

Exploration

Q&A: MPRL E&P Country Manager U Sithu Moe Myint



MPRL E&P Pte Ltd (MPRL E&P) is an energy company and is a leader in the upstream petroleum exploration and production sector of Myanmar. A Myanmar led company, MPRL E&P boasts a considerable asset portfolio which includes assets such as Mann field located in Central Myanmar as well as the high profile offshore block A-6 where it remains the operator of the Production Sharing Contract (PSC).

Myanmar Energy Monitor sat down with MPRL E&P Country Manager U Sithu Moe Myint to discuss the company, its current and future plans, and the broader state of the sector.

The views expressed in this interview are his own, and not necessarily those of MPRL E&P or its business associates.

Can you start by discussing MPRL E&P's background?

MPRL E&P is an upstream company. We are predominantly involved in exploring, developing and producing oil and gas in both the onshore and offshore regions of Myanmar.

MPRL E&P was founded by my Chairman and Chief Executive, U Moe Myint, who also happens to be my father.

My Chairman first became involved in the energy sector of Myanmar when he founded Myint & Associates Company Ltd in 1989. Myint & Associates was the country's first Myanmar service company and provided services involving catering, manpower supply, logistics and construction to support the brief flurry of upstream oil and gas exploration activity that took place during the time.

Today, Myint & Associates continues to hold the majority of the market share for these services in the Myanmar energy services sector.

Leading up to 1996, he asked himself whether he wanted to remain a contractor for the rest of his life. He gave very serious and careful thought to the notion of how being a contractor, you are always wrong and the client is always right. This is when he first started to give consideration towards becoming an upstream oil and gas operator.

He was also further moved when he learned of past initiatives involving companies such as Petronas and PTTEP, along with their journey. He was impressed by the story behind Thailand's PTTEP. PTTEP is a relatively young company whose leadership at the time had the strategic forward vision to steer the company to transition and become a more independent, publicly listed company which now successfully operates on an international stage.

This story was an inspiration for my Chairman and this was when he decided that he wished to lead a similar story here in Myanmar and founded MPRL E&P in 1996.

Beginning from just the Mann field asset in 1996, our portfolio now includes eight assets, five of which are located onshore and three of which are located offshore.

Most importantly, our mission has also evolved over the 20 years since the company was founded. We are an energy company,

here to improve the livelihoods of our fellow people by being at the forefront of unlocking energy to drive progress in this nation and to do this in a sustainable manner.

How about yourself? Can you discuss your own background?

I obtained both my Bachelor's and Master's degrees in Petroleum Engineering from the Colorado School of Mines in the United States.

I joined Chevron immediately after graduating university and started my career at the San Joaquin Valley Business Unit in California's Mojave desert. I was responsible for the asset planning and development side of the business which mainly involved heavy oil, a type of oil that is very thick and viscous and requires steam for it to be successfully produced.

In 2008, I moved to Perth, Australia, where I was part of the Gorgon and Jansz-Io LNG project teams and was responsible for the well planning, placement and reservoir engineering aspects of the project. Involving a \$50-60 billion investment, I believe that the Gorgon and Jansz-Io LNG projects were and still are one of the biggest LNG developments in the world. There was a lot of focus and support on this project from within Chevron and it was a tremendous opportunity for me in terms of my career and professional growth.

However, in 2012, I decided to resign from Chevron and must admit this was a very tough decision for me. I had always expected to come back to my country at one point in my career, but it was always a matter of timing and the trade-offs I would have to make.

At the time, I felt that the changes that Myanmar was going through were material enough for me to believe in. I felt the government, at the time led by His Excellency U Thein Sein, had the intentions to really open up the country and set it upon the path it was meant to take many years ago. That's when I came back and joined MPRL E&P

in the role of Deputy Technical Manager.

At the beginning of last year, I assumed my current role of MPRL E&P Country Manager and am now involved in corporate strategy as well as providing direct oversight to our functional and business support teams in ensuring that our short and long term business objectives are achieved. I also concurrently hold the position of Executive Director within the MPRL E&P Group of Companies.

Can you talk about the MPRL E&P Group of Companies?

The MPRL E&P Group of Companies is a group predominantly focused on the energy sector of Myanmar. MPRL E&P is the upstream petroleum exploration and production arm of the group and is our flagship company. We also have companies that are involved in downstream initiatives involving power generation and petroleum liquids such as LPG.

In terms of strategic planning, we focus on opportunities and projects that enable us to capitalise on first mover advantage and also have synergies within the entire upstream, midstream, and downstream energy value chain.

In addition to pursuing opportunities within the energy space, the Group has also diversified into real estate development as well as information technology.

