

Apache to Increase WA Domestic Gas Prices, Start Halyard 2010

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MELBOURNE -(Dow Jones)- U.S oil and gas producer Apache Corp. (APA) has flagged big rises for Western Australia state domestic gas prices as it readies to unveil the first sales contract for its A\$840 million Reindeer offshore field.



The Houston-based company also said in a briefing on its quarterly results that it will fast-track production of its Halyard discovery, off Western Australia, bringing it online in 2010.

And it indicated that it is leaning toward giving gas from its big Julimar discovery to more profitable liquefied natural gas exports than to local markets.

The first sales contract for Reindeer, which is 45%-owned by Australia's Santos Ltd. (STO.AU), is expected to be signed in May and "should demonstrate the upside in our Australian portfolio," Chief Executive Steven Farris said Friday in a conference call with U.S. analysts.

"Pricing is definitely on the rise," he said. The company is looking for "significant price increase" from spot gas sales and shorter-term contracts in the range of five years, that will likely be shown in the Reindeer announcement.

Apache, which expects to overtake Woodside Petroleum Ltd. (WPL.AU) as Western Australia's biggest natural gas supplier by 2010 when Reindeer is due to start, last month said domestic prices in Western Australia surged threefold in the past year to about US\$7 per thousand cubic feet as the state's booming resources sector chewed up more power for its expansions.

"We believe that this project (Reindeer) will be signed above US\$7 per thousand cubic feet and it is not out of the realm of possibility that a portion of the Reindeer contract could be sold at oil-linked pricing, similar to LNG contracts," David Heikkinen, an analyst at Tudor Pickering Holt & Co. Securities in Houston, said in a research note.

Apache is also looking to boost its exposure to surging domestic prices by bringing its recently discovered Halyard field, which could hold 100 billion cubic feet of gas, on line in as little as 18 months by running it through infrastructure at the depleted nearby East Spar field to its Veranus Island hub.

"We plan to fast-track this development and hopefully start up in 2010," Farris said. He also said another well, Rosella, will be drilled later this year that could also be brought through Veranus Island and that capacity there was being boosted by 100 million cubic feet a day to deal with the two new discoveries.

Apache is not only looking at domestic markets.

Farris gave a stronger indication the firm may export output from its Julimar discovery, which could hold between two and four trillion cubic feet of gas. Apache has said previously that it is more likely to sell the gas domestically.

"When we get the appraisal program completed later in the year we'll follow a dual development track of exploring LNG alternatives or also taking that gas to the domestic Australian market," he said. In previous statements on Julimar, Apache has said it is likely to sell the gas domestically.

The statement led to speculation Apache will join local developers such as Chevron Corp. (CVX.AU) or Woodside in one of a slew of new projects planned in the region.

"With the Julimar complex, we believe Apache will take an equity stake in an LNG train, with (Woodside's) Pluto II, (Chevron's) Wheatstone, or (the Woodside- operated) Northwest Shelf train 6 likely candidates, and as such include US\$1.5 billion in costs in 2012," Tudor Pickering Holt's Heikkinen said.

Separately, the US\$1.7 billion BHP Billiton-operated (BHP) Pyrenees oil and gas project offshore Western Australia, in which Apache holds a 28.6% interest, could beat its production target of first half 2010, Farris indicated.

"Pyrenees will likely be on stream by the end of 2009, or at the latest, the first quarter of 2010," he said.

The project is expected to produce 96,000 barrels of oil a day and 60 million feet of gas a day.

-By Matt Chambers, Dow Jones Newswires; 61-3-9671-4393; Matt.chambers@dowjones.com