

# Santos shares soar as Shell deal details emerge

M&A talk is rife as energy companies position themselves for the upturn, write **Paul Garvey**, **Angela Macdonald-Smith** and **Yvonne Ball**.

**A**ny eventual coal seam gas deal between Royal Dutch Shell and Santos is expected to be just the start of consolidation in the sector, with Origin Energy and BG Group likely to be next in line for rationalisation.

Adelaide-based Santos yesterday confirmed it was in "detailed ongoing discussions with a number of parties" after *The Australian Financial Review* reported that it was working on a potential coal seam gas deal with Shell.

Industry sources suggested the pair were examining a deal that would bring Santos's Gladstone liquefied natural gas project in central Queensland together with Shell and PetroChina's neighbouring Curtis Island LNG development.

The deal would see Shell operating the project with a stake of as much as 35 per cent. The sources also suggested the deal would see Korea Gas and China's Sinopec enter the project as offtake partners, with the overall deal bringing together the resources, customers and technical expertise to rapidly develop a larger project at Gladstone LNG than currently envisaged.

Santos said the discussions with the unspecified parties were incomplete and were no certainty to be executed. Shares in the company rocketed \$1.24 to \$14 in response to news of the deal.

Sources close to the discussions said there was little chance of a deal being finalised soon, with Shell and PetroChina unlikely to be able to agree to any deal until they have

## Gas pressure

### Queensland's four competing coal seam to LNG projects

**Project: Curtis Island LNG**  
**Owners:** Royal Dutch Shell 50%, PetroChina 50%  
**Plant size:** Up to 4 trains producing 4mtpa each  
**LNG technology:** Shell LNG  
**Estimated capex:** n/a  
**Gas reserves:** 4800PJ proven and probable, 7500PJ proven, probable and possible  
**Customers:** PetroChina to take gas from first train  
**Timetable:** Final investment decision 2011, first LNG 2015

**Combined Gladstone LNG and Curtis Island LNG**  
**Owners:** Shell (operator), Santos, Petronas, PetroChina, Sinopec and Korea Gas (exact stakes n/a)  
**Plant size:** At least 3 trains producing 10mtpa  
**LNG technology:** Shell LNG  
**Estimated capex:** n/a  
**Gas reserves:** ~7800PJ proven and probable, ~13,500PJ proven, probable and possible  
**Customers:** PetroChina, Petronas, Sinopec, Kogas  
**Timetable:** Likely final investment decision 2011, first production 2015

**Project: Gladstone LNG**  
**Owners:** Santos 60%, Petronas 40%  
**Plant size:** Initial single train producing 3.6mtpa. Approval for up to 10mtpa  
**LNG technology:** Cascade process  
**Estimated capex:** \$16.4bn  
**Gas reserves:** 3024PJ proven and probable, 6000PJ proven, probable and possible  
**Customers:** Petronas to buy up to 3mtpa  
**Timetable:** FID due end of 2010, first LNG 2014

**Project: Queensland Curtis LNG**  
**Owners:** BG Group 90-95%, CNOOC 5-10%  
**Plant size:** Initial two trains producing 7.4m tonnes of LNG a year. Seeking approval for up to 12mtpa  
**LNG technology:** Cascade process  
**Estimated capex:** \$20.1bn  
**Gas reserves:** ~13,000PJ of proven, probable and possible  
**Customers:** 3.6mtp to CNOOC, 1.7mtpa supply agreement to Chile, up to 3mtpa to Singapore, and up to 1.2mtpa with Tokyo Gas  
**Timetable:** First LNG production 2014

**Project: Australia Pacific LNG**  
**Owners:** Origin Energy 50%, ConocoPhillips 50%  
**Plant size:** 3-4 trains producing 4.5mtpa each  
**LNG technology:** Cascade process  
**Estimated capex:** \$17.1bn  
**Gas reserves:** 7825PJ proven and probable, 12,958PJ proven, probable and possible  
**Customers:** None to date  
**Timetable:** Final investment decision on first train end of 2011, first LNG 2015



SOURCE: CREDIT SUISSE, DEUTSCHE BANK, COMPANY DATA

settled their \$3.4 billion acquisition of Queensland coal seam gas producer Arrow Energy.

Arrow shareholders will vote on that acquisition on July 14, with the deal not expected to settle until August.

Analysts yesterday welcomed the strategic rationale of the potential deal.

Macquarie analyst Adrian Wood said a union which saw Shell assume operatorship of the project would relieve market worries about Santos's ability to deliver the \$16.4 billion project, noting concerns that shareholders had been lining up to exit Santos stock once a final investment decision on the project was made.

"This would alleviate a lot of that and I think give the Santos investment case a lot more longevity because you can then have faith in the development. Shell

## Shell, Santos eye coal seam deal

Paul Garvey

Santos is on the verge of a multibillion-dollar deal with Royal Dutch Shell, Sinopec and Korea Gas that

How the AFR revealed details of the deal on Friday's front page.

obviously brings a lot of project management skills to the table," Mr Wood said.

Reducing its stake in the project would also substantially reduce Santos's financing commitments,

reducing the likelihood of it having to raise more equity.

There is also the possibility that a combination of the Shell and Santos projects could eventually involve different equity stakes in individual LNG trains, a structure that has worked on other LNG projects elsewhere in the world.

Santos is believed to favour selling no more than 20 per cent of Gladstone, and is confident it will be able to snare another offtake buyer shortly.

Its existing 40 per cent partner in the project, Malaysian state-owned giant Petronas, has already committed to buy up to 3 million tonnes a year from the project—enough to underpin the development of a first train or processing line.

But the company has been chasing buyers for a second train for about a year without success.

Santos has advanced well on other fronts, having secured what is regarded as the premier LNG site on Curtis Island, with the project's wharf sitting in protected water with minimal dredging and jetty requirements. Santos has also received environmental approvals for its development.

Any tie-up between Shell and Santos would intensify pressure on Origin to pursue its own consolidation strategies. BG Group looks set to be the first coal seam gas-fed LNG project to receive a final investment decision and the company has excess gas sales contracts already in place.

Any deal is almost certain to again push back Santos's delayed timetable as Shell's LNG technology replaces the original Cascade process technology incorporated into the project's design.