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# PNG to Australia Pipeline Project

A Long Time Coming

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# A Long Time Coming

**PNG Project has taken a step change towards commerciality over the past 12 months**

- Alignment of key stakeholders for risk mitigation and growth
- FEED entry a pivotal point
- Front End Engineering and Design almost 60% complete
- Now secured over 200PJ/a of conditional gas sales agreements
- Major customers in NT, Gladstone, Southern Queensland, NSW and SA
- APC (AGL/Petronas) entered FEED for Australian pipeline





# A Generational Change

## Gas Supply fundamentals for East Coast Australia are changing

### ➤ The Cooper Transition

- Maturity brings higher expense
- A struggle to remain competitively priced

### ➤ A healthy and growing CSM supply

- Significant growth in past 5 years

### ➤ A major supply source from PNG, with new pipeline network

**A struggle for the next 30 year supply picture**





# The Impact of Change

- A change in the “power base”
- Gas pricing will remain highly competitive
- Ensures gas market growth and a larger pie for us all
- Delivers gas from NT to Sydney
  - Facilitates regional growth especially in North Queensland
  - Facilitates major resource projects





# PNG Pipeline Project

**PNG Project has had a number of iterations**

- **Townsville supply from Pandora**
  - Too small
- **Townsville, Gladstone and Southern Markets**
  - Required : Kutubu and Hides reserves
  - Required : Joint Venture alignment
- Phase I – Fertile Ground**
  - Too much, too soon
- Phase II – Reality Check**
  - A timing problem





# PNG Pipeline Project

## PNG Project has had a number of iterations

### Phase III – Lessons learnt from the past

- Revised development plan
- Flexible for smaller market thresholds
- Maximum liquids value

### ➤ The importance of Stakeholder Alignment

- Who can drive success?





# Project Scope

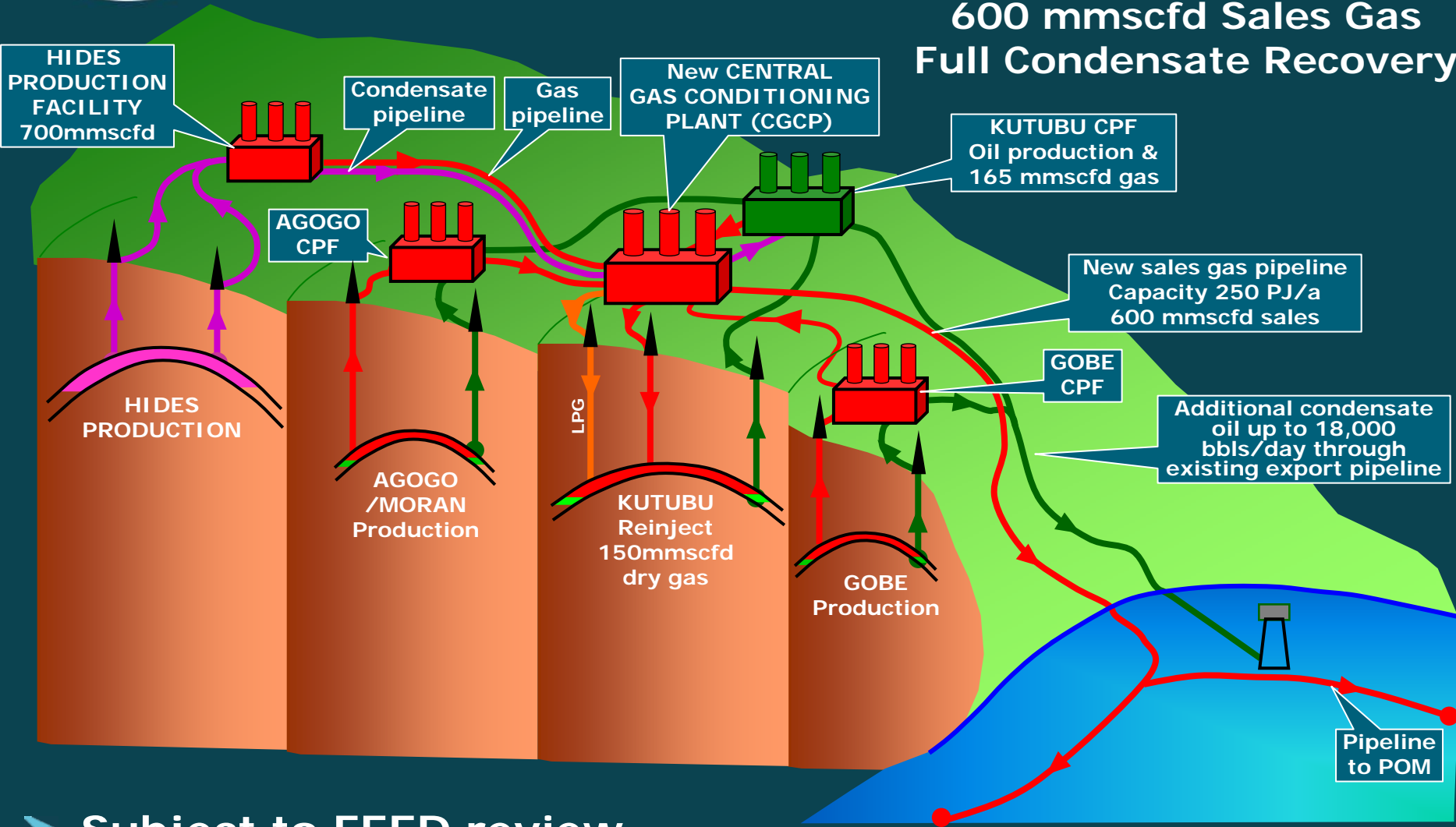
- Joint venture between
  - ExxonMobil 39.43%
  - Oil Search 54.15%
  - MRDC/State 3.02%
  - Merlin (JPP) 3.39%
- Gas Sales with condensate export
- Conversion of Kutubú oil fields to gas production
- Development of Hides Gas Field
- Facilitates integration
- Gas pipeline from Highlands to PNG border





