Pooling resources

AUSTRALIAN operators including AWE, Carnarvon Petroleum, Finder Exploration and Cooper Energy are seeking joint venture partners to help them realise the potential of their assets in the country's offshore sector. Pages 6&7

AT THE SHOW

Conference program Page 2
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**Program subject to change. Program correct as of 14 May 2017**

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**CONFERECE PROGRAM Monday 15 May 2017**

8:00am–7:00pm  Cycle Ride—Meet at main entry, Level 1 (opposite Adina Hotel)

7:30am–8:30am  Presenters’ Breakfast—River View Room 5, Level 2 | By invitation only

7:30am–5:30pm  Conference registration—Central foyer, Level 2

8:00am–6:00pm  APPEA 2017 Exhibition open—Exhibition Hall, Level 1

8:00am–6:00pm  APPEA 2017 Poster Presentations open—Exhibition Hall, Level 1

8:00am–6:00pm  KPMG Meeting Zone open—Exhibition Hall, Level 1

3:30pm  **PLENARY: ENERGY IN TRANSITION**

10:15am–11:00am  **MORNING TEA IN THE EXHIBITION HALL**

11:00am  **PLENARY: THE SHAPE OF THINGS TO COME**

12:30pm–2:00pm  Networking Lunch in the Exhibition Hall

12:30pm–2:00pm  APPEA Members’ Lunch—River View Room 5, Level 2 | By invitation only

2:00pm  **CONCURRENT SESSIONS 1–4**

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**APPEA 2017 Programme**
Industry welcomes tax review outcome

By Noel Mullen

The Australian Government’s release of the independent Treasury review of the petroleum resource rent tax (PRRT), production excise and Commonwealth royalty schemes is an important step in the overall tax review process that began in November 2016. PRRT is a balanced oil and gas taxation system that reduces the significant risks facing investors while at the same time fostering significant economic and taxation benefits to the community.

The review was headed by respected economist Mr Michael Callaghan AM. Its report — released on 28 April — was prepared following extensive consultations with industry, academics, governments, union groups and civil society activists.

It rejected claims the Australian community is not receiving an equitable return from development of the country’s oil and gas resources.

The Callaghan Review also found that the PRRT’s design and the stability it had contributed to the last decade’s massive investment in the Australian petroleum industry, and warned against injecting uncertainty into the sector.

PRRT has generated more than A$33 billion in revenues since 1989, but revenue from this tax is not presently rising in line with the current expansion in liquefied natural gas production.

Revenue from PRRT has been suppressed by subdued oil and gas prices and high tax deductions by high-cost projects that have yet to make a profit. This is not a flaw in the system — it is a deliberate design feature intended to help companies and projects remain viable even in tough times.

In addition, for many projects, PRRT is not the main resource tax applied to production. For onshore developments and the North West Shelf project, royalty and excise are the main resources taxes.

PRRT is only one of the taxes that gas producers pay. In 2014-15, despite recording an overall net loss of A$600 million, the oil and gas industry still paid more than A$5 billion in resource and income taxes.

Profits from PRRT are received in tough times.

Critics of the PRRT should consider what the impact of higher taxes on energy prices, investment and jobs would be at a time when Australia’s oil and gas exploration is at a 30-year low.

The industry is already under significant financial strain and dealing with operational constraints in NSW, Victoria and the Northern Territory. It is obvious that any tax increase — let alone the billions sought by activists — must affect gas prices.

Higher energy costs are in no one’s interest. This would be a terrible time to introduce fiscal uncertainty.

There are good reasons why federal governments have used a super-profit tax for 30 years.

• The next phase of the review will see Treasury consult with the industry on the Callaghan report’s recommendations. APPEA will be a keen participant in the process.

International methane initiative is delivering results

By Susie Smith

The gas industry has been variously accused of under-reporting, over-reporting, and failing to address the issue of methane emissions. The key criticism is that methane emissions are not appropriately measured.

Our industry has not always been as vocal in its response. We must reach out and engage stakeholders if we are to promote science-based policy and demonstrate the role of natural gas in a low-carbon economy.

The International Gas Union has taken a leadership role, forming a specialist industry taskforce. This group of experts on methane emissions represent the entire natural gas value chain and all regions across the world.

The taskforce meets regularly to share the latest developments from around the globe. Its aims include:

• Improving confidence in the accuracy of the industry’s measurement, quantification and reporting processes for methane emissions;
• Systematically reducing methane emissions through operations management, including the sharing of leak detection and repair programs;
• Supporting rapid development and commercial deployment of cost-effective emission detection, measurement and reduction technologies; and
• Sharing best practices within and across the value chain that embody cost-effective and pragmatic approaches to enhanced measurement, quantification, reporting and methane reduction approaches.

Early progress is promising.

In February, the taskforce held a successful meeting in Paris with the International Energy Agency (IEA), ahead of the IEA’s preparation of its global natural gas update.

The taskforce’s key goal for 2017 is the publication of a report that highlights the benefits of natural gas and includes case studies from across the globe on detecting, measuring and mitigating methane emissions.

The report will be presented at the World Gas Conference in 2018. It will also be used more broadly to inform debate and to highlight that the natural gas industry is acting and investing to reduce emissions.

The methane taskforce has an important role in demonstrating that natural gas is an integral fuel in the transition to a low-carbon economy and that the industry is making progress in reporting and mitigating emissions.

• Susie Smith is the Australian Industry Greenhouse Network’s Chief Executive and a member of the IGU Methane Taskforce.
Assessing risk vital to future of Australia’s economy

National economic growth steady but a better handle on future risks and opportunities is critical

NOEL RICHARDS
Director of Deloitte Access Economics

It may have seemed brave when Deloitte Access Economics recently said that 2017 would see global and Australian economic growth outperforming. But that’s now fast becoming accepted wisdom.

