

Review

GAS IS THE FUTURE - OIL & GAS - SPECIAL REPORT

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1485 words

22 September 2007

[The Australian](#)

5 - Preprints

1

English

Booming sales and production prospects are powering the gas industry in Australia, writes Nigel Wilson

HUGE gas deals to supply Japan and China well into the third decade of this century have been the focus of attention in recent weeks. But alongside them has been a statement of probably greater significance for most Australians: the announcement by ExxonMobil that the Bass Strait fields it shares with BHP Billiton are good for at least another 25 to 30 years.

Both scenarios reflect the huge impact sustained high oil prices are having on the confidence of the exploration and production industry, alongside Australia's move towards carbon trading as a means of reducing greenhouse gas emissions.

Bass Strait gas mainly supplies Victoria, but it is increasingly being used in NSW and South Australia as the gas market increases and the transmission network improves to allow for price competition in supplying wholesale customers.

According to Graeme Bethune of consultants **EnergyQuest**, Australia's oil and gas production continued to grow strongly in the June quarter, driven by stronger gas production on the east coast caused by the drought and higher oil production from new fields.

Total Australian petroleum production grew by 9.7 per cent in the June quarter, following 15.4 per cent growth in the first quarter. Total production in the 12 months ended June grew by 9.9 per cent to 472 million barrels of oil equivalent.

Bethune also notes the increasing significance that coal seam methane (CSM) is playing, not only in production terms, but also as a fuel well into the future.

Origin, Santos and Arrow Energy recently have announced contracted or committed deals for more than 6000 petajoules of CSM.

This, Bethune, says means that committed CSM now exceeds proven and probable reserves -- the reversal of the situation earlier in the year.

New domestic gas sales in Western Australia at three times prices of only two years ago are undermining a view of some customers and the WA Government that all the state's gas will go to meet higher-priced LNG demand.

In fact, before the end of the year, it is likely a number of domestic gas projects will be announced with the potential to be supplying the market before the end of the decade.

ExxonMobil has substantially upgraded the remaining gas reserves in Bass Strait and flagged a new multi-million dollar exploration program for more resources under the existing fields.

ExxonMobil Australia chairman Mark Nolan says the company's investment in seismic acquisition, appraisal and production drilling and field evaluation had identified a further 300 billion cubic feet of gas in 2006, on top of the 700 billion cubic feet announced in December 2005.

"We have added approximately 1 trillion cubic feet (tcf) of gas to existing resources in Gippsland since 2004 -- enough gas to power a city of a million people for 20 years," he said.

Since the Bass Strait fields began producing in 1969, around 5tcf of gas has been supplied from the 21 operating platforms exploiting the reservoirs off Victoria's south-east coast line.

The latest upgrade in reserves has led Esso Australia to estimate there is at least 7tcf of gas remaining in the known reservoirs.

Esso Australia Resources operates the Gippsland Basin Joint Venture on behalf of a 50-50 joint venture with BHP Billiton.

The joint venture supplies about 20 per cent of Australia's crude oil and about 85 per cent of Victoria's gas needs.

The gas reserves announcement follows ExxonMobil's statement that approximately 30,000 barrels a day had been added to liquids production since 2005, with liquids production from the Gippsland operations averaging 127,000 barrels a day in 2006.

Also, oil from Bass Strait is set to be sold directly into the Japanese market after trading house ITOCHU paid \$246 million to take a 20 per cent stake in the Basker/Manta/Gummy joint venture.

Existing partners, operator Anzon Australia and its 50 per cent venturer, Beach Petroleum, each sold 10 per cent of their holdings for \$123 million.

The ITOCHU move continues the trend of Japanese and Chinese corporations seeking direct stake in Australian oil and gas projects to offset dependence on Middle East suppliers.

In northern and north-western waters exploration activity has been intense in the past year or so culminating in several major announcements.

Woodside with its \$12 billion commitment to Pluto LNG -- the biggest investment ever by an Australian company -- hopes to capitalise on a window of opportunity in global LNG demand from late 2010. This is caused partly by the failure of the Gorgon gas project to proceed in line with its original timetable.

In making the commitment, Woodside said reservoir studies had concluded that the combined dry gas volume of the Pluto field had increased to 5 trillion cubic feet, 500 billion cubic feet more than the previous estimate.

The company is in discussions with holders of other gas reservoirs close by -- including Gorgon -- to have greater reserves and greater processing capacity into the future with the possibility of two more production trains being built in what Woodside is calling the Burrup LNG Park.

A key to Woodside's decision is that the initial Pluto plant will provide the company with up to 1 million tonnes of product a year to trade on the emerging spot market for LNG.

Woodside chief executive Don Voelte said Pluto had 15-year sales and purchase agreements with Japanese utilities Tokyo Gas and Kansai covering between 3.25 million and 3.75 million tonnes of LNG a year.

Tokyo Gas and Kansai will each take 5 per cent equity in the Pluto permit and the first production phase infrastructure.

Pluto will take Woodside's equity in LNG production from about 2 million tonnes a year now from its one-sixth stake in the North West Shelf gas project to about 6.6 million tonnes once the new plant comes on stream and the Shelf's train five is in full production.

Woodside's commercial strategy of offering Asian buyers significant volumes of gas from its gas portfolio, including the second and third trains of the Pluto development, trains one and two in the Browse Basin and from the Greater Sunrise reservoirs in the Timor Sea, has paid off in spades.

None of these projects is yet to move beyond the conceptual stage. Yet Woodside was able to announce at the Sydney APEC summit Australia's biggest export deal with a preliminary agreement with PetroChina to sell up to \$45 billion worth of LNG from the Browse Basin north of Broome.

Woodside already manages through the North West Shelf project the previous biggest export contract, the 25-year, \$25 billion deal to supply Guangdong province with LNG. Shipments began last year.

Japanese group INPEX is working strongly to bring the first Browse project in to operation, in partnership with the French Total group. Looking on is Shell, which earlier this year implied it had made a substantial discovery in the adjoining permit to INPEX, almost certainly encountering the Ichthys reservoir INPEX hopes to exploit.

The other major direct players in Australia's LNG future are Santos (which has interests in five LNG projects), BHP Billiton, ExxonMobil and Chevron as well as smaller operators such as Nexus and MEO.

Chevron is the world's fourth largest oil and gas company and a large slice of its reserves lie off the western Australian coast. Global chief David O'Reilly visited Australia to coincide with APEC and was very upbeat about the future of the company's Australian investments, particularly after the West Australian Government gave final environmental approvals for the Gorgon LNG project on Barrow Island.

`` I think the whole LNG market has firmed and its not just a function of any one country. It is a function of the collective growth of demand for gas in the world, particularly in the growing economies of Asia, that has led the whole LNG market to firm.

O'Reilly echoes a mantra the Australian and West Australian Governments have been maintaining for several years.

`` I think another type of valuable aspect from an Australian perspective is that people view Australia as a reliable source of supply and a (more) stable environment than some of the more challenging areas of the world. It seems to me Australia is very well positioned to meet this demand. So I think China, India, Korea Japan and Europe -- it is a global market, truly a global market."

The Chevron boss thinks also the Australian Government's target of supplying 60 million tonnes of LNG a year by the end of next decade was ``do-able". This would make Australia the second or third largest LNG supplier in the world.