

Woodside bid to up China's LNG price

Nigel Wilson, Energy writer | *May 02, 2008*

WOODSIDE and its North West Shelf project partners have called on Beijing to "restructure" contracts that provide for cheap LNG exports to China.

The call to increase the prices of Australia's single biggest export contract came as Woodside warned its energy-hungry customers that it would not go ahead with planned capacity expansions "for the heck of it" if cost pressures continued.

The existing \$25 billion contract to supply Guangdong province is pegged at the equivalent of \$US25 a barrel for oil, nearly \$US100 less than the current world oil price.

The relatively low prices in the breakthrough 2003 contract were raised by Prime Minister Kevin Rudd in Beijing last month as a counter to Chinese angst over pressure for sharp increases in contract prices for Australian iron ore exports from BHP Billiton and Rio Tinto.

But while the North West Shelf's Japanese customers have increased long-term contract prices, there is no mechanism within the Guangdong terms to achieve a similar result.

The Australian reported in January that the Chinese were under pressure to exercise "goodwill" and renegotiate the contract, but this is the first time Woodside has publicly called for higher prices from the deal.

"Guandong was built for several more tranches (of gas) ... and clearly it is hard to find LNG these days," Woodside CEO Don Voelte said yesterday.

"So the only thing I am projecting out there is potentially that if they want more gas there's always interesting ways to re-structure contracts."

Mr Voelte was speaking after Michael Chaney told his first Woodside AGM as company chairman that major resource projects were becoming increasingly expensive.

Mr Voelte said Woodside was unlikely to go ahead with the Pluto-2 LNG project by the end of the year as scheduled.

Pluto-2, on the Burrup Peninsula, is designed to roll over contractors building Pluto-1, which is expected to be commissioned in 2010.

Mr Voelte said Woodside would like to find gas to go into Pluto but recent exploration had been disappointing.

Industry speculation has suggested Woodside has not been able to find enough gas to justify the investment in a second Pluto plant, never mind the third projected by Mr Voelte.

"That's our goal -- it's a strategy. But if we are unable to do that we are not going to sit there and build the plant on speculation. These things are just too hard to do and too expensive. So you don't see anybody panicking at Woodside," he said.

"So I am not going to put gas through there unless we we make one hell of a lot of money for our shareholders.

"I'd rather wait (and) get the right gas through there."