In terms of real estate, we are the developer of Ngwe Saung Yacht Club and Resort and Vantage Tower.

Ngwe Saung Yacht Club and Resort is a high end resort and water sports facility that was the host club for the sailing event of the 2013 Southeast Asian Games held in Myanmar. Since my Father has been the sole sponsor of sailing in Myanmar since 1990, a portion of the cash flows from Ngwe Saung Yacht Club and Resort is also intended to continue to sustainably support the sport of sailing in Myanmar for many generations to come.

Vantage Tower is Myanmar's first commercial office property that is designed and developed to meet an international Grade A standard. Our tenants include PTTEP, the Australian Embassy, Roche, and ourselves whereby we are currently at 100% occupancy.

The Myint & Associates Data center is a facility that we developed and currently operate. This facility is the only data center in Myanmar that has received Tier III certification from the Uptime Institute in the United States. Boasting a 99.99% operational time service guarantee, the facility's independently certified Tier III standard enables it to host digital information for small businesses, enterprises, financial institutions, government ministries, and the stock market.

What are the main challenges and opportunities facing MPRL E&P and the broader Myanmar market?

On a broad level, Myanmar is on a path to potential unprecedented growth with financial institutions such as the World Bank and ADB projecting our GDP to grow at 7-8% per year. In order to achieve this growth projection, a key enabler for the country is to be able to sustainably meet energy demand growth that is also projected, within the next 10 years, to increase to at least 3-4 times the current levels of demand. Energy demand consists of not just electrical power, but also energy needs in sectors such as industry and agriculture particularly in the form of natural gas. Thus future energy security becomes one of the greatest challenges that the country needs to systematically address going forward.

Together with this challenge, there is also tremendous opportunity. Myanmar has a rich and long history of oil and gas production whereby the petroleum industry in our country goes back all the way to the 14th century when our citizens were extracting oil through hand dug wells through which a royalty payment was paid to the monarchy at the time. There is still a very firm belief that

there are potentially significant amounts of oil and gas in the country that remain unexplored and undiscovered mainly because of sanctions placed on the country by numerous western nations which limited the investment and capacity required to successfully develop the oil and gas sector.

Our geographic location and proximity to energy hungry nations such as Thailand, India, and China also provide Myanmar with a unique strategic advantage. In comparison to other nations such as Australia, our geographic location coupled with existing pipeline infrastructure to export oil and gas to our neighbours further enables new petroleum resources to be brought to domestic and international markets fairly quickly.

At an industry and company level, the key challenge inherently lies in the nature of successfully exploring for and producing oil and gas. Petroleum exploration has always been and will remain very high risk and capital intensive, with opportunities taking a long time to be found, developed, and produced.

For example, the cost of drilling a single exploration well in an ultra-deep water environment can be anywhere from \$60-80 million. It is also not unusual for investment decisions to be made for ultra-deep water exploration if the probability of success, or the likelihood of having a discovery, to be about 20-25%. I believe that there are not a lot of people of businesses in their right mind that are going to make such capital intensive investments on any opportunity against a one in four or a one in five chance of success.

We have been undertaking exploration efforts in block A-6 since 2007, have invested in excess of \$150 million in the block, and yet our outlook for potential first gas production is still at least several years out. Also keep in mind that we will reach first gas production only if, in the next few years, we are able to successfully drill more wells to confirm the commercial viability of developing the asset.

This is simply the challenging nature of oil and gas exploration and production

Still, even in a challenging industry and a tough investment environment due to significant drop in global oil and gas prices, I still remain very excited about how far MPRL E&P have come in block A-6, the back-to-back exploration successes, and more importantly, the opportunity to potentially unlock this gas resource. We will continue to aggressively pursue initiatives that enable us to maintain and capitalise on our first mover advantage that we have created compared to other offshore blocks in Myanmar.

Myanmar has contracted out a lot of its gas production to neighbouring countries, and there's not going to be a lot of new gas coming online for a while. This is a particular challenge for electricity generation. What are your thoughts on this? How should Myanmar approach this issue?

Very broadly, there needs to be a balance between meeting domestic needs as well as leveraging gas exports in order for the nation to continue to generate foreign exchange reserves from gas sales.

Let's step back 15-20 years and revisit the reason most of our offshore gas production and reserves are committed through gas sales agreements to neighbouring countries. At the time, we must remember that Myanmar had come under heavy sanctions by the international community and as a result, was cash strapped. We must also consider that at the time, unlike oil, gas was not considered a very valuable commodity for the domestic market and certainly was not given much consideration to be heavily relied upon to meet future domestic energy demand. It made sense at the time for the nation to agree to commit most of the gas production and reserves from the only two offshore fields that were developed and produced and in exchange, secure future cash flows, in the form of US dollars, for the next 20-25 years.