# PNG Gas Project Configuration

600 mmscfd Sales Gas  
Full Condensate Recovery



➤ Subject to FEED review





# Project Scope

- Final pipeline configuration and route being determined by customer demand
- Abundant competitively priced gas to NT, Queensland and southern markets
- Interconnected pipeline system promoting competition and enhanced security of supply





# Project Activities

## Focus on Successful Project Delivery

### ➤ FEED

- Final design and facilities configuration
- Pipeline design
- Cost optimisation
- Operating parameters

### ➤ Government and Fiscal

- Licencing submissions and regulatory approvals
- Landowner benefits distribution and business development





# Project Activities

## Focus on Successful Project Delivery

### ➤ Marketing

- Focus on confirming gas sales agreements
- Present indicative agreements for 190 to >200 PJ/a, with further markets targeted
- Possible integration of in-country activities

### ➤ Financing

- Coordinated approach from all stakeholders
- Positive bank and insurer response





# Project Timetable

- **FEED activities due for completion late '05**
  - Early works decision by year end
- **Project Sanction 2Q '06**
  - Commitment to long lead items etc.
- **Financial Close 2H '06**
  - Major construction commences year end
- **First Gas 2009**





# So What is Different Now?

## The Easy Stuff

- Simple design configuration optimises oil facilities whilst accelerating liquids production
- Capital efficient design
- Established market threshold with upside volumes. Focus on moving conditional to firm agreements
- Economics impacted by higher oil prices and exchange rates balanced by capital costs





# Stakeholder Alignment – The Key to Project Success

## So What is Different Now – Lessons Learnt from the Past?

- PNG Project is complex with over 30 stakeholders
  - Governments
  - Upstream Companies
  - Customers
  - Downstream
- Complex energy and infrastructure environment on East Coast
- Targeted alignment essential in Project success





# Stakeholder Alignment – The Key to Project Success

## ➤ Likely Post Sanction Interests

– ExxonMobil	25.67%
– Oil Search	37.18%
– PNG Gov't/Landowners	14.27%
– Nippon Oil	3.39%
– AGL	10.00%
– Santos*	9.49%

\*Subject to negotiation



# Targeted Alignment – The Key to Project Success

- **Deliberate strategy to achieve stakeholder alignment**
  - Project FEED Decision – Joint Venture Alignment
  - Market / Customer and Downstream Alignment
    - The importance of AGL
      - Largest east coast energy retailer
      - Major gas customer
      - Pipeline and infrastructure
      - Downstream development potential
    - Santos ?
- **Powerful Combination for Next Generation of Supply**







# Targeted Alignment – The Key to Project Success

## ➤ Landowners in PNG

- Excellent production reliability in oil projects, based on oil equity ownership and business development partnerships
- Mature process for ownership