The Chinese economy continues to expand as a result of State stimulus and improvement in Chinese demand is reflected in a strengthening in commodity prices. In Australian dollar terms, the export prices of iron ore and coal has increased by more than 50% over the two years to April 2017.

This is delivering Australia a surge in national income not seen since the height of the resources boom, ending the so-called ‘income recession’ that has been weighing on private consumption since late 2011.

Crucially, China’s stimulus has been applied at the same time that new mines and gas fields commissioned during the resources boom proceed to production phase. This has underpinned an increase in the quantities of commodity exports at the same time that commodity prices have recovered. Additionally, the Reserve Bank of Australia has applied its own stimulus with the two interest rate cuts in 2016.

Reflecting these factors, we expect Australian GDP to increase by 2.1% in 2016-17 followed by a further 2.9% in 2017-18.

All this positive sentiment may seem foreign to Western Australians. The State economy continues to feel the pain from China’s earlier slowdown. Gross State Product is forecast to rise by just 0.9% in 2016-17 followed by 0.2% growth in 2017-18.

Commodities: not quite out of the woods

While the recent rebound in bulk commodity prices has been a welcome boost for Australia and WA, it will not prove to be the start of another mining boom. Indeed, prices for coal and iron ore are already softening.

Commodity prices have recently benefited from a perfect storm of supply disruptions and restrictions, a potential overshoot of negative positioning in commodity futures markets and the return of Chinese stimulus.

These same factors also hint that the recent increase in commodity prices will take on a temporary nature.

Energy prices have walked a different path. Oil prices increased sharply at the end of 2016 after Opec and non-Opec countries agreed to cut oil production for six months. However, this has been counteracted by a rapidly building storage glut of commercial crude stocks in the US.

This supply-demand dynamic is likely to see relatively flat oil and gas prices for the remainder of 2017. Oil may broadly sit in the US$50 to US$60 per barrel range this year, before a modest uptrend commences thereafter.

That said, prices at around US$50 per barrel are still much higher than the low of around US$30 per barrel in early 2016. That’s better news for Australia’s liquefied natural gas producers.

Energy in transition: navigating possibilities

While there are risks facing the Australian economy in the future, it is critical that we focus on the overall potential.

The sixth report in Deloitte’s Building the Lucky Country series, What’s over the horizon? Recognising opportunity in uncertainty, considers three possible futures:

1. What if China’s rise is temporarily ‘trumped’, hitting our economy and housing markets?
2. What if Asia’s rise continues to provide prosperity to Australia for decades to come?
3. What if we can become truly cyber smart?

The ‘China stumbles’ scenario presents the greatest risk to our outlook. It would bring Australia’s world-beating record run of growth to a halt, sending unemployment soaring and house prices plunging.

With China and trade in trouble, Australia’s terms of trade would be 22% lower than they would otherwise have been, and national income would see a shortfall of 7% — our families, businesses and governments would earn almost $40 billion less than they would otherwise do in 2019.

To be clear, none of these three scenarios is the ‘most likely’ outcome for Australia. But they’re all plausible. And unless decision-makers in Australia and around the world start to make a better fist of assessing risks and opportunities, it is likely that our future will underperform its potential.
On song and in the picture...
**Ashmore Cartier concept**

A NOTIONAL field development concept has been suggested for a collection of oil prospects in the Ashmore Cartier area off north-west Australia.

The development — which is entirely conceptual at this stage — would see a floating production, storage and offloading vessel located above the Audacious, Tenacious, Gem and Douglas oil pools in the Vulcan sub-basin.

It is conceptually because Gem and Douglas in Block AC/61 are yet to be drilled, with operator Finder Exploration seeking farm-in partner(s) at the Pesa Deal Day 2017 to assist in realising the potential of the permit.

The Gem prospect has an estimated mean recoverable resource of 65 million barrels of oil, while Douglas updip has mean recoverable potential of 15 million barrels.

Finder said Block AC/61 is “surrounded by hydrocarbon discoveries” and that an FPSO commercialisation option was on the cards, whereby Gem and surrounding oilfields could be tied back in a “Montara analogue”.

The Montara project is a nearby FPSO development owned by PTT Exploration & Production. PTTPE also owns the Audacious and Tenacious discoveries, which contain best estimate contingent resources of 15.7 million barrels and 8.2 million barrels, respectively, according to PTTPE’s 2012 farm-out brochure.

**Duo seeks partners**

TWO of New Zealand’s top home-grown oil companies have ambitions to make significant offshore discoveries, but want partners to share some of the cost and risk prior to drill-or-drop decisions in a year’s time.

Todd Energy said at the PESA Deal Day 2017 the company has three 100%-owned exploration permits in the Taranaki basin, with the current focus on PEP 53374 (Opunake).

The Opunake permit contains the drill-ready Vulcan prospect which has undergone maturation following 3D acquisition in 2015. Todd said it has a drill-or-drop decision on 9 March 2018 for Vulcan, which has the potential to contain 60 million barrels of oil in the primary Moki Formation and has a deeper secondary gas-condensate target.

Todd is also seeking partnerships for PEP 57080 (Nimita) and PEP 50094 (SHB).

New Zealand Oil and Gas, meanwhile, said it wants to seek new partners by November this year for the giant Barque gas and condensate prospect in Block P527/25, and the Kapteyn prospect in the Canterburry Basin.

NZOG is farming out on behalf of its wholly-owned partner Beach Energy, with a drill-or-drop decision due by 10 April 2018.

Barque contains 11 trillion cubic feet of gas and 1.5 billion barrels of condensate on a mean estimated in-place basis.

