



Shell joins coal seam gas race

The global major is the third firm to move into Gladstone's emerging LNG industry

Matt Chambers

GLOBAL gas majors are in a scramble to get a foothold in Queensland's rapidly evolving coal seam methane industry, having bid more than \$10 billion for reserves in the past few days as they look to feed a huge predicted jump in Asian liquefied natural gas demand.

Royal Dutch Shell yesterday became the third major to move into Gladstone's rapidly evolving LNG industry, striking a \$776 million deal to buy into Arrow Energy's resources and greatly improving the chances of multiple LNG plants in the region.

Following on the heels of Malaysia's state-owned Petronas, which bought into Santos's Queensland LNG plans last Thursday, Shell has struck a deal to take a 30 per cent stake in Arrow's CSM licences in that state.

The purchase means three experienced LNG operators are now involved in competing projects to export liquefied coal seam gas to Asia's booming markets.

The move by the majors to get a foothold in CSM-sourced LNG, which two years ago was barely considered an industry, has sent shares of the Australian companies involved surging as unexpectedly high prices have been paid for reserves.

Santos, Australia's second-biggest oil and gas company, set a benchmark for CSM assets last week when it sold 30 per cent of its interests to Petronas for \$2.5 billion.

The high sale price scuttled BG's planned \$13.6 billion takeover of Origin Energy, with the target's board deciding at the last minute that the offer did not value the gas assets highly enough.

JPMorgan analysts attributed \$6.9 billion of the bid to Origin's gas assets.

Shell has signed a preliminary agreement to buy into Brisbane-based Arrow's Australian assets for an upfront fee of \$435 million, will pay another \$139 million when an LNG project is approved and another \$70 million when it is producing a million tonnes of LNG a year.

Shell will also pay up to \$132 million for a 10 per cent stake in Arrow's international unit, which has CSM assets in China, India, Vietnam and Indonesia.

Arrow managing director Nick Davies described the deal as "company-making" and said that despite having had as many as 10 parties being interested in linking up, he preferred to deal with Shell rather than putting the ground up for tender.

"We've been very focussed on completing a deal with Shell

because strategically we think they are the right company to be dealing with," Mr Davies said.

"They're strong in India, strong in China and a leading LNG company." He indicated Santos's deal with Petronas had not led Arrow to try to squeeze a better deal out of Shell.

Arrow shares surged 14 per cent on the news to close at a record \$3.79, while LNG Ltd, which is planning to build a plant producing up to 1.5 million tonnes a year plant in Gladstone, rose 12 per cent to \$1.05.

Arrow has agreed to supply gas to LNG Ltd for its planned plant, about half the size of those planned by BG, which is teaming up with Queensland Gas Co, and the Santos/Petronas partnership.

"When you have majors scrambling to farm in or fund joint ventures, it's obviously a positive endorsement of the coal seam methane strategy," said Scott Ashton, an analyst at brokerage BBY in Sydney.

He said there was room for questions over whether all the projects would get up within the intended time frame of 2011 to 2014, given combined development costs of up to \$25 billion, possible skill shortages and capital constraints.

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Mr Davies said it was intended that the three parties would develop Arrow's CSM LNG plans together, but some analysts questioned whether Shell would be happy supplying and buying from a plant that did not use its technology.

Mr Davies said he expected Shell to talk to LNG Ltd soon, but Shell would not confirm this.

*No decisions have been made regarding any potential LNG

schemes, but we're very supportive of Arrow's aspirations," Anita Harben, a Perth-based spokeswoman for Shell, said.

LNG Ltd chief executive Maurice Brand said Shell's involvement was a positive for Arrow's plans to deliver gas to LNG's project.

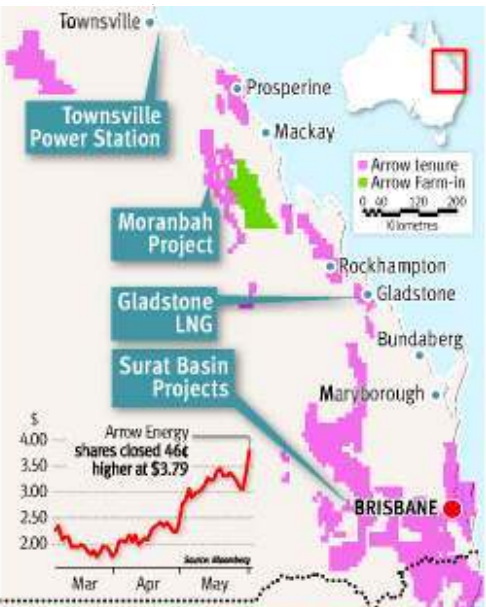
All eyes will now be on Origin's plans to cash in on its gas reserves.

While Santos has indicated it is not looking for more gas, BG is expected to be still interested and Shell could want more ground, as could other majors.

RUNNING HOT Deals keep coming ...

Buyer	Seller	Date	Stake (%)	Price (\$)	Price 2P reserves (\$/G)
Shell	Arrow	Jun 2008	30	646m	2.71
Petronas	Santos	May 2008	40	2.5bn	4.91
BG Group	Origin	May 2008 (Failed bid)	100	6.9bn	2.79*
BG Group	QGC	Feb 2008	30	622m	1.90

Sources: IRESS, company data, GSJBW estimates, JPMorgan estimates.
*Based on analyst estimate using 2P reserves before Origin released upgraded reserves in a study that BG has questioned, and ascribing \$6.7 billion value for Origin's non-CSM assets.



Dutch courage: Arrow Energy CEO, Nick Davies in his Brisbane offices after announcing a deal with Shell

Picture: David Sproule