DEEP earth

DECEMBER WRAPPER

OIL AND GAS

Total in last pitch for Tanga pipeline route

Patrick Pouyanne meets Museveni in Jinja

Patrick Pouyanne, the chief executive officer of France's Total Group, held a meeting with President Yoweri Museveni in Jinja just before Christmas, where the two discussed the need for Uganda to mainly consider the financial implications while choosing which route the country's crude export pipeline should take.

Uganda is said to be close to making a decision on which route its crude export pipeline should take, although, unlike other oil-related infrastructure, the country has not declared a deadline on when it ought to make a final announcement.

The country is toying with two options: a route through northern Kenya to the port of Lamu, which Tullow Oil favours, and the second to the Tanzanian port of Tanga that Total is fronting.

Tullow wants the Lamu route as it would raise the value of its assets in the Lokichar basin in northern Kenya, where the company has discovered 600 million barrels of oil.

Total wants the Tanga route as the company considers deepening its interest in Tanzania, a country that has one of Africa's developed mining industries and has huge reserves of gas.

Pouyanne's short visit to Uganda, his first since taking over the helms at Total late last year, is a strong indication that the country is close to making an announcement on the pipeline, the subject of which is thought to have dominated the talks in Jinja.

In a statement, Total noted: "President Museveni and Patrick Pouyanné discussed the studied outlets to market the Ugandan oil at national, regional and international level. They shared the view that the crude export route should be primarily selected on the basis of economical criteria, in particular the lowest cost and the reliability and safety of the operations."

The meeting was seen as Total E&P's last pitch for the Tanga route, with its proposal for Uganda to greatly consider financial implications a sign that it had deeper pockets to attract the more than $4 billion needed to build the pipeline. The pipeline is expected to pump 120,000 barrels of crude per day.

Irene Muloni, the minister of Energy and Mineral Development, who attended the meeting, declined to divulge details of the meeting and the government's position on Total's proposal, preferring to direct us to the President's Office, from where it is thought a final decision could come. Muloni, however, told us that government would "soon" make an announcement on the pipeline route.

Already, the crude oil pipeline has sparked off the kind of negotiations that usually see top company officials rushing to meet Museveni in a final bid to sway opinion.

In late October, Aidan Heavey, the chief executive fficer of Tullow Oil, was expected to meet Museveni in Kampala possibly over the pipeline. The meeting did not happen then.

It is not the first time that we are seeing high-level company officials meeting Museveni over such critical issues.

In late November 2011, Heavey flew to Kampala to meet Museveni as negotiations for the company to sell two thirds of its Uganda assets to Total and China's Cnooc were winding down.

A week later, in early December 2011, then Total's CEO, Christophe de Margerie, also flew into Kampala to meet Museveni.

Less than three months later, Tullow sold some of its Uganda interests to Total and Cnooc for $2.9 billion after close to two years of waiting for government's approval of the transaction.

Ngaji meets European resistance?

Uganda's plans to attract potential firms to explore for oil in the Ngaji block are already meeting resistance from international players after the European Parliament passed a resolution to protect the pristine biodiversity in the Virunga national park in the DR Congo. The resolution mainly calls for EU member states to stop oil activities in the Virunga, which is said to be one of the most ecologically-sensitive spots in the world.

Global Witness, a non-government organisation, has been loud in its criticism of the Ngaji, which is part of the six oil blocks that Uganda intends to license out in the country's first competitive bidding. Global Witness is concerned that the Ngaji, which lies within the Lake Edward basin, is "immediately adjacent to Soco's former block in Congo and forms part of the same continuous ecosystem as the Virunga World Heritage site."

In June, Global Witness published a report that claimed Soco Oil paid out bribes to silence any voices that were against oil exploration in the Virunga.

Global Witness is calling for the Ngaji block "to be withdrawn from the bid round" as drilling it is "likely to pose a direct threat to the wider Virunga ecosystem and open the door to drilling on the Congolese side of the lake."

The Ngaji, formerly known as the Silverback, was the first well to be drilled within the Lake Edward basin. Dominion, the company that held its license, took quite a risk to venture into a basin that others had ignored.