**Offshore operators looking in the market for partners to help realise potential of exploration and development holdings**

**Perth**

**RUSSELL SEAранAСKE and Josh LEWIS**

**Potential: AWE general manager for exploration and geosciences Andy Furniss and, right, Finder chief executive Shane Westlake. Photos: JOSH LEWIS**
Offshore operators looking for joint venture deals

Canning open for bidding

THE West Australian government is opening five areas in the onshore Canning basin for bids in its latest acreage release.

WA Department of Mines & Petroleum (DMP) exploration geologist Richard Bruce revealed the blocks up for grabs, named L17-1 to 5, cover areas ranging from 5324 to 6667 square kilometres.

“It’s hoped that acreage opportunities will be taken up by new players that are willing to engage in a counter cyclical approach so by the time native title negotiations are completed the oil price may have improved,” Bruce told delegates at the PESA Deal Day in Perth on Sunday.

“It can take in the order of two years from when bids close to the grant of an exploration permit due to approval processes and native title process.

“If the oil price is improved in two years time that would be a real advantage for the explorer so it’s a time to get in right now.”

L17-1, 2 and 3 lie in the northern part of the release area and are contiguous blocks which cover a combined 17,664 square kilometres.

Bruce claimed the blocks were in one of the better explored parts of the Canning basin, where 15 wells have previously recorded hydrocarbon shows.

he added the three blocks were considered prospective for sub-salt Ordovician and supra-salt Devonian plays.

The southern two permits, L17-4 and 5, cover a combined 12,905 square kilometres in what the DMP considers frontier acreage and could contain salt-related traps in areas of the Canning basin which lack major block faulting.

The DMP also highlighted the Kidson sub-basin in the acreage area which contains salt related plays, including sub-salt Ordovician, which it says have hardly been tested.

Online bidding for the acreage release opens this Tuesday and the round will close on 1 February next year.
Behind the big decision

WOODSIDE Petroleum chief executive Peter Coleman has shed more light on the company’s change of heart on the development choice for its Browse gas resource off Western Australia, writes Josh Lewis.

The Browse joint venture scrapped plans last year for a floating liquefied natural gas development and operator Woodside recently revealed its preferred development option was to now pipe the gas back to the existing Karratha gas plant.

“I said when we made the announcement early last year not to proceed with the floating concept for Browse... that for the first time I really felt unburdened from past decisions on Browse and that we had a clear path ahead of us to really deeply look at what was the best development opportunity,” Coleman said.

“We really tasked the team to say look stop focusing on production, focus on capital intensity. How much money do you need to spend for that oil equivalent barrel that you are going to get out of the ground.”

The new concept will see two gas floating production storage and offloading vessels stationed at the fields with a roughly 800-kilometre pipeline back to the Karratha gas plant.

Coleman noted that the project had been de-risked with the onshore infrastructure already in place, while the offshore concept had largely been proven by other developments.

He pointed out Woodside knew the pipeline was achievable as it will be about 30 kilometres shorter than Inpex’s Ichthys pipeline to Darwin.

He also highlighted that by using a proven concept, Woodside would benefit from a more competitive supply chain when tendering for the construction of the project.

“So previously with the FLNG concept we had there was only one shipyard in the world who could build it and so you don’t have much competition,” Coleman said.

“Now we’ve got a concept where there’s 10 shipyards in the world who can do it, for example, so now we are in a very competitive space.”

The Browse development covers three offshore fields — Torosa, Brecknock and Calliance — which lie in water depths of up to 750 metres and are estimated to hold a combined best estimate contingent resource of 15.4 trillion cubic feet of gas and 483 million barrels of condensate.

Commitment: Woodside Petroleum

WESTersh Petroleum’s latest preferred option to exploit its giant Browse gas resource off Western Australia is a tie-back to the North West Shelf’s Karratha gas plant but it could face competition from other projects for the plants’ spare capacity.

Woodside chief executive Peter Coleman confirmed the North West Shelf partners would offer tolling agreements to other parties as they prepare to make use of spare capacity that will become available in the coming years.

“The North West Shelf joint venture is preparing itself to offer a processing fee, or toll, to a number of joint ventures,” Coleman told reporters on the sidelines of this month’s annual general meeting.

“Hopefully that will be done by the end of June... and then the Browse joint venture will need to compete and present a compelling case for North West Shelf to pick it up.”

Without giving exact figures, Coleman said Woodside believed it could offer one of the most competitive tolling structures in the world at the North West Shelf.

“If you look at similar tolls for example in the Gulf of Mexico which range anywhere from US$2.78 (A$3.73) to US$3.25 for processing, we believe the North West Shelf can beat those numbers,” he said.

He also confirmed the ExxonMobil-led Scarborough project, where Woodside gained a stake last year from BHP Billiton, was one of the joint ventures with which the North West Shelf partners had been discussing a potential tolling arrangement.

He would not name the other such projects, but Woodside did not have a stake in them. However, he did reveal they could involve joint ventures in which other North West Shelf partners were participants.

“Full and open transparency with what we wanted to do in the North West Shelf. [...] we were choosing a winner too so nobody kind of felt left out that we were choosing a winner too early in the process,” he said.

The other North West Shelf partners include supermajors Shell, Chevron and BP, as well as BHP and Japan Australia LNG (MIMI) — a joint venture between Japanese companies Mitsubishi and Mitsui.

Woodside confirms North West Shelf partners will offer tolling deals for capacity to others
Options explored for Pluto expansion

AUSTRALIA’S Woodside has engaged contractors to develop by the middle of the year concept options for its planned expansion of the 4.9 million tonnes per annum Pluto LNG project in Western Australia, writes Amanda Battersby.

