

**Date : 10/24/2011 10:58:51 AM**

**From : "Newhook, Vanessa"**

**To : "Foote, Wes"**

**Subject : TRIM BRIEFING NOTES : BN-5269 : Union Fenosa Gas (UFGas) Meeting Note\_Oct 2011**

**Attachment : Union Fenosa Gas (UFGas) Meeting Note\_Oct 2011.DOC;Union Fenosa Gas (UFGas) Meeting Note\_Oct 2011.tr5;**  
Wes,

I have reviewed. Over to you...

Vanessa

-----< TRIM Record Information >-----

Record Number : BN-5269

Title : Union Fenosa Gas (UFGas) Meeting Note\_Oct 2011

**Meeting Note**  
**Department of Natural Resources**  
**Union Fenosa Gas**  
**October 27, 3-4 pm**  
**Lower Level Boardroom, 50 Elizabeth Ave**

**Attendees:**

Union Fenosa Gas:

Senor Antoino Hernando Villarroja, Business Development Director (no biography available)

Government of Canada:

Keith Warren, Trade Commissioner, DFAIT

NL Government:

Diana Dalton, Deputy Minister, Natural Resources

Charles Bown, Associate Deputy Minister

Paul Scott, Assistant Deputy Minister, Energy Policy

Wes Foote, Assistant Deputy Minister, Petroleum Development

**Purpose of Meeting:**

Meeting is at the request of Union Fenosa Gas (UFGas) to meet NL Government representatives to discuss NL offshore natural gas opportunities. No agenda has been provided.

**Background:**

- UFGas is a Spanish integrated natural gas company with interests in the liquefied natural gas (LNG) industry. UFGas activities extend through the natural gas value chain including exploration & production (E&P), liquefaction, shipping/transport, trading, regasification, storage and marketing (See Attachment 2 for overview of UFGas gas business experience).
- UFGas is owned:
  - 50% by Gas Natural Fenosa - A multinational energy company, headquartered in Spain, with interests in natural gas and electricity industries. Formed in 2008/2009 from Gas Natural acquisition of Union Fenosa and subsequent merger of the two companies.
  - 50% by the **ENI** – An international energy company, headquartered in Italy, with interests in oil & gas E&P, gas & power, refining & marketing, engineering & construction, trading & shipping, petrochemicals, and other related activities (corporate, financial, service).

**Issue – UFGas Interest in NL Offshore Natural Gas:**

- On June 15, 2011, UFGas officials met the Trade Commissioners of the Embassy of Canada (Madrid) to introduce UFGas and discuss their interest to analyze a potential collaboration framework with oil & gas companies currently operating in the Newfoundland & Labrador (NL) region. UFGas is also exploring possibilities in the U.S. although officials indicated in the meeting that UFGas' first choice is Canada.
- On June 17, 2011, Antonio Hernando of UFGas sent a letter Amaya Jauregui of Foreign Affairs & International Trade Canada (See Attachment 1) as a follow up to the June 15<sup>th</sup> meeting to further outline UFGas interests in "the monetization of the actual potential gas reserves in the (NL) region and adjoin territories."
  - UFGas outlined its interest in creating business contacts with companies already working in the Labrador and Jeanne d'Arc regions (highlighted Husky Energy, Suncor Energy and Investcan Energy) for further discussions.
  - UFGas indicated an interest in new opportunities in the Canadian natural gas sector including assessment and development of possible integrated LNG export projects.
  - UFGas indicated a willingness to travel to Canada in autumn 2011 to meet with government and industry representatives. *[In a Sept. 8, 2011 email to Department of Natural Resources (NR) officials, Foreign Affairs & International Trade Canada indicated*

*that UFGas officials plan to travel to NL in Oct. 2011 to gather information to better understand the natural gas opportunity through meetings with the NR Deputy Minister along with Nalcor Energy officials as well as meetings with companies (Husky, Suncor and Investcan Energy) and other government departments & agencies as appropriate.]*

