

Oilers engage in a polite Perth affair

Jamie Freed

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Given a choice between attending the annual Australian Petroleum Production and Exploration Association conference and the mining industry's annual Diggers and Dealers conference, if it was spicy information you were after, at first glance you would opt for the latter.

Many of those attending the APPEA conference, which has just been held in Perth, work for international supermajors such as **ExxonMobil** and **Shell**, which have incredibly strict rules on disclosing non-public information. But as with nearly any industry, the scuttlebutt somehow always manages to do the rounds anyway.

There was plenty of talk about liquefied natural gas developments in Western Australia and the Northern Territory. Delegates were particularly curious about whose gas would fill up **Woodside Petroleum's** second production train at Pluto and **ConocoPhillips's** second train at Darwin. Floating LNG and the West Australian Government's proposed LNG hub in the Kimberley also attracted interest, along with the perennially delayed Gorgon project. And, not surprisingly, mergers and acquisitions was also a hot topic for those in the know.

Here are a few morsels The Drum picked up at the conference.

Friendly desperado

Since the resignation of **Santos's** managing director, John Ellice-Flint, a few weeks back, everyone has been wondering about the company's strategic direction. Ellice-Flint was at the conference in his consulting capacity for Santos, but it was the acting chief executive, David Knox, who talked publicly about its \$7 billion Gladstone LNG project.

What was not said publicly though was that as late as February - one month before Ellice-Flint resigned - Santos was in serious merger discussions with **Oil Search**, to the point where they were talking about issues such as who would lead the combined company.

The Drum understands that behind the scenes Santos is apparently desperate to do a big deal before a 15 per cent shareholder cap comes off later this year and makes it a prime takeover/break-up play for the likes of **AGL Energy** and **Apache**.

The Oil Search deal would have given Santos an added interest in their PNG LNG joint venture. But the all-scrip transaction would have put Oil Search in play, making it easy for a company like **PetroChina** to come over the top with cold, hard cash. Oil Search therefore rebuffed Santos's offer.

Santos has had little luck with hostile acquisitions of late - it lost out on **Queensland Gas** and **Delhi Petroleum** - so it is questionable whether it would be willing to make an unsolicited bid for Oil Search.

Willing to play

Santos and **Oil Search** may not have been able to agree on a friendly deal, but **Australian Worldwide Exploration** and **ARC Energy** might have better luck.

As revealed in the *Herald* today, the pair have entered merger talks.

AWE is expected to produce 9.5 million barrels of oil equivalent this year - roughly the same level as much larger rival Oil Search - but it has a fairly steep declining profile afterward.

The Drum understands that like many in the local industry, AWE recently considered taking a joint venture interest in **AED Oil's** Puffin and Talbot oilfields off WA, but walked away at a relatively early stage of the sales process. Instead, China's **Sinopec** eventually bought a 60 per cent stake in the projects for about \$600 million.

The managing director of AWE, Bruce Wood, said last week that his company would spend between \$83 million and \$85 million on exploration this year, which is a relatively large amount for its size. He added that AWE might take a look at coal-seam gas projects in the Perth Basin, Queensland and NSW in the future.

Gas games

There is a lot of strategic manoeuvring in the competition to ship out LNG from Australia as fast as possible.

Woodside's Pluto 2 project looks ahead of the pack when it comes to approvals, but it has a significant stumbling block: not enough gas.

Analysts have pointed to two nearby discoveries - **Apache's** Julimar find and **Chevron's** Wheatstone field - as likely candidates to be fed through the Pluto 2 plant if Woodside's exploration program in the region is not successful by itself. Apache is still considering its options for Julimar, but leaning toward expanding its newly approved Devils Creek plant and feeding it into the domestic market. And Chevron insists it will develop its own LNG plant at Wheatstone.

Chevron made its decision after failing to reach an agreement on price with Woodside, so it is possible the pair will still resolve their issues. Chevron still has not resolved when it will get gas from the much larger Gorgon joint venture to market, and how much it will cost, leaving many in the industry wondering whether it can be built in time to meet a window of projected high LNG demand before 2015.

jfreed@smh.com.au