Pluto LNG expansion studies have already begun, a couple of months after Woodside chief executive Peter Coleman said the company planned mid- or large-scale expansion at Pluto LNG alongside further capacity enhancements.

“Contractors experienced in small to mid-scale LNG train technology have been engaged to develop concept options for consideration by mid-year,” said Woodside.

The initial focus will be on exploiting new gas reserves from the Greater Pluto area and expansion of 1 million to 1.5 million tpa could be achieved through “classic debottlenecking”, Coleman earlier said.

Woodside plans in the second quarter to complete a high rate test at the Pluto plant to determine whether that is the best option.

Looking to the longer term, Woodside is evaluating further capacity enhancement and potentially large-scale expansion at Pluto with plans for an LNG hub.

The operator had earlier said it would compete to bring the undeveloped gas resources at Scarborough and Browse to Pluto.

Meanwhile, Woodside has two “multi-Tcf type” prospects in its exploration portfolio that, if successful, could provide new feedstock volumes for Pluto.

Internal approval has been given to drill the swell prospect as early as mid-2017 and Ferrand one year later.

Contracting is already under way for these two wildcats.

In tandem, the company also wants to develop new transport and marine LNG fuel markets.

“We will continue to use our expertise to progress activities to support selling LNG from Pluto as a transport fuel for the mining and bulk-shore shipping sectors,” said Woodside. “The creation of a truck-loading facility in 2017 will be the initial step towards achieving Woodside’s LNG fuels strategy.

Several parallel reservoir and development studies that started last year are continuing to inform decision making on the potential of drilling another infill well in 2018.

Final interpretation of Pluto 4D seismic data will be available in the first half of the year and this will be used to refine subsurface targets.

Pluto LNG, which started operations five years ago, underpinned Woodside’s record LNG production in 2016 with output of 40.2 million barrels of oil equivalent.

Sixty-six LNG cargoes were shipped last year with the majority of these delivered to term customers in Japan and South Korea.

The project also achieved 353 days uninterrupted production up until mid-January this year.

A minor turnaround scheduled for last year was eliminated thanks to an optimised maintenance strategy and the next major scheduled turnaround at Pluto LNG is not scheduled until 2019.

The liquefaction project last year shaved 40% of its operating costs to $1.3 per boe.

However, Pluto LNG in 2016 achieved an average unit price of US$448 per boe, down 19% from the previous year resulting in an impact of US$426 million versus 2015.

Pluto LNG production in the first quarter 2017 was about 5% lower than expected although Woodside called this a positive outcome given the significant weather impacts experienced during those months.

PLUTO’S Gap Ridge Village — a transient worker accommodation facility originally built to support the initial construction of the Pluto LNG project — has been vacated following a decision by the Western Australian Minister for Lands not to renew the lease.

Expansion: Pluto LNG onshore gas plant

Photo: WOODSIDE

In total about three or four joint ventures which hold undeveloped resources in the Browse basin will be offered the ability to avail themselves of the spare capacity at the 16.3 million tonnes per annum capacity plant on the Burrup Peninsular.

“They will receive an offer from the North West Shelf partners for a tolling structure, then they’ll be asked to basically tender into that offer and provide their terms and conditions for getting into the North West Shelf,” Coleman said.

“The North West Shelf will then value that. My view is Browse is extremely competitive.”

Opportunities could still exist for those which miss out initially, with Woodside also looking to boost capacity at its current 4.9 million tpa Pluto ‘natural gas project’.

Coleman added that, as operator of both the North West Shelf and Pluto, Woodside had also been looking at opportunities to put tie lines in between the plants to share gas.

“They’re all future things for us but you see now we are taking a ‘whole of basin’ view which is why we’ve really focused on calling it the Burrup hub and kind of breaking that mindset that you’ve got individual plants,” he explained.

“We are in a fortunate position, we are the operator of two assets there and so it’s up to us to show the leadership to get this across the line.”

Coleman believes there would be enough spare capacity at the Karratha gas plant by the mid-2020s to support a “fairly major LNG project”.

Woodside has previously stated it hopes to take the final investment decision on Browse by 2020 and have gas flowing into the Karratha plant by around 2025.
Farstad layoffs

action

THE Maritime Union of Aus-

tralia (MUA) is taking Farstad to

Australia’s Fair Work Com-

mission following the recent

announcement the offshore

support vessel owner will

make about 80 redundancies.

The MUA said it recently voted
down a non-union agreement

from Farstad and, it claims,

following this Farstad then an-
nounced the redundancies.

In response, the MUA op-

posed the redundancies and

took the issue up with Aus-

tralia’s industrial relations tribu-

nal, the Fair Work Commis-

sion, with a hearing set for

Monday.

“After MUA members voted
down Farstad’s non-union agree-

ment, in retaliation Far-

stad shortly after notified of the

need for about 80 redundancies

for MUA members,” the union

said.

“We have been opposing
those redundancies since they

were announced for a whole

heap of valid reasons.”

The union said it would

make further comments after

this week’s Fair Work hearing.

The managing director of

Farstad’s Australian opera-

tions, Brett Silich, told Up-

stream the company would not

be commenting on the action.

However, he did clarify that the

company complied “with all

rules, regulations and laws of

operating in Australia”, add-

ing Farstad had worked “ex-

tremely closely” with all un-

ions throughout the processes.

Winding-up

application

THE vessel-owning unit of

China’s ICBC Financial Leasing

has filed a winding up applica-

tion against a unit of Emas Off-

shore in the High Court of Sin-

gapore.

Emas owner Ezra Holdings

confirmed Hai Jiang 1401 had

lodged the application to wind up

Lewek Champion Shipping.

Ezra added that it, Emas and

Lewek Champion were all seek-

ing legal advice in respect to

the winding up application.

