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Supply diversity an offshoot of gas crisis

WESTERN Australia, suffering a 30 per cent cut in natural gas deliveries caused by an offshore plant explosion, is set to gain a greater diversity of supply sources as rising prices encourage investment, analysts say.

Western Australia may follow the example of Victoria, which since 2000 has more than doubled its gas processing plants as low-price gas purchase contracts came up for renewal, Paul Balfe, Brisbane-based director of consultants ACIL Tasman Pty, says.

Apache, which halted deliveries on June 3 from its Varanus Island gas plant after the blast, said in April it would build a second, $754 million plant to tap rising prices in the state that generates more than a third of the nation's exports. BHP Billiton is considering developing the Macedon field for the local market, while Alcoa of Australia last week joined an onshore gas development venture.

"There are reasonable prospects that a more diversified set of supply options will develop, and certainly higher gas prices can support that," Balfe said. "Higher gas prices certainly open up a number of possibilities that you wouldn't bother pursuing with low gas prices."

Natural gas prices in Western Australia have tripled over the last 12-18 months on rising demand from metals and mining companies and as offshore fields are developed for export, limiting supplies to the local market, the DomGas Alliance, a group of natural gas buyers, said in April.

More than 95 per cent of the gas used in the state is produced from either the Woodside Petroleum-managed North West Shelf venture or Apache's Varanus Island site, and is mostly delivered through two major pipelines, the Dampier-Bunbury and the Goldfields lines.

Houston-based Apache and partner Santos are developing the offshore Reindeer gas field and the onshore Devil Creek processing plant to add a third major supply source for Western Australia. They have yet to announce sale contracts for gas from Reindeer, after more than 20 companies responded to a tender.

The Reindeer gas contract is "going to change the dynamics of the gas prices in Australia," Apache chief executive officer G. Steven Farris said in a May 28 investor briefing. Apache typically gets "a little over" $2 for each million cubic feet of gas, while the Reindeer contract is "multiples of that".

The higher prices may encourage the development of fields previously regarded as uneconomic, says Graeme Bethune, chief executive of EnergyQuest, an Adelaide-based consulting firm. Those may include so-called tight gas fields, where the fuel is held in reservoirs that require artificial stimulation to flow at commercial rates. Alcoa's venture with closely held Latent Petroleum is for the potential development of the Warro tight gas field.

Apache is considering developing its Julimar discovery, also off the northwest coast, for sale into Western Australia, while its Halyard discovery could be connected into an existing production system and may start up next year, Tim Wall, managing director of Apache's Australian unit, says. Halyard would be produced through Varanus Island, he says.

BHP and Apache are considering developing the offshore Macedon field for local buyers, BHP's Petroleum chief executive officer J. Michael Yeager says. Woodside, Chevron, Inpex Holdings and other companies seeking to develop LNG export projects off Western Australia must also under state regulations supply part of the gas for the local market, provided that is commercially viable.

Coal resources in the south offer an alternative for some energy users.

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