



POTEN & PARTNERS

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## LNG in World Markets

### Australian Projects Poised to Get Green Light

Woodside Petroleum and Santos may become among the first operators to move ahead on liquefaction projects this year as offtake discussions are well advanced. The two companies said in February that they plan to make final investment decisions (FIDs) on their Australian projects in the first half. Semptra LNG's 2.4 MMt/y Energia Costa Azul project in Baja California, Mexico is another project that could take FID by end-March, according to Semptra Energy unit, IEnova on Feb. 20.

Woodside wants to reach FID on the Scarborough gas field to supply the Pluto LNG expansion by mid-year, the company said on Feb. 13. It opened the data room for shortlisted buyers in February as part of an auction process to sell down the upstream share in Scarborough. Buyers could discuss upstream equity and LNG supply offtake deals as part of the negotiations, with the aim of getting Scarborough to FID. Woodside is already in advanced talks with two potential partners, sources said.

The expiry of the engineering, procurement and construction contract for Pluto's second train with Bechtel before mid-year adds to the impetus. Costs are expected to rise by \$200 million if the EPC contract is renegotiated, sources said.

Partners in Scarborough, Woodside and BHP, announced Feb. 26 that they would align their interests across the two permits holding the gas resources. Woodside's overall share will be 73.5%, while BHP's share would be 26.5%. The original split was 75% and 25% to Woodside and BHP respectively in WA-1-R and 50% each in WA-62-R. The partners will also make separate applications for the production licenses over the two blocks. The field has an estimated contingent resource of 11.1 Tcf of dry gas. BHP has a non-

binding heads-of agreement for tolling its share of gas at Woodside-operated Pluto LNG and this would need to be turned into a binding deal ahead of project sanction.

Both partners have taken different marketing approaches for their shares of Scarborough LNG supply (see LNGWM, Jan '20). Woodside will take FID if it sells 50% of its share of production and has been marketing volumes at a Brent linked, delivered price of 11.5% and would also consider FOB with an agreed netback calculation for 10 years. BHP has offered selected buyers an option for either JKM or Brent linked prices for five to seven years.

Pluto train 2 FID will also support the production levels of the first train. Supply from the Scarborough offshore gas field would meet the post-2025 train 1 shortfall of 1.5 MMt/y from the existing Pluto and Xena fields, while also providing feedgas for a 5 MMt/y train 2.

Pluto LNG's existing long-term off takers, Kansai Electric and Tokyo Gas, are not expected to extend their contracts after they expire in March 2025. The price reviews for both contracts are ongoing, and the price will apply until expiry. Kansai Electric has a 1.75 MMt/y sales and purchase agreement (SPA) from the existing 4.9 MMt/y train and is in negotiations for a 0.5 MMt/y, 15-year contract from the proposed expansion train and a 5% or lesser upstream equity stake in Scarborough. Tokyo Gas has 1.5 MMt/y. Kansai Electric reduced its annual contract quantity as part of the previous price review with train 1 and as much as 0.9 MMt/y may have been diverted to Tokyo Gas.

ENN could be in the last stages of negotiations with Woodside for a 10-year SPA for 1 MMt/y from the Pluto expansion starting in 2025 (see LNGWM, Apr '19). The contract could

be 0.5 MMt/y of delivered volumes at 11.5% Brent and 0.5 MMt/y of FOB volumes at 11.1% Brent, sources said. ENN has the right to diversions within Asia for delivered volumes.

ENN is not in discussions for a stake in Scarborough or Pluto LNG. The city-gas distributor would require management approval before deciding whether to go ahead with the deal. ENN's terms of delivery for its 0.5 MMt/y DES volumes within Asia could mirror the 13-year SPA for 1 MMt/y Uniper signed with Woodside in late December (see LNGWM, Jan '20).

Santos targets 2Q Barossa decision. Marketing efforts for production from the Barossa gas field to backfill Darwin LNG have been slowed down by the Covid-19 outbreak and lower Asian LNG spot prices, according to an announcement by Santos on Feb. 20. Santos has been offering 10-year FOB volumes at mid-10% to 10.7% slopes from 2024, sources said. Negotiations are slow as face-to-face discussions are reduced with containment measures for Covid-19 affecting travel and planned meetings were cancelled.

The company wants to reduce its share in the project to 40-50%. It has 68.4% in Darwin LNG and 62.5% in Barossa after acquiring the ConocoPhillips assets (see LNGWM, Oct '19). Jera, an existing shareholder and off taker of Darwin LNG, remains in discussions for an upstream stake of at least 6% or more with supply offtake. The Barossa joint venture has yet to complete the tolling agreement with Darwin LNG. Equity interests differ between Barossa and the Darwin LNG plant. Tolling fees have been discussed in the \$3/MMBtu range.

Santos remains focused on sanctioning Barossa in the second quarter of the year, with infrastructure contracts in place for the floating production, storage and offloading (FPSO) unit, subsea production system and pipelines. The Barossa joint venture picked Modec International as the contractor for the FPSO facility last October. Santos will complete the acquisition of ConocoPhillips' shareholding in Darwin LNG, and the Bayu Undan, Barossa and Poseidon fields, by end-March.

#### Australia Gas Infrastructure



Barossa partner SK E&S was heard to have ended negotiations in January with Woodside for a stake in Scarborough and an accompanying LNG supply deal. Woodside has since heard to have re-offered this equity and supply tranche to other Northeast Asian buyers. SK E&S may have decided against participating in Scarborough due to a change in its market outlook, especially for South Korean domestic demand.

The Korean buyer remains in discussions with Santos for increasing its existing 37.5% stake in Barossa and had signed a letter of intent to buy 25% in both Darwin LNG and Bayu Undan, leaving Santos with a 43.4% share.