

## Santos Eyes Power Generation To Speed Gas Development

Australia's third- biggest oil and gas producer, Santos, said it plans to move into electricity generation to speed the development of its natural gas reserves and tap rising demand for cleaner power.

Chief Executive Officer David Knox said the proposed \$800 MM Shaw River plant in Victoria will take advantage of the fast-growing market in gas-fired power production.

Australia is due to start an emissions trading system in 2010, boosting demand for power generated from cleaner fuels such as gas by placing a cost on carbon. Santos, the biggest gas supplier into the Australian market, has a stake in the \$1.1 B Kipper and the \$275 MM Henry gas projects, both being developed off the southeast coast.

Knox said the 500 MW generator could be expanded to 1,500 MW, after the release of first-half earnings. The board may approve the investment by the end of 2009, allowing production to start in 2012.

"We recognize that in response to carbon trading we believe gas- fired power will become increasingly important and we want to be part of that. It provides us with opportunities."

Santos hasn't yet decided how the project, which includes the construction of a 105 km pipeline, will be financed or what equity stake it will hold, Knox said. It may take gas from the Longtom and Kipper fields off the southeast coast, he said.

Santos in May reached a \$2.51 B accord with Malaysia's Petrolim Nasional Bhd. to sell a stake in a planned liquefied natural gas project and said today it will buy back \$300 MM of shares to distribute some of the proceeds to shareholders.

Knox said Santos and partner Apache will very soon announce sales contracts for gas from the Reindeer project off northwest Australia which will be at a 'very good price' reflecting rising demand for the fuel from mining companies and a gain in prices.

He added Santos and Petronas expected to start engineering and design work on the Gladstone LNG project by year-end.



*Santos CEO David Knox said the company's first foray power generation is driven by a drive to 'see our molecules move'.*

The company reiterated its reduced full-year production forecast of between 54 MM and 56 MM boe.

Knox said output will be relatively flat over the next several years before surging in 2013 or 2014 with the start-up of LNG output in Papua New Guinea and at Gladstone. ■