- In a July 6, 2011 correspondence to Foreign Affairs & International Trade Canada, UFGas officials provided a conceptual outline of potential collaboration opportunities (from its perspective) on a possible future NL LNG export project (See Attachment 3 for copy of the correspondence). UFGas officials indicate the company represents an experienced partner opportunity where possible co-operation could include:
  - Equity in the LNG project
  - Offtaking (buying LNG) from the LNG plant
  - Sharing the experience in constructing and operating liquefaction facilities
  - Attractive financing solutions for the project
  - Further possibilities of co-operation including marketing, shipping, etc.
- NL Offshore Natural Gas Development Status:
  - To date, no development proposals have been submitted to the C-NLOPB for development of marketable natural gas from NL's offshore. Currently, NL gas produced from offshore projects is used for enhanced oil recovery, fuel, flared or is injected into reservoirs for storage for future development.
  - The C-NLOPB estimates a total of 11.0 trillion cubic feet (tcf) of discovered natural gas in NL's offshore areas of which:
    - 4.2 tcf is in 5 fields in the offshore Labrador Shelf region.
    - 6.8 tcf is in 10 fields in and around the Jeanne d'Arc Basin of the Grand Banks.
  - The undiscovered natural gas resource potential contained in basins lying in whole or in part in the offshore areas of NL is estimated at greater than 60 tcf although this estimate is unconfirmed by drilling.
  - Recent natural gas related offshore activity included seismic work, in 2010, completed by various companies offshore Labrador and in the Sydney Basin area (both areas considered to be gas prone). In addition, ConocoPhillips drilled an exploration well in the Laurentian sub-basin (also thought to be a gas prone area) in 2010 although the company later announced the well was a dry hole.
  - Previous studies and discussions with NL oil & gas companies have considered offshore gas development options such as subsea pipeline, gas to liquid, methanol, petrochemical, gas to wire, compressed natural gas and LNG. Generally, several challenges have been identified including market access (significant investments for delivery/transport infrastructure), low North American market prices in recent years and a regional NL resource base, although significant, spread over a large offshore area.
  - In 2006, a Wood Mackenzie study conducted for NR reviewed market delivery and secondary processing options for NL natural gas. Although many of the study findings are somewhat out of date (primarily due to subsequent changes in the North American gas market and supply), the study did conclude that LNG represented the best sales opportunity for NL offshore gas with a low technological risk as well as allowing for market diversification/flexibility for gas sales rather than being tied to one market.
  - Some natural gas related policy actions in the 2007 Energy Plan include:
    - Implement the offshore natural gas royalty regime.
    - NL will obtain a 10% equity ownership in future oil and gas projects where it fits NL's strategic long-term objectives.
    - Request that companies provide a detailed assessment of the feasibility and provincial benefits of landing gas in NL prior to submitting a Development Plan.

- Pursue refining, petrochemical, and other value-added secondary processing opportunities and request that companies provide an assessment of the feasibility and provincial benefits of refining oil and/or pursuing other secondary processing opportunities in NL prior to submitting a Development Plan.
- Encourage the Federal Government to work with NL to establish new land and resource management regulations to encourage more timely development and infrastructure access.

#### Potential Speaking Points

- May wish to thank UFGas for its interest and indicate NL Government's preference for gas resource development that optimizes benefits to NL while providing a return to investors.
- May wish to ask UFGas to discuss further details on its vision for an NL LNG project. Can UFGas discuss barriers/challenges facing NL gas development particularly under an LNG project scenario? Has UFGas done any feasibility and economic evaluation of an NL LNG project scenario(s)?
- May wish to ask about the status of any other UFGas meetings/discussions planned as part of its current trip to NL or any other time (past, present or future). What has been the response to UFGas inquiries to date?

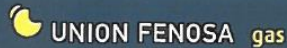
#### Proposed Actions

- None identified.

