

Santos steals shale march

Santos energy has stormed into the shale sector in Australia's Northern Territory, writes Damon Evans

SANTOS has stolen a march on its international rivals after signing a deal that will see it expand its shale footprint in Australia's promising Northern Territory (NT) play.

Australia's largest domestic gas supplier sealed a deal with troubled shale explorer Central Petroleum that will see it fund up to A\$150 million (\$154.4 million) in a three-stage exploration programme. In return, it will earn up to a 70% interest in 13 of Central's permits across the Amadeus and Pedirka basins.

The farm-out, signed amid a surge of interest in Australia's shale potential from global oil companies, marks the first major move for Central's new chief executive, Richard Cottee, who took the company's helm in July.

The alliance brings together two firms that were instrumental in the birth of the Queensland coal-bed methane (CBM) sector, which has seen some \$60 billion worth of investment committed to three CBM to liquefied natural gas (LNG) export projects being built in Gladstone.

Cottee – who was previously managing director of Queensland Gas Company (QGC) which was acquired by UK gas player BG Group and is now developing one of the Queensland CBM-to-LNG projects – said there is a degree of *déjà vu* or serendipity about the deal.

“Both Santos and QGC recognised the CBM potential at the same time and it seems again that the unconventional shale potential has been recognised by both of us as the pathway forward,” he said.

The attraction of Central lies in the huge potential of its extensive acreage, estimated to hold about 7 billion barrels of oil and 47 trillion cubic feet (cf) of gas.

The local government estimates the NT could have potentially recoverable shale-gas resources of more than 200 trillion cf.

Martyn Eames, Santos vice president Asia Pacific, last month said this potential represents another major supply source for export of domestic gas. He expects emerging Southeast Asian nations, such as Indonesia, Bangladesh and Vietnam, to significantly drive up gas demand in the region and help underpin a new generation of Australian LNG projects. The Adelaide-based company said



Spinning the bit: Santos gets to work in the Northern Territory

in a statement that the proximity of the basins to existing infrastructure also presented an opportunity for Santos to develop gas resources for the Australian market at the scale needed to allow commercialisation.

Appraisal work

The bulk of Santos' onshore assets lie in South Australia's Cooper basin, but it has experience in the NT as it has operated the Mereenie field in the Amadeus basin since 1993, currently supplying gas to customers in the territory and South Australia.

Under the agreement, Santos will operate all the permits and fund the first stage A\$30 million seismic and appraisal programme starting early next year. It will then have the option

to increase its interest to 70% in the permits by funding additional seismic and well programmes up to the value of A\$60 million in each two subsequent stages.

The deal follows a lengthy farm-out process run by the junior explorer, which is recovering from a chaotic period that saw the ousting of former chief executive John Heugh and a battle for control of the company between Cottee and mining billionaire Clive Palmer, who built up a 4% stake in Central.

Cottee was finally appointed in July after two extraordinary general meetings when shareholders voted on an overhaul of board and senior leadership positions. The investment by Santos will resolve the need for Central to raise capital to meet work commitments across the permits.

Santos' move comes amid rising interest in Australia's shale potential. Norwegian producer Statoil is actively looking for a second shale partner in Australia following a deal with Canada's PetroFrontier and is also considering acquisitions of explorers.

Statoil, ConocoPhillips, Hess, BG Group and Mitsubishi have all agreed to fund shale exploration campaigns through partnerships in Australia. Statoil in June agreed to invest as much as \$200 million in a drilling programme in the NT's Southern Georgina basin with PetroFrontier.

Statoil's senior vice president for new ventures, Atle Rettedal, said that if the firm makes another move it should happen in the coming year. “This is the window of opportunity. It's not something that will happen five years from now. It's happening now.”

Making shale oil and gas investments in stages is preferable, though purchasing a company in Australia is a possibility as well, added Rettedal.

Statoil's plans have sharpened focus on Beach Energy, which is set to be a front-runner in Australian shale-gas commercialisation.

Global energy companies are increasingly trying to tap Australia's shale, which is estimated at over 400 trillion cf of potential resources. But the sector is still undeveloped, with large-scale commercialisation seen at least 10 years away. ●