It was reported last month

that Hai Jiang could apply for the

winding up order if a statu-

tory demand for just over US$85 million was not fol-

lowing the termination of the

bareboat charter for the pipelay

vessel Lewek Champion.

Ezra sold its Lewek Champi-

on pipeline and heavy lift con-

struction vessel to ICBC in Fe-

bruary 2014 for US$200 million and

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NEPTUNE Energy beat competi-

tion from “several” interested par-

ties in its US$3.9 billion (A$5.3 bil-

lion) purchase of Engie’s almost

entire upstream suite — in part

because it was interested in buy-

ing the whole entity outright.

Other private equity-backed

suitors are also understood to

have been in the chase to land the

French company’s 70% stake in

Exploration & Production Interna-

tional (EPI), with Sam Laidlaw-led

Neptune now also set to welcome a Chinese fund on board as a

shareholder following the deal.

Neptune had long been ru-

moured to be lining up a bid for

Engie’s stake in EPI, after the

French company previously made it clear it was making an up-

stream exit.

Neptune’s ambitions, but also the fact that they wanted to buy the whole

company.

Hanssen confirmed that “sev-

eral” other companies had shown an interest in a similar deal with

Engie, although declining to iden-

tify any or say how many others

were interested in buying the

whole package from Engie.

When asked what type of

would-be buyers had shown an

interest in a deal, Hanssen said:

“We see a lot of interest from pri-

vate equity in e&p at the moment.

We can use that as a qualification

price is one of the pillars in the

process.”

The French player is seeking that expo-

sure, whereas Engie has said that

reducing exposure to commodity

prices is one of the pillars in the

turnaround of the company.”

Neptune is backed by funds

from private equity players Car-

lyle Group and CVC Capital part-

ners. It is one of a plethora of pri-

vate equity-backed players seeing

large-scale merger and acquisition
deals in the upstream sector, in

particular in North American un-

conventionals and the North Sea,

where Chrysaor and Siccar Point

have struck deals.

Asked why private equity cash

was showing such interest in up-

stream assets in general, Hanssen

said: “It is an opportunity to buy a

business if you want exposure to

commodity prices. And I think pri-

vate equity is seeking that expo-

sure, whereas Engie has said that

happen after first gas. Explaining

why the French player is keeping a

foot in the Algerian project,

Hanssen said: “Neptune wanted Engie to bring their competence and

long-term relationship with

Sonatrach and the Algerian au-

thorities into ownership of the

Touat asset.”

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Sonatrach and the Algerian au-

thorities into ownership of the

Touat asset.”
We can succeed as a high-cost low-risk country, but we will fail if we become a high-cost high-risk country.

APPEA ANNIVERSARY

Photo: Malcolm Roberts

Keeping Australian industry on right track for success

APPEA chief executive Malcolm Roberts speaks to the Upstream APPEA show daily

Malcolm Roberts is fast approaching his two-year anniversary as chief executive of the Australian Petroleum Production & Exploration Association (APPEA).

It has been a turbulent period in which oil and gas activity has been banned in certain states, while the industry is being blamed for domestic gas shortages and branded tax cheats by some sections of the local media.

Upstream was fortunate to get a few minutes with Roberts to pose a few questions about these challenging times.

Upstream: Congratulations on bringing up the two-year anniversary. Did you ever imagine the two years would be this hectic?

Roberts: Thank you, yes it’s been an exciting two years. It certainly has been hectic, I came to APPEA because I have a strong interest in energy issues, and gas has a pivotal role in the climate change transition.

But the last two years have been challenging because there’s been a wave of events, starting with the pressures on the industry from the slump in oil prices.

We’re also living in a volatile political climate which has seen the industry hit by some very poor, short-term policymaking.

Upstream: APPEA seems to spend a lot of time defending the industry against political initiatives, HSE campaigns, and anti-fossil fuel protesters, it must be tiring?

Roberts: The industry is in the firing line. Look at the policy decisions in Victoria, New South Wales and Northern Territory.

And now we have the new government in Western Australia banning hydraulic fracturing in some regions, and the Opposition in South Australia promising a 10-year ban in parts of that state.

Upstream: Are you optimistic about the state moratoria being lifted?

Roberts: Yes but not necessarily in the short term. We have demonstrated safe, successful operations in Queensland, South Australia and WA for many years. Perhaps more importantly, people are beginning to see the effects of constrained gas supply, which is reinforcing just how necessary gas is for industry and families.

Upstream: These political decisions are unsettling for investors. Are you concerned that a shale industry won’t even get off the ground?

Roberts: I’m very optimistic about the prospects of the shale gas industry in the Northern Territory. We have a very good resource there, and that resource could stimulate strong economic growth at a time when the Territory desperately needs growth.

We’re participating in the latest NT inquiry, confident that the facts support our case that industry development is safe and will create real opportunities for regional communities.

Upstream: The government’s planned LNG export controls make it seem the industry is to blame for the gas supply problems. How to combat that?

Roberts: We’re making some strong points in the debate. The first is that the industry has tripled gas production on the east coast over the last five years, and that this jump in production would not have happened without the LNG opportunity.

Political restrictions and risks have stifled otherwise viable projects. If the politics had been different, for example, we would see today rising gas production in New South Wales, our largest state with virtually no local production.

New South Wales and Victoria find themselves in the bizarre situation of complaining about tight gas supply and rising prices while effectively preventing local development.

We’re emphasizing that the export control mechanism is a major sovereign risk at a time we need as much as A$60 billion in new investment to supply the east coast market to 2030.

Rather than implicitly accepting scarcity and intervening to reallocate supply, governments need to work with industry to address the crisis in exploration. If governments want more and cheaper gas in the domestic market, they need to open areas for development and strip out unnecessary regulatory costs.