Prepared by: Paul Parsons

Approved by: VNewhook

October 24, 2011

**Attachment 1****UFGas Correspondence to Foreign Affairs & International Trade Canada  
June 17, 2011**

PARQUE EMPRESARIAL ALVENTO  
EDIFICIO D, 3.ª PLANTA  
VIA DE LOS POBLADOS, 1  
28033 MADRID  
TEL. (34) 91 207 97 97

Subject: UFG interest in East Canada Gas Sector

Madrid 17<sup>th</sup> June 2011

Dear Amaya,

Thank you for your kind attention and cooperation during the meeting we had at your office on June 15, 2011.

As we agreed at the meeting, we send you a brief summary of what we think should be UFG first steps into the Canadian gas sector.

As you already know, UNION FENOSA GAS is a Spanish integrated LNG Company, with owned assets along the whole natural gas value chain (E&P, Liquefaction, Shipping, Regasification, Storage, Trading, Marketing and Distribution).

In order to provide you with a more precise description of UNION FENOSA Gas, we are annexing to this letter a briefing of our Company's assets and operations.

Based on our experience we believe that Newfoundland and Labrador offshore territory could be of high interest for finding and creating new opportunities in the sector of natural gas, in relation to the monetization of the actual potential gas reserves in the region and adjoin territories.

We would like to present you a brief strategic vision of possible UFG business interests within the area:

1. New contacts and future business relationships:
  - Create business contacts with the companies already working within the Labrador and Jeanna d'Ark regions. Refining the concept, we suppose that the companies of most interest for us could be:  
Husky Energy, Suncoer Energy, Investcan Energy, etc
2. New opportunities for UFG in the Canadian natural gas sector:
  - Assessment and development of possible integrated LNG export projects.

Taking in consideration all the above mentioned and our interest in the Labrador and Newfoundland territory, we would indeed appreciate an opportunity to pay a visit to Canada this autumn fall.

Thank you for your help and attention.

Sincerely,

A handwritten signature in blue ink, appearing to read "Antonio", with a stylized flourish extending from the end.

Antonio Hernando

**Attachment 2****Brief Overview of Union Fenosa Gas Experience in the Natural Gas (NG) Business  
(prepared by UFGas and provided by Foreign Affairs & International Trade Canada)**

UNION FENOSA Gas is an integrated Natural Gas Company with interests along the whole NG value chain (E&P, Liquefaction, Shipping, Trading, Regasification, Storage and Marketing).

As a brief introduction to UNION FENOSA GAS (UFGas) we next describe our position and assets in the natural gas business chain:

- UFGas holds a 80% stake and the Operation of the first LNG plant in Egypt (the Segas LNG plant at Damietta Port) with a nominal LNG production output of 5 Mtpa. The EPC contract for the plant was awarded in November 2001 with the first ship being loaded in January 2005 (the shortest time for a greenfield project anywhere in the world - 30% shorter from the previous industry benchmark).
- Also in Egypt, UFGas has a 25 years SPA (extendible for other 25 years), signed with the Egyptian Natural Gas Holding Company (EGAS) providing our company with an annual volume of 4bcm of natural gas per year.



Damietta LNG Plant (Egypt)



Qalhat LNG Plant (Oman)

- UFGas has a 7.36% stake in the Qalhat LNG Plant. This 3.7 Mtpa LNG train is the third of an integrated three trains complex (two belonging to Oman LNG and one to Qalhat LNG). Qalhat LNG produced its first LNG cargo in December 2005 and successfully went into commercial operation at the beginning of 2006.
- Also in Oman, UFGas has a Long Term LNG SPA Contract with Qalhat LNG to purchase 2.2 bcm/year to be delivered under ex-ship basis.
- UFGas has promoted and actively participated in the planning and development of two Regasification Plants located in strategic areas of Spain: Sagunto (Valencia) and Mugaros (La Coruña). Additionally, UFGas has also contracted regasification capacity under long term basis at the rest of the Spanish regasification terminals (Barcelona, Cartagena and Huelva).



