

Burrup Fertilisers faces gas shortfall

28th December 2006, 14:15 WST

The \$700 million Burrup Fertilisers project on the Burrup Peninsula is facing a potential gas supply crisis, after Perth-based Tap Oil privately warned the Indian-backed venture it was running out of gas and may not be able to meet its supply obligations as early as next month.

Tap is a 12.22 per cent partner in the Harriet gas joint venture near Barrow Island which struck a landmark 20-year gas supply deal with Burrup Fertilisers' Indian parent, Oswal Group, in late 2001.

In a confidential letter dated November 23, Tap Oil managing director Paul Underwood told Burrup Fertilisers the company was declaring force majeure because of "adverse developments" at several exploration and development wells at Harriet.

Despite the significance of the Burrup Fertilisers contract to the Harriet project, Tap has not made any announcement to the Australian Stock Exchange, four weeks after it wrote to Oswal.

Mr Underwood declined to comment because it was "a commercial matter and confidential". He said the company would comment only "when we think we have to".

Under the \$1 billion-plus contract, the Harriet venture would supply 66 terajoules of gas a day to the plant which started production in April this year and is designed to produce more than 760,000 tonnes of ammonia annually.

Harriet is a joint venture between US-based Apache Energy (68 per cent), Kuwaiti group Kufpec Australia (19.2 per cent) and Tap, with all three partners believed to have signed individual contracts to supply Oswal based on their percentage interest in Harriet.

Force majeure provisions typically allow companies to defer contractual supply agreements without penalty because of exceptional circumstances, usually associated with the impact of natural disasters such as cyclones. However, Tap cited the failure of exploration wells at several prospects to yield new reserves, plus problems at several development wells at the Linda, Wonnich and Rose fields which had led to proven gas reserves being written down by 210 petajoules.

Tap warned it was unlikely it would be able to meet all its supply obligations under the contract "for an extended period commencing some time between January 2007 and August 2009", in the absence of any significant new discoveries at Harriet.

Burrup Fertilisers chairman Pankaj Oswal declined to make any detailed comment but confirmed the company had been issued with the force majeure declaration.

"We would prefer not to comment at this moment because we are yet to discuss this legally," he said. "Right now, I think it's a conversation (for) the company and the Harriet joint venture. We have received the force majeure notices but we are yet to look in detail."

Mr Oswal said there had not yet been any effect on gas supplies to the Burrup Fertilisers plant, but hinted at the potential for legal action if gas supplies to the project were threatened. "I don't want to go legal, if we can resolve it with all the partners together, that is a much better thing to do," he said. "So let's see how we go."

Mr Oswal conceded the "only other source of supply" would be the Woodside Petroleum-managed North West Shelf project, which supplies more than 70 per cent of the gas used by domestic customers in WA. WA's dependence on the Shelf for its gas supplies was the main factor in the State Government's controversial decision to force the developers of new export-focused gas projects, such as Woodside's \$10 billion Pluto LNG proposal, to put aside 15 per cent of their gas reserves for the domestic market.

Aside from Burrup Fertilisers, Harriet also supplies relatively small volumes of gas to other WA users via the Dampier-Bunbury pipeline, including Alcoa, Wesfarmers and Alinta. All three companies declined to comment yesterday, however it is understood that none is facing supply problems from Harriet at this point.

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