

Bursting at the seams: \$7bn Santos LNG plant

The deal is a breakthrough for coal seam methane, which was previously ignored

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SANTOS has ratcheted up its interest in exporting liquefied natural gas (LNG) by announcing a \$7 billion project at Gladstone based on its extensive Queensland coal seam methane reserves.

It will be the first LNG facility on Australia's east coast and the first to use coal methane, which was virtually ignored as a fuel source until the beginning of this decade.

Santos aims at selling into the world LNG market from late 2014, which would put Gladstone LNG into competition with projects based on the Browse Basin reserves north of Broome.

The proposed plant is aimed at producing between 3 million and 4 million tonnes of LNG a year from a single train, which is at the lower end of the current scale of global LNG production facilities.

Australia currently has two LNG export facilities, the huge North West Shelf project on the Burrup Peninsula, which is being expanded to annual capacity of 16 million tonnes, and the Darwin LNG facility — capable of processing around 3.4 million tonnes of LNG a year — which began shipments last year.

Several more plants are planned to meet an estimated Australian export capacity of around 60 million tonnes by the middle of next decade.

Santos is a partner in Darwin LNG, operated by ConocoPhillips, and last month paid \$US30

million (\$34 million) as an entry payment into the PNG LNG project being examined by ExxonMobil and Oil Search.

The company has a goal of deriving more than half its income from LNG by 2020.

Managing director John Ellice-Flint said yesterday that Gladstone LNG “represents a seminal opportunity for Santos, a potential quantum leap in Santos's long-standing and substantial involvement in Queensland's energy sector”.

The announcement was the culmination of more than 18 months' close study into the theory of developing an LNG export industry on Australia's east coast.

Under the Santos plan gas would be supplied from the company's Bowen Basin and Surat Basin coal methane reserves which it estimates at more than 5000 petajoules.

Santos said its Fairview, Scotia and Roma fields would supply between 170 petajoules and 220 petajoules a year to the Gladstone LNG plant.

Two years ago Santos paid \$612 million for the Fairview coal methane property and has since spent more than \$200 million on development work.

The company said it was currently responsible for about 25 per cent of Australia's coal methane production and this year would invest about \$150 million expanding this business, including proving up additional re-

sources.

Mr Ellice-Flint said a final investment decision would be made in 2009.

It was expected the plant would cost between \$5 billion and \$7 billion, including the upstream field development, liquefaction plant and associated infrastructure.

Gladstone LNG would employ up to 3000 people during the construction phase, sustain 200 direct jobs in operation and generate more than \$1 billion in export earnings annually.

Santos has yet to conduct detailed marketing efforts, and has not decided on a processing technology for the plant, though it is likely that ConocoPhillips will be pushing for its technology and a possible equity stake in the Gladstone plant. The Queensland Government has awarded Gladstone LNG “significant project” status which will accelerate its progress through the government approvals process. The Santos announcement was made in Gladstone as rival operator Arrow Energy launched a \$150 million capital raising to help fund a near \$300 million expansion designed to meet a contract, announced in May, to supply gas to a planned 1 million tonnes a year LNG facility, also at Gladstone, being promoted by LNG International and Golar LNG. It is not related to the Santos proposal, and smaller, but is already in production.



TRAVELLING NORTH

Santos' Queensland plans

- A single processing train of about 3-4 million tonnes of LNG annually.
- Capital costs in the range of \$5-7 billion, including upstream field development.
- Liquefaction plant and associated infrastructure. Half of the investment is expected to be in the Gladstone plant, and the rest in Queensland's Bowen and Surat Basins.
- Final investment decision by the end of 2009, allowing first cargoes to be exported in early 2014.
- Gas supply of 170-220 petajoules a year, sourced from Santos' coal seam gas fields in the Bowen and Surat Basins.