When it was drilled in 2009, Dominion did not find any potential for hydrocarbons. Orphir later bought Dominion, with government reclaiming the Ngaji license.

Of the six oil blocks on offer, the Ngaji has the biggest surface cover of 895 square kilometres.

World Bank suspends $63.7 million oil road funding

The World Bank has suspended funding to some of its projects in Uganda, among which is a road within the Albertine Region Sustainable Development Project (ARSDP), an important infrastructure for the country's oil industry.

The suspension of at least Shs 214.5 billion (about $63.7 million at the current exchange rate) towards the upgrading of the 100km Kyenjojo-Kabwoya road, which connects to the oil district of Hoima, could slow down the movement of equipment and persons in a country where the road network remains weak.

The World Bank announced the suspension of the funds on December 28, 2015, four months after it signed the $145 million financing agreement with government for the ARSDP, and less than a week after it issued a status report that pointed to moderate satisfaction towards achieving its project development objective.

The suspension comes in the wake of accusations of human rights abuses within some of the projects it supports in Uganda.

Shengli Engineering Construction Company of Shengli Oil Field is the contractor for the road.

Comptran Engineering and Planning Associates of Ghana was awarded the supervision contract. The company is currently finalising the design review.

The travel time for large vehicles between Kyenjojo and Kabwoya is supposed to reduce to two hours by July 2019 when the road is complete, from the current three and a half hours.

Christina Malmberg Calvo, the head of the World Bank in Uganda

ELECTRICITY

France, Germany finance power transmission lines

The French Development Agency has signed agreements worth €51.7 million with the government of Uganda to help connect electricity to rural areas. The money will finance the construction of transmission lines. While Uganda continues to place more focus on building power plants, putting in place the infrastructure to evacuate the power to the consumers is turning out to be a challenge for the government.

The money from the French government will be spent on transmission lines in some parts of northwestern Uganda, the Rwenzori region, the mid-western and southern areas. The Rural Electrification Agency will be in charge of these projects.

Uganda will chip in with €4.3 million for the access to the land and the compensation.

France continues to deepen its investments in Uganda's energy industry. In the November wrapper, we reported that the French Development Agency had reserved $13 million for concessional funding through its Sustainable Use of Natural Resources and Energy Finance initiative (SUNREF) programme. The money will be directed to companies and organisations that wish to help Uganda save energy. Any organisation can get up to $6.5 million if they came up with an energy-saving measure.

Germany has also been busy arranging financing for Uganda's transmission lines. Europe's biggest economy has agreed to loan €40 million for the financing of the Lira - Gulu - Agago transmission line in northern Uganda.

This line is crucial as it aims to move power from three hydro power plants that are slated to have a combined capacity of 106MW. The plants are to be built on the Agago and Achwa rivers.

Electricity tariffs drop

The appreciation of the shilling against the dollar was the defining factor that led to the drop in power tariffs that Umeme Limited is slated to charge in 2016.

The Electricity Regulatory Authority announced a 2.5% drop in power tariffs for domestic consumers and a 2.9% slump for commercial customers after the shilling appreciated by 8.2% against the dollar.

With power tariffs set on a quarterly basis, the slight reduction is a cautious move by ERA amidst the different uncertainties within Uganda's foreign exchange market.

ERA continues to lobby government and the private sector to embrace the policy of setting power tariffs on a monthly basis as that would give it a more accurate calculation. This would lead to the setting of a fair tariff.

2016 budget to give Karuma, Isimba biggest priority

The hydroelectric projects of Karuma and Isimba will receive the highest amount of allocation within the energy docket when the national budget for 2016/2017 is read in June, according to the recently-tabled National Budget Framework Paper 2016/2017 – 2020/2021.

There has not yet been closure of funding for the 600MW Karuma power project as the government and the Exim bank of China are yet to put pen to paper on the agreement.

According to the framework paper, government will allocate Shs 107.5bn (about $31.3 million) to the two projects, while the development partners will chip in with Shs 2,720 bn (about $797.6 million).

Sinohydro has already started work at the Karuma site, while China International Water Electric Corporation has also already begun construction at the 183MW Isimba plant. The China Exim bank has already committed to offer finance to the two projects after the conclusion of negotiations.

