

Equal footing

TOGY talks to

David KNOX
CEO
SANTOS



THE OIL & GAS YEAR: Santos was once known as South Australia Northern Territory Oil Search. What is the company doing today?

DAVID KNOX: An Australian energy pioneer since 1954, Santos is one of the country's largest gas producers, supplying customers in Australia and Asia. We are a major Australian oil and gas exploration and production company with interests and operations in every major Australian petroleum province and in Indonesia, Papua New Guinea, Vietnam, India, Bangladesh and Kyrgyzstan. We are one of Australia's largest domestic gas producers and supply gas to all mainland Australian states and territories, ethane to Sydney, and oil and liquids to domestic and international customers. Through our interest in the Darwin LNG project, we are a producer of LNG, which is exported to customers in Japan.

Santos is developing a major LNG plant at Gladstone in Queensland and is a partner in the Papua New Guinea LNG project. And we recently announced a partnership with GDF Suez to develop a pioneering floating LNG project off northern Australia.

TOGY: How did Santos capitalise on its 25 years of near supremacy over Cooper Basin acreage to develop energy assets in other parts of the world?

DK: The Cooper Basin has been, and remains, tremendously important to Santos, but there is much more to the company than our traditional base business. In the beginning supplying gas from Moomba to Adelaide 40 years ago was the first step in building our east Australia gas business – a base business that has underpinned the growth of Santos for decades. The push in Asia and LNG is a natural extension of our success in the Australian domestic market, and promises to deliver significant further growth.

TOGY: With a decline in domestic oil exploration and production and considerable discoveries of

gas being made offshore Australia and onshore coal seam gas (CSG), is Santos increasingly becoming a gas company?

DK: It is true that natural gas forms the majority of our production, and is the product to which our future is most closely linked. We would be happy to make further oil discoveries, but we believe natural gas has an incredibly important role to play as the world faces the twin challenges of energy security and climate change.

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TOGY: Is it imperative for your company to create the world's first CSG-to-LNG facility on a large scale? Would you losing the CSG "race" to Arrow Energy or BG Group a serious let down?

DK: The company's Gladstone LNG project is an incredibly exciting one, and we believe we are the leading project in the business of developing Queensland's abundant coal seam gas reserves for export as LNG. Of course, we aren't the only CSG-to-LNG project, but we do not consider ourselves in a race. We are very happy where we are and are looking forward to making a final investment decision on our project in the first half of 2010.

TOGY: With CSG yet to be tested on an international scale, what drives your confidence in your ability to bring an LNG plant of this kind into operation? How critical is the backing of Petronas, the world's third-largest LNG producer?

Australian Securities Exchange-listed oil and gas exploration and production company Santos supplies over 20 percent of eastern Australia's domestic gas and produced 54.4 million barrels of oil equivalent in 2008. It is also developing the world's first large-scale multi-billion dollar coal seam gas to LNG plant in Gladstone, Queensland. ■



The Fairview coal seam gas acreage was first drilled in 1994

DK: We are very confident that CSG is an excellent feedstock for LNG production and that is supported by our discussions with potential customers. Petronas is critical to the success of our project. Petronas is the largest LNG producer in Asia. The company operates the Petronas LNG complex in Bintulu, Sarawak, which is the world's largest integrated LNG facility with a total capacity of approximately 23 million tonnes per year from eight LNG trains. It is the world's largest single owner-operator of LNG ships and has long standing relationships with an extensive base of high volume LNG customers in Asia.

Petronas has provided dozens of key personnel to the project, so they are playing a fundamentally important role. Petronas is of course the foundation customer for Gladstone LNG. The sales agreement we announced in June 2009 underpins the first train of the project.

TOGY: As a significant contributor to domestic gas demand, what will be the effect of the CSG industry on eastern Australian gas prices?

DK: The abundant CSG resources in eastern Australia will feed both the domestic and export markets. We expect the demand for gas in Australia to rise as its advantages as a clean, reliable and affordable power source come into sharper focus. But growing supply will moderate price growth. Therefore we expect some strengthening of prices over the long term, but nothing rapid or dramatic.

We really believe in the significant potential of Australia's natural gas resources to underwrite the reliable and affordable transition of Australia's energy network to a lower carbon footprint, while also supporting substantial growth in the export of natural gas to Asia.

TOGY: How is your focus on CSG affecting your outlook on exploring and developing foreign

basins? Will you cut back on international expenditure to rationalise your CSG investments?

Like all prudent exploration and production companies, we have had a close look at our exploration activity in a lower price environment, but we have maintained our focus on key opportunities in Indonesia, India, Bangladesh, Vietnam, Kyrgyzstan and, of course, in Australia.

TOGY: In the first half of 2009, Santos posted a 65 percent decrease in profits while staying on track to meet barrel-of-oil-equivalent production targets. In light of falling oil and gas prices and reduced operating cash flow, is there reason to adjust your company focus?

DK: Lower international crude oil, condensate and LPG prices certainly have had a significant impact on the first half result, reducing sales revenue by A\$450 million (\$336.6 million) compared to 2008, but production levels remained as we expected.

The company's focus remains on delivering the base business and targeting significant growth through our LNG projects and focused opportunities in Asia. The outlook for natural gas in a carbon-constrained world is becoming increasingly recognised, both here in Australia and throughout the region.

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TOGY: Unlike several oil and gas companies, Santos has said Australia's proposed emissions trading scheme would improve profitability, especially in the domestic gas market. What is the position of Santos on this issue?

DK: We believe gas producers will benefit from increased demand for their product in a carbon-constrained world. Furthermore, we have argued that unless a clear carbon price is established upon a level playing field, enabling assessments of the demand for gas, the pace of economic transition and overall investment certainty, then the full potential for natural gas will be at best delayed, at worst lost.

TOGY: Are you concerned about the penalties an emissions scheme would place on LNG exports?

DK: Sure, which is why we support the passage of the government's carbon pollution reduction scheme legislation, but with one proviso that the ability for natural gas to compete on a sufficiently level playing field, whether in the domestic or export market, is preserved. That is, gas gets equal, not special, treatment. ■