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HD **INTERVIEW: Australia's Horizon Oil looks to PNG growth after missing ROC merger**

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Australia's Horizon Oil plans to focus its attention on enhancing its existing assets in New Zealand and China, and tapping the potential of its Papua New Guinea gas portfolio after recently missing out on a planned "merger of equals" with ROC Oil, the company's CFO Michael Sheridan told Platts in an interview Thursday.

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Horizon's plans to rapidly create a significant Southeast Asia-focused oil and gas company through the merger with ROC were scuppered in August when its partner agreed to an alternative $450 million cash takeover offer from Hong Kong-based Fosun International.

"We haven't been deflected by the ROC merger not proceeding," Sheridan said. "One of the reasons there were no break fees in the deal was that we both understood that when we put all that information out into the market that either one of us could become a takeover target.

"Our motivation to build scale has not gone away," Sheridan added. "If an opportunity came along that was consistent with the one the ROC merger presented, we'd look at it hard."

In the meantime Horizon's focus will be on expanding its "tremendous asset" in China's Beibu Gulf and doubling gross production at its 10%-held Maari field in New Zealand to 20,000 b/d by the first half of 2015.

Horizon owns just under 27% of Beibu Gulf block 22/12, which has recently been producing around 12,000 b/d of crude oil. The joint venture, which includes ROC with a 19.6% stake, is also working toward expanding the operation with the development of the 12-8 East oil field.

But the key growth assets for Horizon are in PNG, where it operates 1.4 Tcf of wet gas and more than 60 million barrels of liquids in the Stanley and Elevala/Ketu fields.

A $300 million development of the Stanley field has been approved by the PNG government and is expected to be completed in 2016, producing 4,000 b/d of condensate and 140,000 Mcf/day of gas. Stanley's liquids production will be used at Puma Energy Group's Napa Napa oil refinery in Port Moresby, while the gas will fire electricity generation for the Ok Tedi copper mine and surrounding area.

In the longer term, Horizon hopes its Stanley and Elevala/Ketu gas will form part of an LNG project.

"Stanley is a nice project, but large-scale gas commercialization is the key," Sheridan said.

The company's plans could hang on the development of the ExxonMobil-led P'nyang gas field, which is being considered as a source of expansion gas for the producing PNG LNG export project.

LNG OPTIONS

The P'nyang joint venture, which also includes Oil Search and JX Nippon, is working to a deadline to submit a development application to the PNG government by the end of February, when its retention lease will expire.

Under one development scenario touted by Oil Search, the P'nyang gas pipeline would pass close by Elevala/Ketu on its way to Kutubu and ultimately the PNG LNG facilities near Port Moresby. The construction of the pipeline along this route would offer an opportunity for the P'nyang and Elevala/Ketu fields to be consolidated, "and that would give you 4 Tcf of gas," Sheridan said.

Another option is cooperation among the various resource holders, which include Talisman and Mitsubishi, to aggregate the Elevala/Ketu gas with other discovered fields in the Foreland Basin such as Puk Puk and Douglas and pipe the gas to the port of Daru.

"Altogether those Foreland Basin fields hold 2.5 Tcf, which is of a scale to feed a mid-scale LNG project," Sheridan said.

Under that proposal, the LNG plant would be a near-shore, barge-mounted facility, which could potentially also process gas from the Pandora offshore discovery. Sheridan estimated the floating LNG plant, which would operate as a tolling facility, could be built for around $800/mt.

Any eventual LNG project would come with a $130 **million** windfall for Horizon. Under the terms of a $204 **million** deal struck with Japan's Osaka Gas when it farmed into a share of Horizon's PNG assets in 2013, the payment would be owed to the Australian **company** in the event that a large gas commercialization scheme was approved.

"Osaka has offered the project unlimited offtaking and comes with the financing capacity of the Japan Bank for International Cooperation," Sheridan said. "If you have an offtaker you can fund [the project] and Osaka Gas has also brought us some real credibility."

PNG joined the ranks of the world's LNG producers earlier this year when ExxonMobil started up the 6.9 **million** mt/year PNG LNG project, where expansion plans are already being mooted. According to Sheridan, finalization of the next phase of growth, involving the development of some 14 Tcf of discovered gas resources, is likely to occur over the next 12 to 18 months.

In addition to Horizon, a joint venture led by InterOil and including Total and **Oil** Search, is working to develop an LNG project based on the Elk-Antelope gas fields. That project is looking increasingly likely to be a two-train development producing around 8 **million m**/year, InterOil's CEO Michael Hession said recently.

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