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HD **Over half Asia's gas from LNG by 2030**

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Gas-linked US prices could be at parity with price tied to **oil**

LNG will supply more than half of Asia's gas needs by 2030, providing more market opportunities for Australian LNG exporters, according to the chief executive of Australian **oil** and gas producer Santos, which will start exporting LNG from the country next year.

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Speaking at the Brisbane **Mining** Club Thursday, Santos CEO David Knox also LNG's share of total Asian gas supply could grow to 52% from the current 35% by 2030, while the region's total **energy** demand will surpass the rest of the world combined by 2030.

"Despite slowing growth in Asia, urbanization continues to see the equivalent of 10 cities the size of Brisbane being created each year," Knox said.

Brisbane, the capital of the eastern Australian state of Queensland, has a population of 2.2 **million** people.

Moreover, Asian gas demand is projected to grow at 3% per year over the next 15 years, which is more than double the rate of the rest of the world combined, he said.

Knox said the gap between supply and demand for LNG will be about 100 **million** mt/year by 2050, thanks to Asia's increasing reliance on imported fuel.

Acknowledging that the global LNG market is "very competitive" Knox said Australia needs to adopt new onshore and offshore liquefaction technologies and cut red tape in order to drive down the cost of developing projects in the country. Most of the LNG projects under development in Australia have seen huge budget blowouts in recent years.

Santos is a key investor in three regional LNG projects: Darwin LNG, Papua New Guinea LNG and Gladstone LNG. The Australian independent is also the operator of GLNG, which is located on Curtis island, off the Queensland port of Gladstone in eastern Australia.

All have sold volumes based on traditional crude **oil** linked term contract pricing, increasing Santos' exposure to **oil** prices from 30% a few years ago to 40% now and to 70% by 2015, when all three projects will be operational, Knox said.

Gas vs **oil** link

Many Asian buyers now want to sign LNG term contracts linked to other indexation points, notably the US gas benchmark Henry Hub, rather than use traditional crude **oil** linked pricing. But Knox warned that such pricing will not necessarily make LNG prices lower for Asian buyers, given high costs.

"If you use a Henry Hub Price of say $6-7/MMBtu in 2020, by the time you add the 15% capacity mark up, the liquefaction and transportation, and the cream that traders will take on top of that—then you will see that you have landed US LNG into Japan or Korea at around $14-14.50/MMBtu," Knox said.

"This landed price is pretty close to the price of a conventional **oil** linked project, which at $100/**b** is circa $14.50/MMBtu."

"US LNG will be important but not a silver bullet," Knox added, noting that Russia will also play a role, but will only meet around 6% of **China**'s gas demand by 2030 through the two countries' massive new pipeline gas deal.

But Knox's arguments appears to hold little weight for some Asian buyers. State owned Korea Gas Corporation —the world's largest single buyer of LNG—is still understood to be mulling a potential **sale** of a 10% **stake** in the Gladstone LNG project, reducing its **stake** to 5%, despite rising domestic demand for gas.

In late 2010 Kogas paid $607.8 **million** for a 15% **stake** in GLNG, after agreeing to import 3.5 **million** mt/year of the plant's output for 20 years beginning 2015.

GLNG 'on track'

GLNG is over 80% complete and remains on track to ship its first cargo in 2015, according to Knox.

Santos operates and holds a 30% **stake** in GLNG. Its partners in the project are Malaysia's Petronas (27.5%), French major Total (27.5%) and Kogas (15%).

Knox also said the ExxonMobil -operated PNG LNG project—in which Santos has a 13.5% **stake** and which became operational in May, six months ahead of schedule—expects to ship a cargo every four to six days to term buyers in **China**, Taiwan and Japan, for the next 30 years.

PNG LNG's long-term contractors include Tokyo Electric Power Co ., Osaka Gas , **China**'s Sinopec and Taiwan's CPC.

Early cargoes from PNG LNG are being sold largely to term offtakers at spot prices, applying downward pressure on the LNG spot market, trading sources say.

Santos' new projects are expected to hit the market at the same time as a slew of new developments in Australia will add over 40 **million** mt/year to the market by late 2015, likely further depressing LNG price levels in Asia, they add.

with Eriko Amaha in Tokyo

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