Oil Search trumps majors in PNG

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OIL Search has stolen a march on the international oil companies in Papua New Guinea's emerging liquefied natural gas (LNG) business, landing a stake in the prized Elk and Antelope fields.

The PNG-focused independent took a 22.8% stake in the InterOil-operated fields, which will be pivotal to the next phase of LNG development in the South Pacific nation.

Australian-listed Oil Search agreed to pay $900 million for the interest in petroleum retention licence (PRL) 15 from Swiss-based minority investor Pac LNG after it sold a strategic 10% stake in its own business to the PNG government to help fund the deal.

Majors, national oil companies, as well as utilities and trading firms, have all been circling US-listed InterOil's assets in an effort to capture what could be one of the largest non-dedicated gas supplies available in the Asia region – the world's fastest-growing LNG market.

Oil Search in tandem with its new shareholder – the PNG government – is now in a prime position to influence the future direction of PNG's LNG export business.

More LNG

The upstream player already has a 29% stake in the nation's maiden project – the ExxonMobil-led 6.9 million tonne per year (t/y) two-train LNG plant – due to ship first gas mid-year. On top of that, Oil Search boss Peter Botten sees scope for at least three more LNG trains in PNG.

By nailing a deal with Pac LNG, Oil Search appears to have trumped French major Total, which last December ironed out an agreement to take 61.3% of the PRL 15 permit from InterOil.

Total envisions a stand-alone LNG plant, but it would be much faster and more profitable for the government, as well as Oil Search, to amalgamate the Elk-Antelope fields into the ExxonMobil-led development.

Following Oil Search's buy-in, Total revised its agreement with InterOil by taking a smaller 40.1% stake in the PRL 15 licence for an initial $401 million.

The sale could be worth $1.6 billion based on best estimate reserves equivalent to 7 trillion cubic feet (cf) being produced.

Stepping on the gas: Papua New Guinea has seen a rise in exploration

But Oil Search has moved to stymie the deal, saying it is entitled to a pre-emptive right over the 40.1% stake. The Australian listed explorer is now taking its case to arbitration.

However, it is unlikely Oil Search could afford to buy the 40.1% stake on its own, but it's plausible that it could exercise its pre-emptive right through a deal with ExxonMobil, which last year held exclusive talks with InterOil about buying into the Elk-Antelope fields.

As it stands now, if the Elk and Antelope fields are developed, the stakes of all the investors in PRL 15 will be diluted to allow the government to take up its entitlement to a 22.5% interest in any upstream development. After the PNG government takes its stake, Total would have a 31.1% working interest, InterOil 27.5%, Oil Search 17.7% and the other investors 1.2%.

Former InterOil chief executive Phil Mulacek, who put PNG on the map with the Elk-Antelope finds, described Oil Search's deal as a "grand slam".

Mulacek told *Petroleum Economist* that Oil Search and the state could use their leverage to make sure the asset is commercialised in the fastest, most profitable way.

"Together with the state they can force train three at the PNG LNG complex.

Now ExxonMobil and Total have to figure out what they're going to do as they're not solely in the driver's seat. It's great tension and great for the country," he said. Mulacek believes that if the stakeholders can cooperate, they could move towards a final investment decision this year for the Elk-Antelope fields.

He's confident there is ample gas to fuel a third train at ExxonMobil's plant as well as an additional train elsewhere.

"Hands down, that asset will be proven to be larger than anything else and it is already certified by two independent third-parties as the largest find in Papua New Guinea".

Indeed the Elk-Antelope fields are potentially prolific, especially the larger Antelope area. The combined recoverable gas resource is estimated to range between 5.4 trillion to more than 10 trillion cf.

But with significant additional prospectivity in the deeper waters of PRL 15, most analysts expect the Elk-Antelope fields will have ample gas for two LNG trains.

Low cost

The PNG LNG project offers some of the lowest global LNG project break-even costs – estimated at $9 per million British thermal units (Btu) on a delivered basis to Tokyo. That's even cheaper than break-even costs for US projects, pegged at around $10/million Btu.

Brownfield expansions at the nation's maiden LNG export scheme will improve project economics further, not to mention fetch higher premiums for term sales as the country's high-risk profile recedes.

Indeed, the impending start-up of the export project offers a rare bright note in the delivery of new LNG. The project is now more than 95% complete and ahead of schedule, according to ExxonMobil.

It will bring some fresh flows to a tight global LNG market, marking the first new supplies likely to enter the market since the Chevron-operated 5.2 million t/y Angola plant started-up in May 2013.

Oil Search expects nine to 13 LNG cargoes to be exported this year. Almost 95% of the plant's supplies have been contracted to four customers – Chinese Sinopec with 2 million t/y, Japanese utilities Tokyo Electric Power, with 1.8 million t/y, and Osaka Gas, with 1.5 million t/y, as well as Taiwan's CPC with 1.2 million t/y. Plans for the remaining 400,000 t/y are unclear. ●