Regasification Terminal, Sagunto, Spain



Regasification Terminal, Mugaros, Spain



- UFGas, through its 60% affiliate gas distribution company, Gas Directo, is developing a competitive presence in the growing Gas Distribution business in Spain, where UFGas has 13% market share.
- UFGas operates under LT Time Charter (25 years) two LNG vessels (LNG/c Galicia Spirit & LNG/c Cadiz Knutsen) and is managing all shipping operations related to the transportation of the traded LNG (including all port & tug services, navigation orders, bunker procurement, charter in & out ops., dry dock management, ...)



LNG/c Galicia Spirit



LNG/c Cadiz Knutsen

- UFGas is a successful LNG Trading Company becoming by volume of transactions, one of the largest LNG spot trading companies of the world.
- UFGas has E&P activities worldwide, with drilling operations and proven reserves in two Spanish onshore basins, Guadalquivir Valley Basin (South West) and Ebro basin (North East) and is also the Operator of a Service Contract for Natural Gas Exploration in the Philippines.
- UFGas has developed enough experience in financing Natural Gas projects as demonstrated by the various funding schemes structured for the development of the different Natural Gas projects participated by UFGas worldwide.
- UFGas has consolidated its position worldwide as a trustworthy partner in LNG projects thanks to its large experience, firm commitment in projects development and the foundation of sound relationships with local communities and countries where it operates.



LNG/c Galicia Spirit at Sagunto LNG Terminal

**Attachment 3****UFGas Correspondence to Foreign Affairs & International Trade Canada  
July 6, 2011**

**From:** Antonio Hernando Villarroya [mailto:ahernandov@unionfenosagas.com]

**Sent:** July 6, 2011 6:28 AM

**To:** Jauregui, Amaya -MDRID -TD

To whom it may concern:

Last June 17<sup>th</sup>, UNION FENOSA GAS (UFGas) representatives met the Trade Commissioner of the Embassy of Canada (Madrid) in order to introduce our Company, as well as our interest to analyze a potential collaboration framework with the E&P Gas Companies working in the Newfoundland Region (Canada). Following this first meeting, UFGas is submitting a conceptual approach concerning such possible collaboration with regard to the development of a potential future LNG Export project ("The LNG Project").

We believe that the position of UFGas as participant in the whole LNG value chain together with our experience in co-operating with Governments and Companies in the development of their Export NG Strategies makes us an interesting partner. UFGas would like to state its strong interest to become a partner of Newfoundland Region/ E&P Gas Companies in the development of its NG's Export Strategy and is providing in this conceptual proposal relevant information that could be of their interest in order to evaluate our potential ad-value.

UFGas hopes for a fruitful long term relationship with Newfoundland Region and the E&P Gas Companies operating in the Region. We strongly think that the partnership we are proposing will yield very important benefits to both parties.

As a summary of our value proposal, a description of this proposed co-operation is as follows

- A. Equity in the LNG Project: UFGas is interested to participate in the LNG Project with a significant stake.
- B. Offtaking the LNG Plant: UFGas is interested in buying a quantity of LNG to be agreed with the potential partners.
- C. Sharing the experience in Constructing and Operating Liquefaction Facilities: UFGas is also willing to share its experience in the liquefaction plants in which we currently participate, with the aim to take advantage of the construction and operation experiences beneficial for all the parties involved.
- D. Attractive financing solutions for the Project: UFGas is ready to find the right mechanism to finance the construction of the LNG Plant under a limited recourse structure.
- E. Further possibilities of Co-operation: Possible areas of co-operation with UFGas include: Marketing, Shipping, etc

We trust that this short introduction will generate interest among the hydrocarbon operators based in Newfoundland.

Saludos cordiales.

Antonio Hernando V.  
UNION FENOSA gas, S.A.  
Desarrollo Negocio- Director  
Business Development - Director  
Parque Empresarial Alvento  
Vía de los Poblados 1,  
Ed. D, 3ª planta  
28033 Madrid  
Tel +34 91 207 97 97 Fax +34 91 207 98 28  
E-mail: ahernandov@unionfenosagas