Upstream: What are the biggest challenges facing Australia’s upstream industry?

Roberts: The key challenge is to stay competitive. We have passed through a tough period of cost cutting and consolidation. We are embracing collaboration as a path to lowering costs.

We also need to stay competitive as a country, and that’s means tax is a vital issue. The PRRT (Petroleum Resource Rent Tax) has been in the news, and it’s important the Commonwealth avoid retrospective changes affecting what are long-lived projects.

We have to maintain Australia as an attractive destination for investment which means keeping our tax and regulatory regime stable.

We can succeed as a high-cost low-risk country, but we will fail if we become a high-cost high-risk country.
UK

SFO probe into Petrofac’s dealings with Unaoil

Services provider’s chief executive Asfari quizzed under caution

EOIN O’CINNEIDE

London

UK SERVICES provider Petrofac has been put under investigation by the UK’s Serious Fraud Office (SFO) and its chief executive questioned “under caution” by the company believes is an action related to past dealings with Unaoil.

The London-listed contractor revealed in a brief statement on Friday that it has been notified by the SFO that the governmental body has opened a probe into it.

Petrofac appears not to have been told the nature of the investigation, as it said: “The company believes that this is in connection with the investigation into Unaoil.”

Privately-held oilfield services player Unaoil has been under investigation in various jurisdictions over allegations involving bribery and corruption.

Unaoil last August concluded an internal investigation into its relationships with Unaoil and that “no evidence was found that any director was aware of the alleged misconduct that is the subject of the allegations.”

On Friday it said: “As previously disclosed, Petrofac engaged Unaoil, a Monaco-based company, for the provision of local consultancy services primarily in Kazakhstan between 2002 and 2009.

“Petrofac is co-operating with the authorities. Ayman Asfari, chief executive officer, and Marwan Chedid, chief operating officer, have been questioned under caution by the SFO.”

Shares in Petrofac sank more than 3% immediately after the probe was revealed on Friday. Within two hours they were down almost 15%.

Petrofac said in August that its independent internal probe found no evidence of the payment of bribes.

In February, Swiss engine manufacturerABB was also hit with an SFO investigation over suspected bribery and corruption involving Unaoil. The probe was 
launched as a result of an internal investigation at ABB on the back of separate investigations into the company’s cable business in Brazil.

That internal probe led ABB to self-report to the US Securities & Exchange Commission, the US Department of Justice and the SFO “concerning certain of its past dealings with Unaoil and its subsidiaries, including alleged improper payments made by these entities to third parties,” ABB said in February.

In April last year, news organisations in Australia, citing leaked documents, ran stories claiming that Unaoil had organised government contracts in Iraq worth billions of dollars that were awarded based on bribes.

Though Unaoil denied the charges, authorities in Monaco raided the company’s offices and the homes of its directors, and the Iraqi government launched an investigation into the claims against Unaoil.

Unaoil then said it would take legal action against certain media outlets for publishing reports claiming it was involved in an international bribery and corruption scheme.

Unaoil called the “sensationalist” allegations against it “malicious and damaging,” saying the company and its staff “have sustained unprecedented reputational and financial damage”.

Several contractors and large oil companies in the US, Norway and Singapore were also implicated in the Unaoil issue, including Dutch oilfield giant SBM Offshore, Norwegian player Kværner and French company Technip. All have denied wrongdoing.

US and China form LNG trade deal ‘with global ramifications’

THE US and China have formed a trade deal that could have enormous impact on the global liquefied natural gas (LNG) market, writes Caroline Evans.

Under the terms of the deal, Chinese importers would be allowed to negotiate long-term contracts with US LNG suppliers.

The agreement links the fastest growing LNG supplier with the largest LNG growth market.

“In the longer term, the deal paves the way for a second wave of investment in US LNG,” said Massimo Di-Odoardo, head of Global Gas and LNG Research at Wood Mackenzie.

“Developers will now be able to target Chinese buyers directly, potentially supporting project financing. It could also support direct Chinese investment into liquefaction and upstream developments on US soil.”

While the agreement is good news for US LNG project developers, it also places greater pressure on competing suppliers, including new LNG projects from Australia, East Africa and Canada, as well as new pipeline and LNG projects from Russia, Wood Mackenzie said.

The deal also “undermines the niche that portfolio players, such as Shell, BP and Total, have found playing the middle man between US LNG exports and Chinese imports.”

On Friday, US LNG exporter Cheniere Energy told Reuters it has had “extensive” talks with Chinese state-owned companies about increasing shipments of US LNG to China.

Cheniere has sold nine LNG cargoes to China since it began exporting from the Sabine Pass terminal in Louisiana over a year ago.

They were all sold on spot-based contracts, according to the Reuters report.

Rowan in for pair of jack-ups

HOUSTON-based driller Rowan Companies was the high bidder for two LeTourneau Super 116-E jack-ups, both barely used since being delivered to owner Petrobras in 2013, writes Gareth Chrywynd.

In a brief securities filing, Rowan said its bid price of US$30 million per rig for jack-ups P-59 and P-60 has not yet been approved by the Petrobras board.

Once approved, Rowan said it will be required to pay for the rigs at the bid price.

The 350-foot independent- leg cantilever units were built by a consortium led by scandal-plagued Odebrecht, for the equivalent of US$720 million, leaving open the possibility that the deal could be subject to scrutiny in Brazil.

Capital One Southcoast analyst Joseph Gibney called the high bid an “artificial price” with current equity values pricing in per-rig jack-up metrics anywhere from US$450 million — US$75 million (per rig).

Last month, Dubai-based Shell Oil Drilling bought a trio of jack-ups from Seadrill for the equivalent of about US$185 million per rig.

