Majors Rush To Queensland Gas Projects

Royal Dutch Shell is the latest in a line of global gas majors that, combined, have bid more than $10 B for reserves in their rush to establish a presence in Queensland's rapidly evolving coal seam methane (CSM) industry.

The company struck a $776 MM deal to take a 30% stake in Arrow's Queensland CSM licences, greatly improving the chances of multiple LNG plants in the region.

The move comes in the wake of a recent benchmark deal for Santos's CSM assets by Malaysia's state-owned Petronas with the acquisition of a 30% interest for $2.5 B.

The attention of the industry will now focus on Origin's plans to cash in on its gas reserves.

The high prices have scuttled BG's planned $13.6 B takeover of Origin Energy, with the target's board deciding at the last minute that the offer valued the company's gas assets below the market.

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

Interest from BG is expected to remain strong and Shell, along with other majors, could want more ground although Santos has indicated it is not looking for more gas.

The purchase means three experienced LNG operators are now involved in competing projects to export liquefied coal seam gas to feed a huge predicted jump in Asian liquefied natural gas demand.

Shares in the Australian companies involved have surged on the unexpectedly high prices paid by the majors to get a foothold in CSM-sourced LNG.

Shell has signed a preliminary agreement to buy into Brisbane-based Arrow's Australian assets for an upfront fee of $435 MM, will pay another $139 MM when an LNG project is approved and another $70 MM when it is producing 1 MMt of LNG a year.

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

Arrow Managing Director, Nick Davies, said that, despite having had as many as 10 parties being interested in forming an alliance, 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 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.

Sydney analyst Scott Ashton said to have majors scrambling to farm in or fund joint ventures was a positive endorsement of the coal seam methane strategy.

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 B, possible skill shortages and capital constraints.