Northern gas shake-up seen triggered by Santos deal

By Angela MacDonald-Smith, Australian Financial Review Oct 15, 2019

Santos' $2.2 billion acquisition of the northern Australian gas business of ConocoPhillips is tipped to set off a wave of asset deals in the region as players get their interests aligned across existing LNG projects and their new sources of gas supply.

Analysts are flagging a further reshuffle of interests in Darwin LNG and the Barossa gas field that is set to become the new source of supply for the LNG plant after the existing source, the Bayu-Undan field in the Timor Sea, runs out. Both will now be led by Santos after the buyout of the US major announced on Monday.

But some banking sources say the shake-up of northern gas also gives a flavour of what may occur in Western Australia as existing LNG ventures such as the Woodside Petroleum-run North West Shelf and Pluto projects are compelled to turn to replacement fields to keep their plants full.

Further gas M&A is expected to be sparked by the Santos deal with ConocoPhillips. *Rob Homer*

Meanwhile, confirmation that Santos' ambitions in the country's north extend into the unconventional oil and gas area emerged on Tuesday with news of a $95 million deal for the Adelaide-based player to invest in a shale exploration project led by Armour Energy.

That accord includes Santos funding $65 million of exploration in the South Nicholson Basin in north Queensland and the Northern Territory, which Armour executive chairman Nick Mather described as "one of Australia's, if not the world's, great opportunities for the discovery of a new frontier oil and gas province".

Santos, which already has an unconventional exploration program in preparation further to the west in the NT's McArthur Basin. said the ramp-up of activity there, including two wells to be drilled next year, would benefit exploration in the South Nicholson basin.

"Given the proximity to the Northern Gas Pipeline, the farm-in permits are well located to supply the East Coast domestic and LNG export markets," a Santos spokeswoman said, referring to the pipeline that connects the NT to the east coast gas grid, which includes a link to Queensland's LNG export plants in Gladstone.

The Darwin reshuffle could involve Japan's Inpex Corporation and Japanese LNG customers at the Darwin project taking up stakes in Barossa, a $US4.7 billion ($6.9 billion) gas project heading toward a final go-ahead in early 2020.

The commitment of another Darwin LNG partner, Italy's Eni, is regarded as less certain, with consultancy Wood Mackenzie saying in August it regarded it as potentially interested in selling its gas interests in Australia to focus on "more attractive" opportunities in the Middle East and Mozambique.

The $US1.465 billion Santos-Conoco deal is the first among some $US32 billion of oil and gas assets around the Australian region identified by Wood Mackenzie as potentially to be traded over the next few years. Senior analyst David Low said it would act as a "catalyst" for the further alignment of equity across the Darwin LNG project and its existing and new gas supply sources.

South Korea's SK E&S, the third partner in Barossa alongside Santos and Conoco, has already signed an agreement to buy a 25 per cent stake in Bayu-Undan and Darwin LNG.

Giant LNG importer JERA, which owns 6.1 per cent of Darwin LNG and Bayu-Undan, is also expected to buy into Barossa to align its interests across the ventures.

Shares in Santos meanwhile retreated as much as 3.1 per cent on Tuesday after Monday's 5.7 per cent jump as analysts pondered the value of the deal for Santos, given several uncertainties which will play into the equation.

These include the terms on which gas from the Barossa field are processed at the Darwin LNG plant and the final costs for abandonment of the Bayu-Undan field, for which Conoco is said to have guided $US600 million. Also still up in the air is the final cost of developing the Barossa field, the price reviews under way for existing long-term sales contracts for Darwin LNG and the new contracts that are required to underpin the additional 10 years of the LNG plant operation using the new gas supply source.