

# BHP Billiton In Talks On Scarborough Gas Processing

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MELBOURNE -(Dow Jones)- BHP Billiton Ltd.'s (BHP.AU) petroleum division president Mike Yeager said Tuesday the company has held talks on possibly processing gas from its Scarborough joint venture at the liquefied natural gas plants of third parties in Western Australia.

However, Yeager said third party processing was just one of four options being considered by BHP and joint venture partner ExxonMobil Corp. (XOM) as they moved to get the long stalled project moving.

Yeager told reporters at the company's headquarters in Melbourne that BHP's oil and gas division is now focusing on accelerating the development of LNG projects in Western Australia.

"If we have a number one priority, it is to do in Western Australia on the LNG side what we have done in the Gulf of Mexico," he said.

BHP had originally looked to sell its share of Scarborough's gas into the U.S. through its proposed Cabrillo port LNG terminal until the development was quashed by Californian Governor Arnold Schwarzenegger.

A rift between BHP and Exxon has also helped stall the project, with Exxon saying in 2005 that Scarborough was unlikely to be commercial for some time and preferring to focus instead on its Gorgon joint venture.

Yeager said Asian LNG demand had surged since then, driving up prices and making the project more attractive, and that the partners are now working together on selecting a development option for the project within a "year or so" .

"Scarborough's day is in the sun, and there are hundreds of people working on that right now as we speak," he said.

Yeager said the options for development include a floating LNG plant, an onshore plant, selling gas into the North West Shelf plant or partnering with someone else.

BHP has held discussions over the potential processing of Scarborough gas by a third party, he said.

"We are in talks with everybody in Western Australia on these things."

Deutsche Bank analyst John Hirjee said a number of parties could be interested in processing Scarborough gas, including the North West Shelf joint venture, Woodside Petroleum Ltd. (WPL.AU) through the second train of its Pluto project and Chevron Corp. (CVX.AU) at its proposed Wheatstone project.

There are numerous LNG projects slated for development up and down Western Australia's northwest coast, and with rising costs and a shortage of drill rigs and skilled labor, market watchers do not expect all of them will be built.

Hirjee said these pressures meant companies with gas in the region are likely to be willing to do deals for processing of gas by third parties.

"If people want to get their gas commercialized, they will have to do deals with others who are in the same boat," he said.

Yeager said BHP is currently producing 400,000 barrels of oil equivalent a day and is on track to post production growth of more than 10% this fiscal year, which ends June 30.

"We produced 10% greater volumes through the first nine months of this year than we did through the first nine months of last year, and our fourth quarter is going to be even better than our first three quarters," he said.

Yeager said the company hopes to boost the annual exploration budget within BHP's oil and gas division to US\$1 billion from around US\$700 million this fiscal year, if it can continue to find credible projects to put to the board.

BHP's oil and gas business has been chasing growth primarily through development of its current projects, but Yeager said there would likely be an increased focus on growth by merger and acquisition once the planned acquisition of rival Rio Tinto Ltd. (RTP) had been dealt with.

"That will become a more and more important part of our business as we go forward," he said.

Petroleum currently makes up about 20% of the value of the company, but this percentage will be reduced if BHP is successful in its bid for Rio Tinto, which has no petroleum division.

However, Yeager said BHP would look to aggressively grow the petroleum division in the wake of a successful takeover of Rio Tinto with the aim of building it back up to 20% of the combined entity.

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