Obviously, the situation has dramatically changed today. It would be extremely detrimental to the investment climate in Myanmar if the government decided to breach an existing gas sales agreement, which is regarded as a sovereign contract, in order to use the limited remaining volumes of gas from fields like Yadana and Yetagun to meet domestic energy needs. The fields are also at the tail end of their producing life thus the short term value, in my opinion, does not warrant the negative impact, not from just a sovereign risk point of view, but also in terms of the trade-off regarding a reduction in the nation's ability to enjoy foreign exchange revenues from gas exports.

I would suggest three things that could potentially address our current situation.

First, we need to leverage a long term energy master plan in order to align on a practical and achievable strategy around energy security. This is the most important facet in terms of adequately addressing our energy challenge.

Second, we should focus on minimising significant losses in power during transmission and distribution by optimising and upgrading our existing electrical transmission and distribution infrastructure. This will allow our effective power generation capacity to better reflect our installed power generation capacity.

Third, we should better incentivise upstream oil and gas companies to invest more and accelerate their initiatives in Myanmar, regardless of whether they are still exploring or, like us in block A-6, appraising discovered fields to confirm the commercial viability of developing these assets. The sooner we can start producing from new assets, the faster we can meet domestic energy demand as well as increase the nation's ability to generate foreign exchange revenues from new gas exports.

It seems like A-6 is one of the two or three offshore blocks in Myanmar that is closest to production. Can you touch on where it's at, and what the next step is in the process?

Natural gas is one of the cleanest and most sustainable sources from which energy can be produced. It is clear that there continues to be significant domestic and international demand for energy in the form of natural gas. Through our accelerated efforts in block A-6, we intend to be what we like to call 'first in, best dressed'.

We have just come off of two successful exploration drilling campaigns in block A-6, with the Pyi Thar discovery announced in 2012 and the Shwe Yee Htun discovery announced in early 2016. Although there are no further obligations in the PSC for us to drill additional wells in the block until at least next year, we remain committed towards continuing to move as fast as we can as a prudent operator to potentially achieve first gas production.

We will be kicking off our appraisal drilling campaign with two additional wells that are planned to be drilled during June-August this year. I believe that even after this two well campaign, we may still be required to drill more appraisal wells to understand and potentially prove the commercial viability of developing block A-6.

Another big milestone for us during the current appraisal drilling campaign is that this is the first time in the history of the upstream sector in Myanmar that an ultra-deep water drilling campaign is being carried out during the monsoon period. Over the past two-three years, our technical teams have performed very comprehensive weather related met ocean studies which now have given us the confidence in our ability to successfully and safely manage our operations during the monsoon. Although we trade-off the costs associated with operational down-time during periodical bad weather or storms, we are able to create tremendous value in terms of

accelerating our efforts towards being 'first in, best dressed'.

Can you discuss operator responsibility at A-6?

There is confusion about our role in the block, because our joint venture consists of world class companies such as Woodside and Total. So some people ask – 'MPRL E&P, who are these guys?'

Since the signing of the block A-6 Production Sharing Contract (PSC) in 2007, MPRL E&P have been and still remain the operator of the PSC governing the block. In fact, our first exploration success during the Pyi Thar exploration drilling campaign in 2012 was achieved prior to Woodside (in 2013) and Total (in 2015) becoming our joint venture partners. This first discovery in the block is an achievement I am very proud of and I must give full credit to my team, composed of 99% Myanmar staff, who successfully delivered on this tremendous outcome for us and our country.

In 2013, when we decided to focus our exploration efforts towards the ultra-deep water region of the block, we immediately realised that in order to successfully operate in this type of environment, we would be exposed to a lot higher levels of exploration risk and capital – it just did not make sense for us to continue without diluting our risk and capital exposure. This is when we secured Woodside to become a joint venture partner. Woodside has many years of successful ultra-deep water exploration and production experience, particularly with regard to natural gas. Thus, under our Joint Operating Agreement (JOA), Woodside assumes the responsibility of technical joint-operator and we remain the operator under the PSC.

Total is currently a joint venture partner and is also an industry leader in terms of ultra-deep water technology. With Total's 20 years of Myanmar offshore operations experience

associated with the Yadana field, Total is intended to assume the operator responsibility for any potential future A-6 development.

Can you share your thoughts on oil prices and where they may be headed?

I'd like to take things back a little bit, and explain why we saw oil prices dramatically decline about two years ago. Broadly, allow me to share two key drivers behind this.

First, because of new innovation in upstream petroleum technology called hydraulic fracturing, from about 2005 onwards, the United States went from a country that was the largest importer of oil and gas in the world, to a country that became almost self-sustaining when it comes to meeting its own domestic energy demand.