The average build costs for comparable 116-E rigs during the same time period was around US$185 million, Gibney added.

“Positive overall to secure high-end assets at heavily discounted values and to take some shots in the currently suppressed environment to get some favourable returns,” he wrote in a research note on Friday.

Rowan’s existing fleet comprises a total of 25 jack-ups, 19 of which are considered high-spec, its position analyst at Johnson Rice called “market leading”.

However, Johnson Rice noted, the Rowan deal could place more downward pressure on the global market value of high-spec jack-up rigs.

Jack-ups P-59 and P-60 were built in Brazil in 2013, a time when Petrobras was focusing almost exclusively made up of Odebrecht, Queiroz Galvao and UTC Engenharia, but ran about 18 months beyond their delivery schedules.

All three companies have since become embroiled in the Car Wash corruption probe, involving kickbacks paid to corrupt former Petrobras executives.

While the contracts for the jack-up construction have not been specifically cited in Car Wash testimony, critics have questioned the economics of ordering such advanced shallow-water units at a time earlier this decade when Petrobras was focusing almost exclusively on deep-water drilling.

The two jack-ups were being auctioned off by Petrobras as part of a larger sale of seven rigs. Bids were due last week.

The P-59 and P-60 are capable of operating in water depths of up to 106.7 metres and drilling wells to final depths of up to 9100 metres.
MALAYSIA's national oil and gas company Petronas is bucking the industry trend and keeping its exploration expenditure steady, despite the protracted oil price slump.

Petronas plans to keep its global exploration spending at around US$800 million in 2017, the same level as in recent years, as the company believes this strategy is key to ensuring future production.

However, today upstream has to be a margins business just as is downstream, says Petronas chief executive upstream, Anuar Taib. “We have to look at cost management because you can't control the price of oil or gas. Although the usual way of just going to the contractor and squeezing them may no longer apply.”

Petronas has been investing at the roughly US$800-million-per-annum level on exploration including seismic, studies and drilling for some years now.

“We have been doing this consistently for many, many years,” says Anuar. “The idea of putting a kind of flat amount is that it signifies our commitment to the exploration business. We are very focused in the areas that we're aiming for.”

He notes that, historically, it had been difficult for the company to manage years of “opportunistic” exploration when the number of wells drilled had been high, as well as years when such activity was markedly lower.

Areas on Petronas’ current exploration radar include Mexico, Gabon and frontier Malaysia.

Upstream subsidiary Petronas Carigali late last year was awarded two deep-water blocks in the Salina basin off Mexico. The company will operate the approximately 2600-square-kilometre Block 4 on behalf of equal partner Sierra Oil & Gas.

The initial four-year exploration term will see the co-venturers focus on seismic acquisition and processing. Water depths at this block range between 800 and 1600 metres.

“The duo are also partners in the Murphy Oil-operated similar size Block 5, together with third co-venturer Ophir Energy.”

One commitment well is required as part of the initial four-year exploration phase for Block 5, where water depths are from 700 to 1100 metres.

“We're hoping to build that position further (with new acreage) in Mexico,” added Anuar. “We are also drilling in the frontier areas in Malaysia. We have quite a few of the deep-water blocks there, either drilled by Petronas or our partners.”

He revealed that Petronas Carigali and France’s Total are set to spud another deep-water well “in the next couple of months”. Total operates the Block SK17B production sharing contract offshore Sarawak, East Malaysia where water depths are up to 1000 metres.

Previous wells on this block were Pelangi-1, which Total said “revealed gaseous hydrocarbons”, and Pelangi-2.

Petronas’ exploration strategy is “driven by geology”, according to Anuar.

Fiscal terms come second in the company’s evaluation of where to sink its exploration dollars, whether it can create value and then there is also country risk, he explains.

Petronas late last year signed an agreement to study the South Azadegan and Choshme Khosh oilfields in Iran. “We’re working on that study. We have been given six months to look at the two fields and I think that study should end by the end of June.”

“I think for us, where there is a significant amount of resource and the right fiscal terms are provided by the country, where we can create value both for the country and for us, we’ll be interested,” he said.

Award of such acreage would herald Petronas’ return to the Middle East country. However, Anuar admits the company does not yet know “what the fiscal terms in Iran will look like”.

Meanwhile, Petronas is currently also highly focused on domestic enhanced oil recovery projects such as Tapis (operated by ExxonMobil), Barnson and Bokor.

The operator is forging ahead with the Samarang redevelopment project, phase two EOR scheme off Sabah, for which Technip/MCM landed the engineering, procurement, construction, installation and commissioning contract.

“To date, those are the kind of projects that passed the economic hurdle for us to proceed. There are a few more in the oven, so when they actually pass the economic hurdle we will progress with them,” he says.

Despite Petronas’ EOR expertise built up over more than a decade, it is necessary to marry that experienced technology with input from the company’s project engineers to get a development off the drawing board.

Anuar notes the “classic example” of Samarang. The company could not get this EOR project approved for funding when the oil price was US$100 per barrel but it was subsequently approved when the crude price was just US$40.

“I sometimes chuckle... we get smarter when times are tougher,” he says.

Despite the availability of keenly priced rigs, Petronas has no plans to snap up a unit or two for its future drilling campaigns.

“Sometimes you have to look at what kind of capability you must keep in house and there are certain areas that you must outsource.”

Our capability on the E&P side is as an asset manager, who manages the reservoir the best way we do and our facilities the best way we do. Anuar recalls the company did have one jack-up decades ago, but rig ownership plus the ancillary equipment and required expertise today would be “one adjacency too far” for Petronas.