## ➤ Lessons for Australia?

## ➤ Government in Papua New Guinea

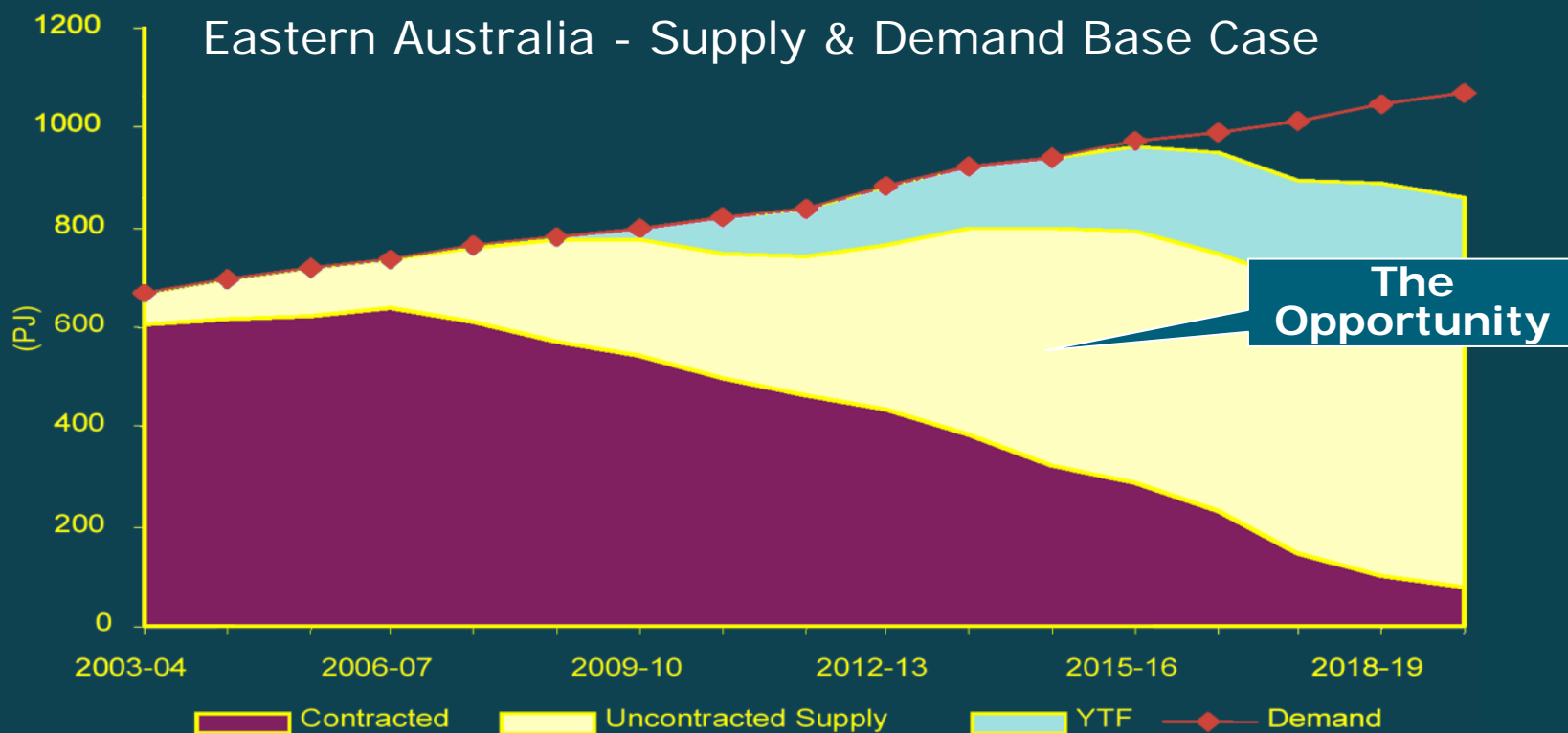
- Strongly motivated to deliver
- Committed to in-country development after core Pipeline Project delivered





# Clear need for gas in Eastern Australia

- Wood Mackenzie analysis suggests even with PNG, Coal Bed Methane & Yet-to-Find (YTF) gas there is a clear need for new sources of gas supply to meet demand





# A Long Time Coming

## But we are Coming

- Focus on all aspects of Project Delivery
- FEED activities proceeding well
- Design criteria fit for purpose, maximising value of liquids
- Underwriting customer base to be converted to firm agreements
- Further marketing activity a focus
- Pipeline FEED underway
- Regulatory issues being actively addressed

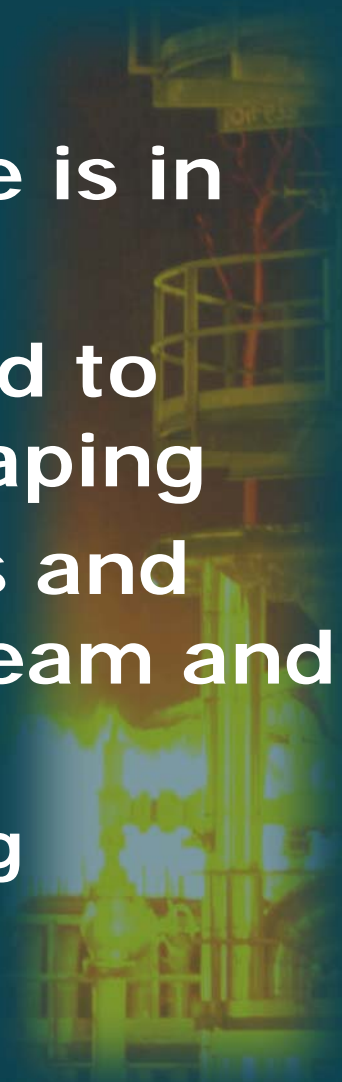




# A Long Time Coming

## But we are Coming

- The east coast gas supply picture is in generational change
- The PNG Gas Project is positioned to play a significant role in its reshaping
- Participation of key stakeholders and alignment of upstream, downstream and key customer base
  - A key strategy for Project Derisking





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