And yet with these amounts of capital heading towards the energy projects, government admits that it needs money to transport the power.

"Resources are required to support the development of power transmission infrastructure in terms of wayleaves acquisition, construction of the transmission lines and capacity building," according to the paper.

At least Shs 72.2bn ($21 million) will go towards thermal generation, according to the paper.

Tullow strikes oil at Etom

Less than a month after it announced it had hit a dry well in the wildcat North Lokichar basin, Tullow Oil said things were looking up in its southern basin of Lokichar where the Etom structure encountered oil.

Basing on this find, Tullow Oil says it now understands the basin quite well.

Angus McCoss, the exploration director of Tullow Oil plc, said: "We are delighted with the Etom-2 well which encountered over 100 metres of net oil play in the best reservoirs in the basin so far. Discovering this thick interval of high-quality oil reservoirs further underpins our development options and resource base. The result ... demonstrates how we have improved our understanding of the South Lokichar basin. This result also suggests significant potential in this underexplored part of the block as it is the most northerly well we have drilled in South Lokichar..."


Angus McCoss

Enel, Powerhive to build mini-grids

Italy's Enel Green Power has partnered Powerhive Inc from the United States of America to build and operate mini-grids in 100 villages in the country.

The two companies have agreed to invest up to $12 million in Kenya in 2016, with Enel picking 93 per cent of the bill.

Enel announced that the project will consist of a portfolio of solar mini-grids with a total installed capacity of 1 MW.

The company added that the project will bring clean energy to 20,000 households, small businesses, schools, and healthcare centres, and also connect 90,000 people to the grid.

African Queen quits gold mine over security risks

African Queen Mines Limited, the Canadian firm that has been trying to get Kenya's Rongo gold fields (Odundu project) to production level over the last three years, is finally quitting the project, with the company blaming its woes on financial pressures and a deterioration of the political environment in East Africa's biggest economy.

Irwin Olian, the CEO of the company, said in a statement that: "Kenyatta's administration, which was elected in 2013, has not been constructive toward the mining industry and there is no sense of security of investments in the mining sector at present. As a junior resource company facing relatively limited availability of exploration funding in the present difficult financial environment, management believes it is important to prioritize our projects."

The company has also informed its local partner in the project, Abba Mining company, of its decision to quit Kenya. Abba's license in the gold project expires in January 2016.

The Odundu project is said to cover an area of approximately 97 sq. km in the Kanango gold mining area of the Migori district of Nyanza province in southwest Kenya near Lake Victoria. The company says the project is situated some 380km. by road from the capital city of Nairobi and 60km north of the border with Tanzania, and forms part of the gold rich Lake Victoria Greenstone belt.

Kenya's security situation is not considered that grave, however. If anything, much of the security risks are largely in the northern part of the country. Larger mining companies such as Acacia, formerly known as African Barrick Gold, retain interests in a number of projects in Kenya and have committed to even spend more money in the country.

Instead, African Queen appears to be closing some of its investments on the continent as financial pressures take a toll on the firm. In January 2015, for example, the company announced that it had sold its Ghanaian subsidiary to generate cash ($1 million) "to pay the company's outstanding obligations and to provide working capital."

Acacia to spend $8 million in Kenya mines

Acacia Mining, one of the prominent gold producers in Africa, has said it intends to spend at least $8 million in its exploration operations in Kenya in 2016. This amount, which is twice more than what the company spent in Kenya in 2014, is the highest that the company has decided to commit to a single country across its portfolio of investments.

The other areas where the company operates are Burkina Faso, Mali, and Tanzania, where it has mature projects. The company said it intends to keep its annual spend at $20 million, with Burkina Faso accounting $7 million of this.

In a presentation to investors, Acacia said it is "beginning to see encouraging results in both Kenya and Burkina Faso."

The company, however, retained its most glowing praise for Kenya's Liranda Corridor, which, it said, is "showing [the] best results to date." It noted that this is its "highest priority target" for now.

A number of holes have already been drilled in the Liranda Corridor, which is located on the south side of the Kakamega Dome, with company officials revealing encouraging results that "confirm the presence of significant gold mineralisation in weathered bedrock throughout the Liranda Corridor."

