

FINANCIAL REVIEW

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HD **Origin to avoid 'grief'**
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Origin **Energy** chief executive Grant King has singled out geothermal **energy** and hydropower as targets for long-term investment but will stay away from markets where projects rely on subsidies as they "always end in grief".

Mr King, a critic of Australia's renewable **energy** target legislation, said Origin saw significant scope to invest further in geothermal **energy** in New Zealand, where it is a player through majority-owned Contact **Energy**.

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He hinted Origin could also invest elsewhere in geothermal, while the **company** has hydroelectric investments in Chile and is studying a potential project in Papua New Guinea. But Australia, where renewable **energy** relies on subsidies through the Renewable **Energy** Target, looks to be unlikely to attract new investment.

"We just think subsidised businesses always end in grief," Mr King said at a Bloomberg summit in Sydney, where he named "some aspects of renewable **energy**" as a potential area of investment for the \$1 **billion** of cash flows that are expected from Origin's 37.5 per cent **stake** in the \$24.7 **billion** Australia Pacific LNG project in Queensland. Dividend payout ratio

Mr King noted Origin had committed to lifting its dividend payout ratio to 60 per cent after APLNG starts up, due in mid-2015. He also signalled that further investment in gas development and LNG would be higher up the list in investment priorities than renewables.

Origin has been sinking cash into gas resources around Australia, most recently in its \$US600 **million** (\$666 **million**) buyout of Karoon Gas's **stake** in the undeveloped Poseidon field in the Browse Basin.

It also has an unconventional gas exploration venture with US giant Chevron in the Cooper Basin, and interests in the Bonaparte and Beetaloo Basins in the north. Meanwhile APLNG could "double in size" in time, he said.

Mr King said those gas development ventures would focus on "backfill" for existing LNG projects to replace declining gas supplies, or for "brownfield" expansions of existing LNG plants. He said only in those sorts of projects could cost-challenged Australia match up against international competitors, and ruled out any investments in new "greenfield" LNG plants. US factor

"All of [Origin's] opportunities are addressing what we call backfill and brownfield opportunities because the economics are far more robust and far more competitive against other global alternatives," Mr King said. He said the only reason the US was emerging as an LNG exporter from the Gulf coast was the cost advantage enjoyed by converting gas import terminals into export ones, and that terminals built from scratch wouldn't be so competitive.

"It's not because [US] gas is cheap, it's because there's a significant sunk investment already in a number of previously import facilities that can be turned around into export facilities," he said. "That opportunity is finite."

Mr King said he believed gas demand in Asia was being underestimated and that LNG would play a greater role than was being assumed. He said a slashing in **China** government estimates for 2020 indigenous shale gas production, to 30 **billion** cubic metres from 100 bcm, supported his bullish stance on LNG.

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