

Apache puts Reindeer, Devil Creek on ice, secures funds for Oz oil projects

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APACHE Energy has deferred development of its Reindeer gas field offshore Western Australia and the associated Devil Creek onshore gas processing plant while announcing \$350 million in financing for the Van Gogh and Pyrenees oil developments, also off WA.

Reindeer partner Santos said yesterday the decision to put Reindeer and Devil Creek on hold was due to the impact of the global financial crises on the project's proposed foundation gas customer.



While Santos did not name the customer, it is known that a number of major mining projects in the Pilbara region have been delayed or shelved.

Citic Pacific, which is developing the energy-hungry Sino Iron magnetite iron ore project at Cape Preston, has been singled out as the customer in several media reports.

Citic is currently seeking shareholder approval for a \$1.5 billion bailout plan after the company lost around \$US2 billion (\$A3 billion) on currency hedging contracts, though it had said previously that development of Sino Iron was not in doubt.

Meanwhile, Apache chief executive officer Steven Farris said the \$350 million in funds allowed the company to "advance our development inventory by funding two major projects at competitive financing rates, despite continuing turmoil in the financial markets".

Van Gogh and Pyrenees are expected to add 40,000 barrels of oil per day to Apache's net oil production over the next 18 months.

The deferral of Reindeer and Devil Creek has led to the termination of Clough's engineering, procurement and construction contract to develop the Devil Creek processing facilities and for the installation of the offshore facilities for Reindeer.

Clough chief executive officer John Smith said the termination of the contracts reduced its work under contract value by \$390 million to about \$1.3 billion.

However, he added that the impact on the company's 2008-09 earnings would be offset by improvements in other projects such as the unbudgeted repair work on Varanus Island.

"We will work with our customer Apache Energy to bring the work to an orderly halt in order to preserve the value of the investment made to date. Under our contracts, all costs and commitments made will be fully reimbursed by Apache," he added.

Under the offshore contract, Clough was to transport and install an unmanned, minimum facilities wellhead platform and lay a single 100-kilometre raw gas pipeline to the Devil Creek plant, about 65km southwest of Karratha.

Offshore construction was originally planned to start in the second half of 2009 with completion by the end of the year.

Apache commercial and business development manager Aidan Joy told AAP that a contract with Ausclad Group of Companies for the Reindeer offshore platform construction had also been terminated.

Emerson Stewart declined to comment on whether its engineering services contract awarded in September for storage and administration buildings for the Reindeer project had been affected by Apache's decision.

Santos added that work to secure regulatory approvals will continue, to ensure a timely restart of the project once gas sales agreements that support the development have been decided on.

Reindeer is located in permit WA-209-P, which is operated by Apache (55%) in partnership with Santos (45%).

The field was discovered in 1997 and has a gross recoverable resource range of 410-640 petajoules (390-610 billion cubic feet) of gas.

Gas was to be piped 100 kilometres to sea north of Dampier, to Devil Creek, 40km south of Dampier, for WA's domestic gas market.

Meanwhile, Apache said its Van Gogh development is expected to start production in the second quarter of 2009 while first oil from the BHP Billiton-operated Pyrenees project is expected in early 2010. Both heavy oil projects are located in the Exmouth Sub-basin.

Van Gogh will be developed through the use of a floating production, storage and offloading linked to two subsea drill centres with 10 production wells, two water injection wells, and one gas injection well.

The Pyrenees development consists of a FPSO capable of producing about 96,000 barrels of oil per day from wells in WA-12-R and WA-155-P.

Apache owns 52.5% of Van Gogh, 28.57% of WA-12-R and 31.5% of WA-155-P.

The company added that the interest rate for its initial borrowing in the \$350 million financing will be about 3.5% for the first six months before it reverts to floating with the London Interbank Offered Rate (LIBOR). BNP Paribas and HSBC were the lead banks in the financing.