

BHP sharpens focus on offshore LNG unit

Andrew Trounson | *May 14, 2008*

BHP Billiton has made the development of its own liquefied natural gas business offshore of Western Australia the key priority for its petroleum division.

But it still faces major development hurdles in developing its key Scarborough and nearby Thebe WA gas discoveries that are stranded more than 250km offshore, about twice as far as most other projects in the area.

BHP's head of petroleum, Mike Yeager, last month assured federal Resources Minister Martin Ferguson that BHP was not just sitting on Scarborough but was working aggressively to develop the field, given strong Asian energy demand and soaring oil prices. But he conceded that a final development decision was still more than a year away.

BHP and 50-50 partner ExxonMobil are still jointly assessing whether to pipe Scarborough gas south-east to Onslow to supply an onshore LNG plant, or develop the field via a revolutionary floating LNG development offshore.

The partners are also assessing options to deliver the gas into the existing North West Shelf joint venture LNG operation, in which BHP is a partner, or even the Chevron-led Gorgon LNG development on Barrow Island, in which ExxonMobil is a partner.

However, these options are probably second-best options because they mean Scarborough could be put back in the queue of other LNG developments aimed at the NW Shelf and Gorgon.

"It (Scarborough and Thebe) is our very highest priority," Mr Yeager said.

"It is the biggest accumulation of hydrocarbons that we have and it isn't moving forward at this time, so that is our No1 priority."

Mr Yeager said he wanted to replicate in Western Australia the company's success in developing the Gulf of Mexico as a core production hub for the division.

BHP last year had been pushing for an onshore development that could have been in production by 2011. But the expense and technical challenges of building such a large pipeline means a floating option is still on the table. Any development has been put back to beyond 2013.

A floating development would have the added advantage of avoiding WA state laws that require gas projects to set aside 15 per cent of their reserves for the state market. That is because Scarborough sits in commonwealth waters.

However, while the concept of a floating LNG plant has been around for many years, no one has yet built such a plant, and Scarborough is further complicated by being in cyclonic waters.

The cherry for BHP in developing Scarborough is that it would also commercialise BHP's wholly owned Thebe discovery located a further 50km offshore from Scarborough.

Mr Yeager said he expected his exploration budget to grow to about \$US1 billion (\$1.1 billion). His budget this year has grown from \$US400-US700 million.

Mr Yeager said BHP still had ambitions to develop a major oil and gas field in Iraq, but that any project was still likely to be 10 years away, given security risks.

Separately, BHP has launched a \$US284 million bid for Canada-based Anglo Potash, its joint-venture partner in a potash project in Saskatchewan. BHP holds 75 per cent of the project and has a 3 per cent stake in AP. About 95 per cent of world potash goes into fertilisers, the prices of which have risen due to rising world food consumption.