INTERVIEW

Hector GORDON

Productive niche

TOGY talks to

Hector GORDON
CEO, and
Reg NELSON
Managing Director
BEACH PETROLEUM

Beach's original holding in the Cooper Basin was the founding basis for prolific onshore oil production and that holds true today. A significant increase in reserves has positioned the Adelaide developer to expand its base in foreign basins and access new venues of growth in Australasia.

THE OIL & GAS YEAR: *How did managing director Reg Sprigg turn Beach Petroleum into one of Australia's top-tier oil and gas companies?*

REG NELSON: Sprigg was instrumental in persuading Santos to explore in the Cooper Basin. At the time, Santos did not really have the money to explore it properly so Sprigg involved a US company called Delhi (which Beach subsequently purchased in 2006). Santos and Delhi together, explored, initially found gas and then later in the late 1970s and 1980s found oil in the Cooper and Eromanga basins.

Sprigg then went off to do a number of other things, one of which was forming Beach Petroleum in 1961 and Beach also made some of the oil discoveries in the Cooper-Eromanga basins in Queensland. Beach became one of the top 10 oil and gas producers in the mid-1980s.

TOGY: *In the 1980s, Beach Petroleum fell into the hands of corrupt directors and the company was swept into a major trial. How did the organisation emerge from this ugly situation and improve its tarnished public image?*

RN: We won that trial. Getting the money back was quite a different proposition. We spent the late 1990s trying to claw back and pay off debt and pay lawyers' fees and I guess it was not until the year 2000 that Beach had its renaissance because that was when we managed to get rid of all the legal actions.

We have since recovered more money than we thought we would and begun rebuilding. Our initial focus was on the areas of the Cooper Basin with oil potential that had become available because of their compulsory relinquishment by Santos and Delhi.

I think winning the fraud case in its own right demonstrated to shareholders what had happened and the determination of the new board to fix things and get them working again. The next step was to persuade shareholders to put in a bit more money. Unfortunately it was around the time of the dot-com boom and oil prices were at $10 per barrel. Going out to raise money in that sort of market climate was an almost ridiculous proposition.

HECTOR GORDON: There was a very loyal shareholder base and we had retained a little bit of production. We used the money wisely, which is how we got our credibility back. We were successful both in exploration and acquisitions and then managed to build on that early success.

> *"It was our original holding in the Cooper Basin that allowed us to grow elsewhere."*

Beach's original assets were largely in the Otway Basin (onshore and offshore, Victoria), where we had made the first commercial discovery in the 1980s. Those assets were either sold by the fraudsters or sold to pay the debt incurred by the fraudsters. But we had retained one exploration permit and we were fortunate enough to make some discoveries in that block in 2001. That was the initial catalyst for growth.

TOGY: *You have 20 exploration licences and some 260 production licences in the Cooper and Eromanga Basins. Do you see this as your anchor asset that enables you to explore in other basins?*

HG: Absolutely. It was our original holding in the Cooper Basin that allowed us to grow elsewhere.

Reg NELSON

Some of those other assets have come and gone and at the moment we are more focused on the Cooper Basin than we were even a year or so ago. That will be used as a platform to grow outside the Cooper Basin again.

TOGY: *The recent trend in the Australian oil and gas industry has been a marked shift to offshore deepwater exploration and production. How has Beach Petroleum sustained growth onshore in a maturing onshore basin?*

HG: We took a contrary position to the prevailing view 10 to 15 years ago on the prospectivity of the blocks dropped by Santos and Delhi. The general view was that Cooper had been exhaustively explored by Delhi and Santos. But we have been able to prove that wrong. We discovered about 10 million barrels of oil at a time when the oil price was increasing. And we found a very productive niche in a mature basin that everybody else figured had nothing left.

Cooper was not of interest to the big players and was too big for the really little guys, so we were in between with a bit of a head start. We had production, a loyal shareholder base, and a really strong technical team that enabled us to grab the opportunities. We are probably getting to the point in the next few years where that view of the Cooper will re-emerge and I think we expect to prove people wrong again.

TOGY: *In 2008, you were able to increase proved and probable reserves by over 60 percent. Has your view on the prospectivity of your exploration areas changed now that there has been a significant decrease in oil prices since July 2008?*

RN: It depends where, but if you look at the oil price in terms of Australian dollars, it is not all that bad. If you take our average per barrel price for 2008, when the oil price exceeded $140, the Australian dollar was worth around $0.90. When the global financial crisis hit, of course all the prices went down and the Australian dollar tumbled to just $0.50. But that gave us a buffer against the low oil price.

We also sell Tapis crude and Tapis today is about $8 above West Texas Intermediate, for example, and that is tracked pretty well over the past two years. So the combination of the Australian dollar, the Tapis-West Texas Intermediate differential and some useful production flows acted as a big buffer. For financial year 2001/09 we were only 12 percent down on the greatest financial year, at effectively $97 per barrel.

TOGY: *You have executed a strategy of working in basins that are too small for the super-majors and too large for juniors. Has that prevented Beach Petroleum from getting to the next level?*

RN: We like a balanced exploration portfolio: 60 percent lower risk, 30 percent moderate and 10 percent high risk and high reward. Naturally, you hope that one of those high-risk, high-reward wells will come in and transform the company, and to realise that, according to the laws of probability, you have to do as much as you can and if we use the strong cash flow base to help achieve that, that will be something that could ultimately transform the company.

TOGY: *How will you leverage what you have accomplished in the previous 10 years to accomplish your growth targets for the next five?*

RN: It is a hard question but I think we will move into a situation where we want to maintain the exploration focus and the possibility of a good, large discovery. We want to continue to find more oil over the next five years.

> *"We like a balanced exploration portfolio: 60 percent lower risk, 30 percent moderate and 10 percent high risk and high reward."*

The primary prospects for production in Australia are in offshore gas and we are therefore looking at resource plays in other places such as Egypt and Tanzania. We have an office in Cairo. It is a good place from which to start building throughout North Africa in particular, but we are also looking at Europe.

The next leg will be back in Australasia. I think that gas will still play a large role moving forward. Australia is divided into two halves – Western Australia, with the large gas deals offshore, and east Australia with the big coal seam gas plays. Gas is part of our exploration portfolio. In the next three-to-five years we hope to convert conventional gas that is not yet contracted and putting that into growth. ■