Bloomberg.com

Woodside, Inpex May Seek To Link Their Australian LNG Projects

By Angela Macdonald-Smith

May 1 (Bloomberg) -- Woodside Petroleum Ltd., Australia's second-biggest oil and gas producer, and Inpex Holdings Inc. are studying options to co-operate in their rival liquefied natural gas ventures off the far northeast coast.

The companies may potentially use floating LNG production technology, or ``co-locate'' their competing Browse Basin projects by building plants at a common site on the mainland, or by piping gas from their ventures south to the Burrup Peninsula, Woodside Managing Director Don Voelte said today.

The Woodside-led Browse LNG venture and Inpex's Ichthys project are seeking to develop gas fields off the Kimberley coast, where there is no industrial development. Floating LNG technology, while not yet used commercially, offers the benefit of avoiding building plants in environmentally or culturally sensitive areas, Royal Dutch Shell Plc, which is considering a floating project at a separate Browse field, said last month.

``We have talked to Inpex about co-locating our operations in Browse in one of two or three different ways,'' Voelte told reporters in Perth. One of the options is building ``something offshore, and I would just say that floating LNG, that technology is moving along faster and faster.''

Woodside, 34 percent owned by Shell, gained 1.8 percent to A$56.89 in Sydney trading, lagging behind the 2.5 percent advance in the exchange's benchmark energy index.

Solving Bottlenecks

Floating LNG production projects may help solve a ``bottleneck'' in supply of the fuel that has arisen from delays in building onshore plants, Citigroup Inc. said in an April 15 report. Rising natural gas prices and advances in technology are making offshore plants increasingly viable to develop gas fields that otherwise would be uneconomic, it said.

Perth-based Woodside and Inpex, Japan's largest oil explorer, would benefit from linking their Browse Basin LNG projects, UBS AG said in a Feb. 20 report. Linking the ventures would make gas development in the area more profitable, it said. The two ventures together may have more than 30 trillion cubic feet of gas and about 621 million barrels of condensates, a type of light oil, UBS said.

Any development using floating LNG would involve several production vessels given the volume of gas, Voelte said. Total SA is a partner in the Ichthys project, while BP Plc, BHP Billiton Ltd., Chevron Corp. and Shell have stakes in Woodside's Browse LNG fields.

The Browse project is one of three LNG ventures Woodside aims to approve for construction by the end of 2010, Voelte told shareholders earlier at the annual meeting. The others are an expansion of the Pluto venture and the Sunrise project in the Timor Sea. Floating LNG is being considered for Sunrise.

Pluto Delay

Woodside may miss its end-2008 target for approving an expansion of the A$12 billion ($11.3 billion) Pluto project while it weighs the best option for gas supply, Voelte said. The company is exploring for more of its own gas to supply the expansion and is also considering using gas from other companies.

``It's not just having gas, it's having the right type of gas to go into Pluto 2,'' Voelte said. ``I don't care if people beat me up because we're three months late or six months late, if it returns an extra billion or two dollars to the shareholders.''

The Woodside-operated North West Shelf venture, along with the Pluto, Browse and Sunrise projects contain about 50 trillion cubic feet of gas, or enough for 17,000 LNG cargoes, Chairman Michael Chaney told shareholders. LNG buyers are increasingly prepared to pay prices for the fuel that are close to the equivalent crude-oil price.

Guangdong Prices

Woodside has ``no plans right now'' to seek to increase the price of LNG the North West Shelf venture sells to China National Offshore Oil Corp. under a flat-price 25-year contract, even as crude-oil and LNG prices rise, Voelte said. He signaled the price may be raised should the customer buy more LNG.

The Guangdong terminal that imports the Australian LNG ``was built for seven or more tranches, a much bigger operation,'' Voelte said. ``Clearly it's hard to find LNG these days. Potentially if they want more gas there's always interesting ways to restructure contracts.''

Scarcity of labor and the rising cost of materials are the largest threats to Woodside's growth and profitability, Chaney said. Developing major resource projects is becoming ``an increasingly expensive proposition,'' he said in the address.

Woodside has more than A$22 billion of projects under construction where it is the operator. It today retained a full- year forecast that output will increase to between 80 million and 86 million barrels of oil equivalent, boosted by four new projects due to start up by the year-end.

Shareholders approved the company's $398.5 million purchase of Shell's oil interests in the North West Shelf venture, agreed earlier this year.

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