Describing the Liranda as a "significant new gold corridor," Acacia says it intends to embark on a 40,000-metre drilling programme.

Simba completes sale of 60% interest to Essel

Simba Energy has completed the sale of 60 per cent of its interest in Block 2A to Essel Group Middle East in a deal worth $2.1 million. The deal will see Essel invest, over the next 12 to 18 months, up to $100 million in Simba's African operations, such as meeting the full exploration costs at Block 2A until two wells are drilled at least.

Simba announced that it was about to finalize a seismic contract to commence work on Block 2A in early 2016. It is anticipated that the seismic survey will cover approximately 500 line kilometers.

Simba says Block 2A "has excellent potential for significant oil and gas discoveries."

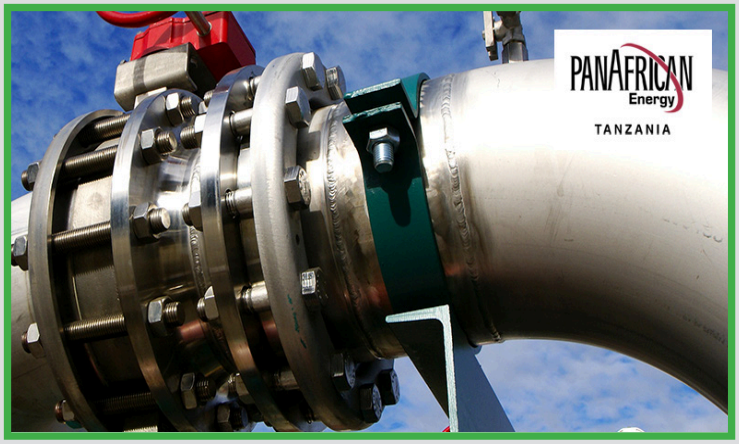
Oil, Gas, Minerals and Energy News and Analysis

Pan African Energy draws down $20 million for Songo Songo

Pan African Energy Tanzania Limited has drawn down $20 million on its $60 million loan from the International Finance Corporation as the company prepares to fund the first phase of the Songo Songo natural gas field development programme.

Pan African Energy decided to develop Songo Songo to "ensure the safety of existing suspended and operating wells and to increase production capacity to approximately 190 million standard cubic feet per day of natural gas." The field currently supplies gas that is used to provide in excess of 50 per cent of Tanzania's electricity generation, supplying at least 25 industrial sites in Dar es Salaam.

Pan African Energy, a subsidiary of Orca Exploration, is already drilling a new production well at Songo Songo, which is expected to be completed by the middle of January 2016.



Magnis seeks money for Nachu graphite project

Magnis, an Australian company, has hired a consultant to come up with a bankable feasibility study as it looks for investors for its Nachu graphite project in southeast ern Tanzania.

The company said the appointment of Sedgman brings on board "a well-respected provider of mineral processing and associated infrastructure solutions to the global resources industry."

The bankable feasibility study will show the mineral estimate and the ore reserve in place, among other things.

The company said it has held meetings with senior Chinese government officials and other investment bankers as it seeks to attract funding for a project it calls "world-class." The company said the drilling that took place in November has already revealed successful results.

In 2014, some reports placed the net present value of the Nachu project at just over $1 billion.

Magnis announced that a valuation of assets of project-affected persons has started, which will see an estimated 58 households relocated. Up to 575 people are thought to be affected, many of them said to be small-acreage farmers.

Epanko graphite set for 2017 production

Andrew Spinks, the managing director of Kibaran Resources, wrote a letter to the company's shareholders assuring them that the Epanko graphite project should start production in 2017 as the company strives to complete financing for the plant in the first half of 2016.

Kibaran has already signed up agreements with some German institutions for financial support such as debt, although more money is needed to develop the 12.8 million tonnes of graphite thought to be at the Epanko deposit.

Spinks said the company is basing its future growth on the increasing demand for batteries, such as those used in electric cars. He said global announcements such as those by international firm, Tesla, building a giga factory offer encouraging prospects for the company. Also, prospects of increasing the production of electric cars bode well with Kibaran's plans.

