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Shelf gas operators push price rise

Nigel Wilson, Energy writer | *January 18, 2008*

NORTH West Shelf gas exporters are negotiating to boost liquefied natural gas revenues from Japan by hundreds of millions of dollars because of the soaring crude oil price, which is outside original contract terms.

North West Shelf LNG is vital to eight big Japanese energy companies. Picture: AFP

Project operator Woodside Petroleum released a quarterly report yesterday showing that preliminary contract adjustments led to a $56.5 million boost in the company's LNG revenue between the third and fourth quarters last year - a gain of more than 33 per cent.

When the export contracts were negotiated for the shelf project in 1985 with eight Japanese customers (Tokyo Electric, Kansai Electric, Choqoku Electric, Tokyo Gas, Osaka Gas, Toho Gas, Kyushu Gas and Chubu Electric), they contained provisions linking them to movements in a number of types of crude oil.

West Texas Intermediate, the international benchmark, was then less than $US10 a barrel.

Woodside noted yesterday the oil price had increased over time and the price received for the Japanese basket of crudes had moved above the oil price range specified in North West Shelf Venture LNG price formulas.

Consequently, the venture was negotiating "price out of range" LNG prices for these contracts.

The venture's six equal participants are Woodside, BHP Billiton, BP, Chevron, Japan Australia LNG (MIMI) and Shell, which is also a 34 per cent shareholder in Woodside. Woodside's report notes a provisional LNG pricing formula has been agreed and will apply during negotiations, and the provisional price is evident in the higher price received for fourth-quarter 2007 LNG shipments.

Woodside's revenue share of these was $223.9 million, up from $167.4 million in the previous six months.

A company spokesman said the pricing negotiations affected shipments for the residual cargoes under the original contracts until the end of March.

Contracts that had been renewed to take effect from April would not be affected by the negotiations.

The report confirmed also that Woodside booked a loss of $230 million on its investment in the $US700 million ($794 million) Chinguetti oil project in Mauritania, which it sold in December to Petronas, a company owned by the Malaysian government.

It revealed for the first time further problems with the Enfield oil development on the North West Shelf, where production well ENA-01 was shut on January 3 because of sand accumulation in the well stream.

As a result, Enfield's daily production, which reached 50,241 barrels a day (Woodside's share being 30,144 barrels) after the return to production in late September of production well ENA-03L, had been cut to about 30,000 barrels a day.

Woodside said it was still seeking a solution to the problem.

The quarterly report said fourth-quarter sales rose 7 per cent as oil prices increased and the Stybarrow field, operated by BHP, began producing.

Sales rose to $1.17 billion in the three months to December 31, up from $1.1 billion a year earlier.

Quarterly production fell 5 per cent to 18 million barrels of oil and gas. Output for the year, although down on original estimates, was a record 70.6 million barrels of oil equivalent, the third successive annual increase. Full-year revenue grew by 5 per cent to $4.004 billion, from $3.81 billion in 2006, following a 4 per cent rise in production.

Woodside is maintaining its 2008 production forecast in the range of 80-86 million barrels with new oil projects coming on stream in the Gulf of Mexico and the North West Shelf.

Increased production is expected to come from a full year's production at Stybarrow and a first-quarter boost from the Otway gas project in South Australia. The commissioning of the fifth LNG production train on the Burrup Peninsula is due late this year. In the September quarter, increased production will come from the start-up of the Vincent oil project and Angel gas and condensate project in WA, and the Neptune oil field in the Gulf of Mexico.