

All go for Pluto, the \$12bn LNG giant

Development

Stephen Wisenthal and Paul Garvey
Woodside Petroleum is to undertake the largest single investment by an Australian company after the board of the oil and gas giant gave final approval to the \$12 billion Pluto liquefied natural gas project.

But managing director Don Voelte said the development was only the beginning and the company was already planning major expansions to tap surging global demand for energy.

The plant, on Western Australia's Burrup Peninsula, near the North-West Shelf project, also operated by Woodside, is on schedule to ship its first cargoes by the end of 2010, less than six years after Woodside discovered the Pluto gas field.

It has overtaken much older projects, including the neighbouring Gorgon fields, controlled by global giants Chevron, ExxonMobil and Shell, which were planning to approve an even bigger project last year.

Pluto has succumbed to the cost pressures plaguing the resources industry and the price exceeds Woodside's forecast in December that it would cost \$6 billion to \$10 billion. The company has already spent \$796 million, and the board approved another

\$11.2 billion on Friday.

But Mr Voelte said it would still be a profitable project, with returns of 10 to 15 per cent, and would put the company in a strong position to be involved in nearby fields.

"We do not see Pluto as a one-train development," Mr Voelte said in Perth after the approval. "We have invested hundreds of millions of dollars to make a bigger pipeline coming onshore, to build additional infrastructure on the platform.

"We've built most of the infrastructure for two to three trains."

Even under the company's worst economic scenario, a return to \$20 a barrel of oil, he said the initial single train would generate about \$2 billion in annual revenues.

Woodside would immediately begin studying the addition of two more trains sourcing gas from Woodside's own reserves or those of other companies.

"A lot of people said Woodside could never make a one-train project work these days, with all the infrastructure and everything underneath, and I tell you it's not easy," Mr Voelte said. The board has already approved seismic surveys and exploration programs over Woodside's acreage further offshore from Pluto, including a new block picked up this week.

The company expects to finance

the development with its cash flow, swollen by high oil prices, plus a dividend reinvestment plan and corporate debt.

It will sell 5 per cent equity in Pluto to each of the two customers for gas from the project, Tokyo Gas and Kansai Electric.

ResourcesLaw International energy consultant Robert Pritchard said Woodside's control over infrastructure in the Carnarvon Basin would put it in a strong position in future developments.

"Any other aspiring LNG developers wanting to have their gas liquefied for export will need to deal with Woodside," he said.

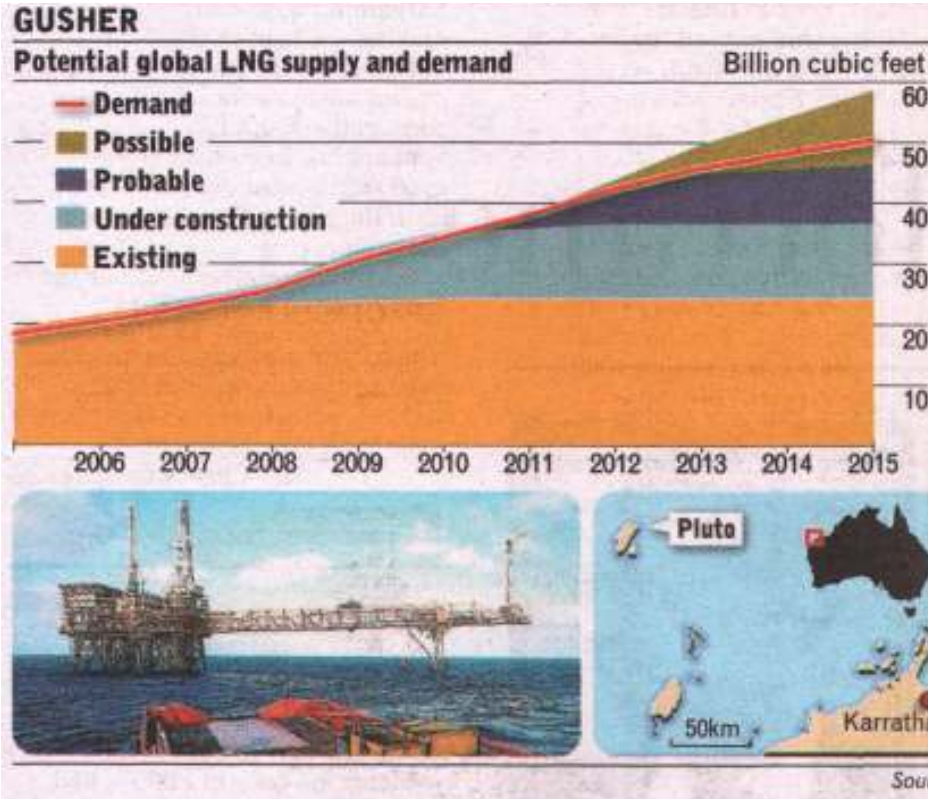
"The risk for others is that the hub operator will be in a very dominant position. Woodside will need to manage this carefully to avoid the difficulties that east-coast coal exporters have run into with constraints on throughput entitlements."

Mr Voelte said the establishment of Pluto provided a great opportunity for other companies in the region to unlock their gas reserves.

"We've had over 450 approvals to get to where we're at now, and we're now lacking two or three approvals which we think we can get in short order," he said.

KEY POINTS

- ▶ The board has approved another \$11.2bn for the huge LNG project.
- ▶ Costs have risen from December forecasts of \$6bn to \$10bn.



Steps to the approval of the Pluto LNG project

- **Dec 03:** Woodside wins WA-350-P exploration block in Carnarvon Basin
- **Jan 05:** Board approves 100% stake in offshore well Pluto 1
- **Apr 05:** Woodside announces 225m gas column at Pluto 1
- **Aug 05:** Woodside announces Pluto LNG project to ship first gas by 2010
- **Dec 05:** Tokyo Gas signs MOU for 15-year Pluto gas contract
- **Mar 06:** Kansai Electric signs 15-year Pluto gas agreement
- **Dec 06:** Board approves \$1.4bn in spending on Pluto
- **Feb 07:** Woodside books 2.6 trillion cubic feet of Pluto reserves
- **Jul 07:** Board gives final go-ahead for Pluto LNG

Source: Wood Mackenzie, Deutsche Bank, ASX filings