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2007 set to be a gas, gas, gas

Natural gas, coal seam methane and LNG will all star, writes **Nigel Wilson**

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GAS developments will feature highly in the resources calendar in the coming year.

Aside from the rapidly growing coal seam methane sector, natural gas and liquefied natural gas (LNG) projects will be prominent.

According to the national commodity forecaster, the Australian Bureau of Agriculture and Resource Economics (ABARE), Australia's natural gas production will increase 13 per cent next financial year.

ABARE's prediction is that output will increase mainly as a result of the ramp-up in production at ConocoPhillips's Darwin LNG project, which began shipping to Japan earlier this year, and Santos's Casino gas project, in the Otway Basin, south of Port Campbell in Victoria.

The 2007 figures would also include start-up production from Woodside's Otway gas development and the Karratha LNG project, a small plant being constructed by Energy Developments, designed to produce around 78,000 tonnes of LNG a year that will be trucked to remote-area power stations in Western Australia.

But natural gas reserves available for domestic use will continue to fall in eastern states as the ExxonMobil/BHP Billiton fields in Bass Strait and the Santos-operated Cooper/Eromanga reservoirs astride the South Australia-Queensland border continue their natural decline even though remaining reserves in the two areas top 5 trillion cubic feet.

The big news in gas in the coming year will be whether the Gorgon partners - Chevron, ExxonMobil and Shell - will commit in the next few months, having received tough new environmental conditions from the West Australian Government for the planned 10 million tonnes a year export LNG development on Barrow Island.

About four years ago this was costed at $US11 billion and, on the known configuration, it is predicted that this has blown out by about 40 per cent, taking the spend to around $US15 billion ($19 billion). While Gorgon is backed by our biggest known offshore gas reservoirs and is top of the pile in Chevron's project list, Shell and ExxonMobil remain to be convinced that the difficulties of developing a world-scale LNG project on a Class A nature reserve can be covered by returns in the existing marketplace.

By any account Gorgon will ultimately be developed, but whether it will meet market needs in the next decade remains moot considering the current price of LNG has not not kept pace with the sustained boost in crude oil prices.

There are not so many doubts concerning Woodside's Pluto project, which the Perth-headquartered company owns 100 per cent.

Woodside chief executive officer Don Voelte has been enthusiastic since the small Pluto reservoir was discovered last year that a stand-alone LNG project could be developed to meet what he believes is a unique market opening in North Asia from about 2010.

For Mr Voelte, the gap between burgeoning demand and limited supply is a market opportunity which will result in Woodside doubling its equity in LNG production.

Woodside appears to have overcome objections to locating the onshore Pluto processing plant on a site south of the existing North West Shelf plant which contains Aboriginal petroglyphs.

Ahead of a final investment decision in the next few months, Woodside has committed to spending $1.4 billion on "long lead time" items.

Gorgon and Pluto alone are set to cost up to $25 billion but they represent only about a quarter of Australian LNG developments in store. According to ABARE, Australia has about eight potential new LNG projects or expansions, not including the fifth production train now under construction on the North West Shelf project, which keeps signing up new contracts regularly and is set to lift the development's output to more than 16 million tonnes a year before the end of the decade.

In a report this month ABARE said a number of countries were looking to secure sources of cleaner fuel for power generation, leading to expectations that demand for Australian LNG would increase.

"In response, Australian production of LNG is forecast to increase substantially in the short term, supported by higher production from Darwin LNG, the start-up of production from Karratha LNG and the commencement of operations from the fifth train of the North West Shelf venture (4.2 million tonnes a year), scheduled to come online in late 2008."

The forecaster's outlook to 2029 estimates production of gas in Western Australia and the Northern Territory (the current growth regions) will grow at an average rate of 6.4 per cent a year, rising from 984 petajoules in 2004-05 to 4280PJs in 2029.

It says about 93 per cent of additional gas production in the two areas is accounted for by assumed developments in the LNG sector.

This suggests the development of fields in the Browse Basin north of Broome - in which the Japanese group Inpex, Shell, Woodside, BP, BHP Billiton and smaller listed companies such as Nexus and Coogee Resources have interests - will be the focus of much activity in the coming year.

Mr Voelte told an international conference in China earlier this year that Browse was best described in four words: scarcity, size, security and simplicity. "It is one of the very few large undeveloped gas resources outside the Middle East or Russia, making it both scarce and valuable," he said.

Browse already has the potential to be Australia's second North West Shelf development and it is still relatively unexplored. The Browse reservoirs in general are expected to be supplying LNG customers from the middle of next decade.

Further news should emerge early in the year concerning the extent of new gas discoveries in the Timor Sea north of Darwin.

ConocoPhillips is partnering Santos in a bid to find more reserves that could justify an expansion of the fully committed Darwin LNG plant now supplied with gas from the Bayu Undan project in the Joint Petroleum Development Area (JPDA) administered by Australia and East Timor.

After the East Timor elections in May it is possible Woodside will be in a position to announce the future of the Greater Sunrise reservoir in the JPDA.

Greater Sunrise is also a possible supplier to Darwin LNG, which has a licence to produce 10 million tonnes of LNG annually but only has capacity to supply 3.24 million tonnes a year.

Before mid-2007, the long-awaited joint government-industry strategic review of Australia's upstream oil and gas industry will be published.

Led by the Australian Petroleum Production and Exploration Association, with the support of state, territory and federal governments, the strategy is expected to identify new areas where gas can be used domestically, as well as encouraging further LNG exports.