Malaysia’s oil and gas output last year was around 2.3 million barrels of oil equivalent, which was up on 2015, and this year’s production is expected to remain stable, boosted by incremental volumes from existing assets.

In 2016, Petronas brought back on stream about 400 shut-in wells and it plans to rejuvenate a similar number this year. “Key for us today is making sure that every barrel that we produce brings value. So that is profitability, bringing it in at the right cost, at the right margin,” he says.

Petronas is keeping quiet on details of the expressions of interest that were submitted at the end of March for 13 shallow-water and onshore blocks in Peninsular Malaysia, Sarawak and Sabah.

However, Anuar tells Upstream: “We have received responses, we are quite pleased.”

**Strategic plan: Petronas upstream chief executive Anuar Taib**

**AMANDA BATTERSBY**
Kuala Lumpur

**PETRONAS**

Sometimes you have to look at what kind of capability you must keep in house and there are certain areas that you must outsource.

Petronas chief executive upstream, Anuar Taib.
Collaboration is key to future

New Deloitte report says operators and contractors alike agree that it is time to take down barriers

AMANDA BATTERSBY
Perth

AUSTRALIAN operators and contractors alike say it is time to eliminate the barriers to collaboration in the oil and gas industry, according to a new Deloitte paper launched today.

The paper: ‘Committed to change: Driving true industry collaboration’ presents the findings of a survey of 96 individuals from Australian oil companies and service companies and their views on the roadblocks to achieving collaboration.

A lack of trust and misalignment of expectations are the key factors creating impasses to successful collaboration in Australia’s oil and gas industry, the study finds.

The importance of the ‘lack of trust’ factor is said to be an outlier finding. From the UK and Netherlands surveys we learn more mature, trusting relationships.

He too called on operators to encourage ‘collaboration ingredients’ and collaboration, though the million-dollar question remains as to what actually means and how to make it work in this context. Capturing the full value in a more holistic way, requires a clear purpose and deliberate design. He says that there are ultimately five fundamental issues that operators and supply chains need to keep in mind.

Firstly, the power to drive fundamental change sits with operators as owner of the overall business value and the ultimate client and buyer of supply chain services. Secondly, players should make collaboration an explicit part of business processes typically commercial models that “truly encourage” collaboration and financial reward the service companies inconsistently adopt ‘collaboration ingredients’ and collaboration does not naturally evolve in the marketplace.

“Occupational excellence,” says Mike Lynn, Deloitte Asia Pacific Oil & Gas Consulting lead partner. “The Australian oil and gas supply chain has a significant challenge in moving towards a more collaborative industry, but also a unique opportunity. With the project to operations transition of the large gas production and liquefied natural gas facilities, asset management capability across operators and service companies will become key.

“The remoteness in the west and distributed coal seam gas production wells in the east also impose a high level of interdependency on the sector and strong collaboration is critical for overall success.”

Operators say that they hope to gain cost reductions and acquire knowledge via greater collaboration with their compatriot service companies.

“The question remains around how to achieve the best outcome,” says Lynn. “From the UK and Netherlands surveys we learn more mature collaboration is characterised by having a clear business strategy, which encourages collaboration and is focused on getting the capability in place which provides a more structural foundation for success, making it less dependent on individuals with existing trusted relationships.

“From our Australian survey we see some supporting signs for these structural measures. The vast majority of respondents from both operators (94%) and service companies (77%) agreed that many business processes typically considered confidential should be standardised to facilitate industry collaboration.”

However, the survey results suggest that Australia’s oil and gas companies inconsistently adopt ‘collaboration ingredients’ and collaboration does not naturally evolve in the marketplace.

“Similar to ecosystems in the natural world, an ecosystem in the business sphere involves multiple layers and stakeholders working together to respond quickly to a situation,” adds Lynn. “Ecosystem thinking often comes up as the way forward for collaboration, though the million-dollar question remains as to what that actually means and how to make it work in this context. Capturing the full value in a more holistic way, requires a clear purpose and deliberate design.”

He says that there are ultimately five fundamental issues that operators and supply chains need to keep in mind.

Firstly, the power to drive fundamental change sits with operators as owner of the overall business value and the ultimate client and buyer of supply chain services. Secondly, players should make collaboration an explicit part of their business strategy and day-to-day operations.

“Leaving it to individual relationships and evolutionary processes does not suffice… these are inconsistent and too slow for Australia which cannot afford a long road to excellence,” he says.

Also, it is time to move on from the conventional time and material contracting approach. Oil companies need to apply innovative commercial models that “truly encourage” collaboration and financially reward the service companies for overall value delivery. He too called on operators to seek out specific opportunities for collaboration.

“They should consider establishing special purpose ecosystems with a high level of delivery interdependency for the longer term.” Lastly, oil companies should actively solve the ‘lack of trust’ issue.

However, this requires a fundamental mind shift in the world of oil and gas, which is said to be dominated by engineering brains with a natural bias towards ‘mechanical’ solutions to make their business work.

Lynn concludes: “With the wave of LNG projects moving from development to production, Australia is experiencing a period of hyper-growth with total production capacity increasing fourfold in just five years.

“Significant growing pains can therefore be expected in the asset management capability across operators and supply chain companies. Improved collaboration will be instrumental for accelerated operational excellence.”

“It is encouraging to see the willingness in the Australian sector to embrace collaboration. Together with the learnings from other markets and a framework that provides guidance on structuring and implementing collaborative ecosystems, we have the ingredients in place to increase our global competitiveness through a highly productive supply chain.”
With budget restrictions and cost cutting featuring prominently on the business agenda it’s easy to do away with the ‘non-essentials’. Some say paid-for industry publications fall into this category. It’s easy to say no. But is it wise?

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BRIAN DONAGHY
Perth

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