

THE AUSTRALIAN

Business

Barossa fires up Santos hopes of Darwin LNG

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466 words

23 April 2018

The Australian - Online

AUSTOL

English

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Barossa fuels Santos LNG hopes. Santos is set to emerge as a big winner from an extension of the Darwin liquefied natural gas plant after it and its partners formally agreed to study the development of the Barossa gasfield in the Timor Sea.

Santos confirmed late yesterday the start of the front-end engineering and design phase at Barossa, with a view to using gas from the field to backfill Darwin LNG.

The LNG plant was previously forecast to run out of gas in the early 2020s, when the existing Bayu-Undan field is expected to stop production.

Barossa had long been in the box seat to be the next development through Darwin LNG, although the Sunrise gasfield between Australia and East Timor had also been floated as a potential source of gas for the plant.

A development of Barossa, 300km north of Darwin, would see Santos's share of production out of Darwin LNG increase meaningfully, given Santos owns a 25 per cent interest in Barossa compared to its 11.5 per cent stake in Darwin LNG.

"It's a great step forward for Santos because our higher equity position means that a successful Barossa development would more than double our current production out of northern Australia," Santos managing director Kevin Gallagher said.

The other partners in Barossa are Darwin LNG operator ConocoPhillips and Korea's SK Group, both of which hold 37.5 per cent interests. Santos's 11.5 per cent stake in Darwin LNG generated the company \$US45 million (\$58.9m) in earnings before interest, taxation, depreciation, amortisation and exploration last financial year.

The partners plan to make a final investment decision on Barossa by the end of next year.

Santos is currently the subject of a \$13.5 billion indicative takeover offer from US group Harbour Energy of \$6.50 a share. Santos has said it intends to engage with Harbour but has advised shareholders to take no action at this stage.

In addition to the potential extension of Darwin LNG, Santos is also a 13.5 per cent partner in the PNG LNG project that is studying a possible expansion.

LNG markets have held up better than many expected over the past six months, with a widely anticipated glut of supply failing to materialise amid strong appetite for the gas from China and other emerging nations.

The commitment to Barossa also represents something of a setback for the partners in Sunrise — Woodside Petroleum, Royal Dutch Shell and Conoco. The Sunrise partners had hoped the Sunrise fields could represent a viable backfill option for Darwin, and its best prospect of development would now appear to involve going down the more costly path of adding a second processing train at Darwin.

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