Second, China, during the period from 2000-2012, underwent a period of massive growth and at one point, was realising a GDP growth rate of 11-12%. For the world's most populated country to grow at these rates is simply mind boggling. China's growth was mainly based on a policy framework and strategy that involved significant investment and spending towards infrastructure. As a result, their demand for natural resources, including petroleum, was tremendous.

However, from 2012 onwards, China changed its strategy to intentionally limit GDP growth rate to be around 6-7% and more importantly, for the country to shift from an infrastructure driven economy to one where growth was more driven through services.

These two main factors resulted in a global supply 'glut' where there was too much excess petroleum supply compared to world-wide demand. Paired with OPEC's decision to not immediately reduce global petroleum production like they had done in the past and, for the first time, rather let the market play its course, resulted in oil prices dropping down to levels as low as about \$30 a barrel. Right now,

oil prices are somewhere in the region of \$50 a barrel.

I believe that the world is still rebalancing and expect that sometime this year or next, there will be a better balance between global oil supply and demand.

I also believe that going forward, oil prices will most likely be driven more by fundamentals as opposed to organisations like OPEC which have historically been involved in controlling supply in order to influence prices.

I find it reasonable to believe that oil prices will trade within the \$40-60 a barrel range in the immediate term with the potential for the price to escalate to somewhere around \$60-70 a barrel in the medium term. The days of oil prices being sustained in excess of \$100 a barrel are long gone.

I'd like to hear your thoughts on overall political and regulatory environment in Myanmar. What is going well, and what can be going better in terms of the government's approach?

I like to say that I remain cautiously optimistic. Our current government has the right intentions and desire for nationwide economic growth and development for the country. With the lifting of sanctions, there is also tremendous support and engagement that the nation is now receiving from the rest of the international community. It is fantastic to see our leadership positively engaging with various nations, from our nearby neighbours like China, to western powers in Europe.

On the investment side, Myanmar is a jewel in the mind of foreign investors right now. You've probably heard of all the excitement with regard to Myanmar being one of the last remaining investment frontiers in the world today.

However, I want to point out that the country has to take heed that although we are the

jewel right now in terms of attracting international investment, we won't always remain a jewel unless we continue to adapt and evolve. We need to recognise what other countries, particularly our neighbours, are doing to attract investment as well. If you look at Thailand for instance, you will see them advertising consistently on CNN that they are now offering investors tax holidays of up to 15 years. These are significant competing investment incentives that we cannot ignore.

The competition is there and we need to make sure that we're not only looking in, but that we're also looking out.

There has also been a lot of negative criticism towards our government, from both the domestic and international community, mainly because we have lost some of our growth momentum created by the previous administration. We need to remember that change for the most part is good. But change is also hard, particularly when coupled with significant milestones such as the transition to the nation's first civilian led government in more than 50 years.

Broadly, I would like to see more constructive engagement between what I call the 'old guard' and the 'new guard'. For example, there are a lot of lessons and learning that I feel are not being adequately exchanged between the previous administration and the current administration - at all levels of our government. There are very capable people and good initiatives that the previous administration established and it would be great if the current administration could find a way to leverage these resources better than they are being leveraged now.

I would also like to see a better effort towards establishing long term plans and strategies for the various industries, sectors, states, and regions of the country. These plans also needed to be closely integrated with careful coordination during execution as well. Where such plans do not exist, I would like the

government to take the time to properly develop them, and where they are already available, by all means use them to guide growth and drive policy creation.

For example, there are long term plans and strategies that the previous government spent a lot of time putting together - such as the National Energy Plan. This is an initiative that was created through a multi-stakeholder group involving representatives from various government ministries as well as representatives from renowned international institutions. It is a very comprehensive document and the first of its kind. Now I don't necessarily agree with everything that's in the National Energy Plan and all plans should always be reviewed periodically and improved. However, it's a start and it provides an outlook and framework to guide our country over the next 15 years.

I just hope we don't try to continue to spend too much time 're-inventing the wheel'.

Government and local authorities **Powerful NLD figure voices support for coal power**

National League for Democracy luminary U Win Htein has come out in support of coal power, marking some of the clearest statements yet the government is considering a shift to the controversial fuel source.

U Win Htein, officially secretary of the NLD's Central Executive Committee, but also seen as a powerful figure within the party, spoke in favour of coal power in Tanintharyi Region, and Mon and Kayin States during a 25 June press conference, following an internal NLD meeting, according to multiple local journals.

"Particularly Tanintharyi, Mon and Kayin can be the locations of effective coal-fired power plants. Coal power can be implemented simultaneously with hydropower, but as hydropower normally takes a long time to