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Woodside throws Pluto a big bone

Close to $800 million has already been spent on the Pilbara gas field project

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WOODSIDE has committed $12 billion for its Pluto LNG development in the Pilbara — the biggest single investment by an Australian company.

A special Woodside board meeting yesterday morning approved the project, marking the last investment decision taken by the board under the chairmanship of Charles Goode who retires on Tuesday.

The board made a final investment decision on the basis of committing $11.2 billion for an initial phase that will include a single LNG production train on the Burrup Peninsula in the Pilbara with forecast production of 4.3 million tonnes a year, connected by a 180km, 36-inch offshore pipeline to a platform in 85m of water.

First gas is scheduled for late 2010.

Close to $800 million has already been spent on the project, taking the total committed so far to $12 billion with more to come on a possible two more production trains, greater compression and the tie-in of the recently discovered Xena gas field.

Woodside said reservoir studies had concluded that the combined dry gas volume of the Pluto field had increased to 5 trillion cubic feet, 500 billion cubic feet more than the previous estimate.

But Woodside is in discussions with holders of other gas reservoirs close by — including Chevron's stalled Gorgon project — to have greater reserves and greater processing capacity into the future with the possibility of two more production trains being built in what Woodside is calling the Burrup LNG Park.

A key to Woodside's decision is that the initial Pluto plant will provide the company with up to 1 million tonnes of product a year to trade on the emerging spot market for LNG.

Woodside chief executive Don Voelte said Pluto had 15-year sales and purchase agreements with Japanese utilities Tokyo Gas and Kansai covering between 3.25 million and 3.75 million tonnes of LNG a year.

Tokyo Gas and Kansai will each take 5 per cent equity in the Pluto permit and the first production phase infrastructure.

Pluto will take Woodside's equity in LNG production from about 2 million tonnes a year now from its one-sixth stake in the North West Shelf gas project to about 6.6 million tonnes once the new plant comes on stream and the Shelf's train five is in full production.

Pluto, which will produce revenue of more than $2 billion a year at an oil price equivalent to only $US20 a barrel, will have an internal rate of return of between 10 per cent and 15 per cent, Mr Voelte said.

He pointed out that the risk to Woodside was the spread between cost of production and the product price, not the higher cost of delivering Pluto compared with the original company estimate of between $6 billion and $10 billion.

Yesterday's decision is conditional on final environmental approvals, expected by September, with Woodside confident it can overcome West Australian Environmental Protection Authority concerns.

Premier Alan Carpenter, while welcoming the decision as underpinning a major change in the West Australian economy from boom and bust to consolidation, said the environmental assessment would be rigorous.

Mr Carpenter said he was encouraged by Mr Voelte's remarks that Woodside was already in discussion with potential customers about bringing domestic gas onshore well ahead of the 2016 deadline set under the Government's controversial domestic gas reservation policy.