"It is not well-known, but battery innovation is being led by Germany, Japan and Korea, hence our positioning of Kibaran as a major supply chain and alternative supply to China," Spinks wrote.

Spinks says Kibaran's mine has a 25-year life, which was confirmed based on proved and probable ore reserve.

Kibaran also has full rights to the Kagera Nickel Project within the country.

Liontown's boss lends company $350,000

Tim Goyder, the chairman of Liontown Resources Limited, has agreed to lend the company $350,000 to maintain ongoing exploration at Mohanga Lithium – Tantalum project in central Tanzania. The loan will be subjected to normal commercial terms, the company announced.

The company said that the systematic mapping and sampling that it carried out identified a large pegmatite field – which could contain minerals – with 78 occurrences recorded.

Liontown is already prospecting for gold in Tanzania at the Jubilee Reef in the northern part of the country.

There was excitement on the company's counter at the Australian Securities Exchange, which led to the company explaining why its stock was suddenly on demand. That led to the halting of trades on its counter for a while until the company issued an operational update. The company said the interest in its shares could have been as a result of a global speculation on lithium firms.

PEOPLE TO WATCH

Kevin Massie

Kevin Massie has been appointed Tullow Oil Plc's company secretary, replacing Graham Martin. As company secretary, Massie is expected to manoeuvre through the legal juggernaut that the company is expected to face, especially in East Africa, where it has made promising oil discoveries and is about to sign some commercial contracts over the licenses it holds.

Charles Keter

Charles Keter is the new Kenya Energy Cabinet secretary, replacing Davis Chirchir, whose tenure at the ministry was cut short to pave way for investigations by the Ethics and Anti-Corruption Commission after he faced accusations of graft.

Keter is expected to spearhead Kenya's plans of increasing its energy output to match the country's development ambitions. Also, Keter is expected to oversee the country's ideas of attracting investments in the oil industry, and the infrastructure needed to support it.

FINISH LINE

The first major violence ahead of the 2016 Uganda presidential elections happened in the western town of Ntungamo on December 13, where supporters of candidate Amama Mbabazi clashed with those of candidate Yoweri Museveni, leaving dozens injured. The violence caught the eye of foreign diplomats in the country, who later called for restraint.

Further campaign-related skirmishes could risk scaring away capital in an international market that is increasingly getting frugal in how they channel money.

Much of this limited capital is already depressed by the drop in commodity and international crude oil prices. In its Commodity Price Outlook and Risks, the International Monetary Fund, in December, said the risks for crude oil falling below $30 a barrel rose, while there was still uncertainty of what the future holds. The report added that weak demand from China meant there would be little, if any, recovery of the price of metals such as gold and copper for the next couple of months.

At the central bank, Governor Emmanuel Tumusiime-Mutebile's contract was renewed for another term as the president chose to stick with a man who has been at the helm since 2001.

There was some positive news coming out of Paris during the climate change summit, as developed countries pledged to channel at least $100bn annually to poorer countries by 2020 to help tackle climate change, which could spur investments in clean energy projects.

SNEAK PEEKS

Bidding deadline pushed ahead

Government has pushed ahead the deadline for the oil bidding round to February 26 from January 15. The postponement, according to those in the know, came after some of the 16 companies that were bidding for the blocks asked for more time. Government is targeting to hit 8 billion barrels of oil by 2018.

Kilembe mines to record workers

Tibet-Hima, the consortium managing Kilembe Mines, has directed all its labourers to sign formal contracts under better terms as the company tries to rectify the problem of work-related deaths at its site in Kasese.

Missed deadline

Government was supposed to issue production licenses to Total E&P and Tullow Oil before the end of 2015. However, with both parties saying almost every crucial condition had been met, the licenses were not issued. Total's main target is getting the oil pipeline route to Tanga though.

You can follow us on:

Twitter: @DeepEarthInt
Facebook:
Deep Earth International
jeffmbanga@gmail.com
amugenyi@gmail.com
Website: www.deepearthint.com

+256 794 861991
+256 702 428612

Design: Moses Kabuye
+256 712 013 159