of LNG at its peak as well as 1.65 million tons/yr of liquefied petroleum gas (LPG) and 100,000 barrels per day of condensate, an ultra-light crude with a high naphtha yield that is expected to account for a significant chunk of the project's revenues.

"This is really, really one of the biggest energy facilities in the world," Inpex CEO Takayuki Ueda said during a visit to the project on Thursday, according to local media. He noted there is still room for the construction of an additional four LNG trains at the site.

Ichthys has already shipped three LNG cargoes since late October, and the project's commencement means it will contribute to LNG supply during the coming winter season in the northern hemisphere.

LNG buying typically spikes in key Northeast Asian markets during the winter on increased gas demand for heating and power generation. Energy Intelligence assessed prices for Northeast Asia deliveries up to two months ahead at \$10.40 per million Btu this week, down from \$11.70/MMBtu in September — which is unusual as prices should be rising as winter beckons. This price pressure has been attributed to incremental supplies, including from Ichthys, as well as tepid Chinese demand and declining crude oil prices.

The first cargo of condensate was loaded on Oct. 1 and the second on Nov. 9, Inpex's Senior Vice President for Global Energy Marketing Shigeharu Yajima told the 2018 Condensate and Naphtha Forum in Singapore, organized by Conference Connection, last week.

Next year, Inpex and partner Total, which will jointly market Ichthys condensate, expect to lift 30 cargoes of condensate.

The start of operations from the project will help Australia soon become the world's leading LNG exporter over Qatar following a \$200 billion investment boom in Australian LNG projects over the past decade. Qatar has responded with its own LNG expansion plans (IOD Nov.6'18).

This investment boom has led to massive cost overruns and disputes between contractors and project operators over the scope of the work contracted during construction (IOD Mar.16'17). Ichthys has not been immune to such problems (IOD Oct.31'17).

Recent investor calls held by contractors reveal the extent of disputes with the Ichthys project sponsors.

The JKC consortium, which comprises engineering firms JGC Corp., KBR and Chiyoda Corp., was awarded a \$15 billion engineering, procurement and construction contract for the Ichthys project. JGC, which has a 40% share in the consortium, estimates that its share of the overall amount under dispute that it believes is recoverable is some 100 billion yen (\$880 million).

"We are continuing negotiations regarding recovery of reimbursable costs and unapproved change orders with the client, and a part of these are undergoing arbitration," the firm said.

KBR meanwhile said that it has some \$600 million under dispute. "We're hoping, with the customer now producing LNG and that venture starts to get cash, as a consequence, we can sit down with the customer and actually conclude a negotiated settlement," said CEO Stuart Bradie.

Asked about the ongoing arbitration, an Inpex spokesperson said the company does not comment on commercial matters.

Participants in the Ichthys project are Inpex (62.245%), Total (30%), CPC Corp. (2.625%), Tokyo Gas (1.575%), Osaka Gas (1.2%), Kansai Electric Power (1.2%), Jera (0.735%), Toho Gas (0.42%). ■

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