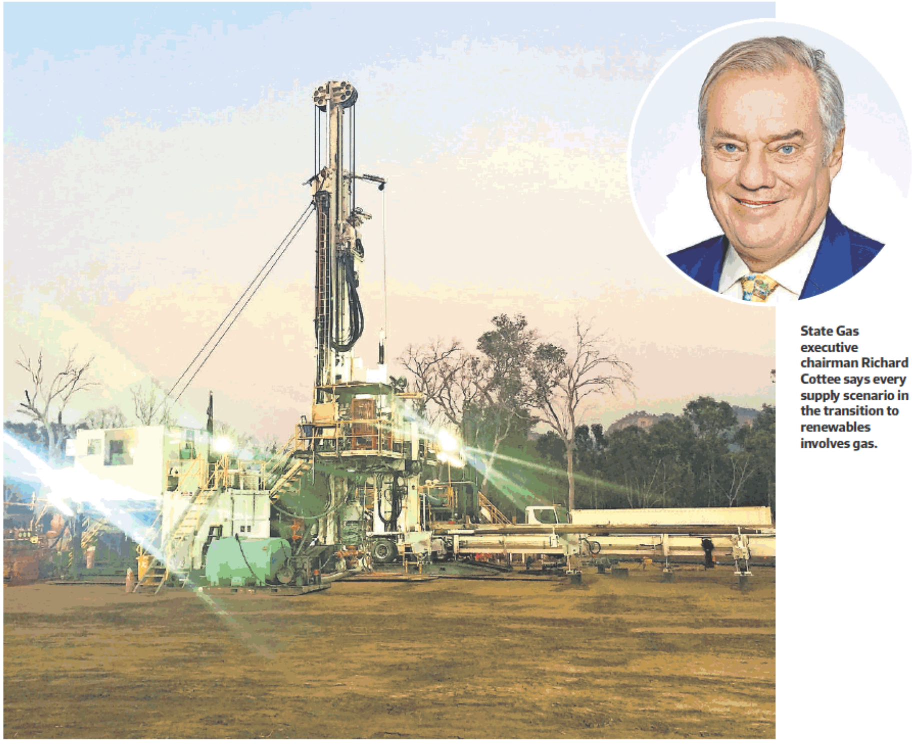
ADVERTISING FEATURE

Gas projects

Demand surge a boon for ventures



State Gas executive chairman Richard Cottee says every supply scenario in the transition to renewables involves gas.

Paradoxically, the rush to large-scale renewable energy projects means there's never been a better time to develop new east coast gas reserves ahead of a projected supply crunch by as early as 2024.

At the onset of the pandemic, domestic gas and LNG prices tumbled in response to the collapsing global crude oil price. But as it happened, the lull was short-lived given an unexpected spike in Asian demand.

As for renewables, gas is poised to play a fundamental – albeit controversial – role in transitioning to a low-emissions economy.

In its latest report on gas supply, the Australian Competition and Consumer Commission (ACCC) in January warned that forecast known (2P) production would be insufficient to meet east coast demand from 2026.

With the giant Bass Strait fields in long-term decline, the southern states face a projected shortfall of 30 petajoules a year – about 1.5 per cent of total current demand – by as early as 2024.

"It is concerning that less progress has been made than we would expect and we find ourselves one year closer to a potential shortfall," the ACCC says.

The regulator says that filling the supply gap will require development of speculative supply sources – which puts the Queensland-focused ASX-listed junior State Gas in the right place at the right time.

For State Gas executive chairman and industry stalwart Richard Cottee, the rush to renewables changes nothing. "We can't transition overnight, regardless of what everyone wants," he says. "The technology just isn't there."

He says that despite the global investor pushback against fossil fuels, every supply scenario in the transition to renewables involves gas "and we don't have enough gas to meet this demand."

State Gas is a case of 'second time around' for Cottee, who built up Queensland Gas during the post-dotcom era coal seam gas boom, before selling the company to British Gas for $5.3 billion in 2008.

State Gas' 'super gas field' ambitions revolve around its two fully-owned ventures in central Queensland's Bowen Basin: the Reid's Dome Gas Project and Rolleston-West.

Originally discovered in 1955, Reid's Dome had not been explored for coal seam gas before State Gas drilled its first well, Nyanda-4, in late 2018.

State Gas last year was awarded the contiguous permit, Rolleston-West, which extended the company's acreage eight-fold across highly prospective CSG and conventional targets.

The addition of Rolleston-West also expanded the company's potential gas resource from 2 trillion cubic feet (tcf), to 5-10 tcf.

With production and commercial sales targeted as early as 2023, State Gas plans to go early and go hard with a two-phased approach of bringing Reid's Dome online first, followed by Rolleston-West as a brownfields development.

The key capital cost is building a 50-kilometre pipeline to connect both tenements to the existing gas network.

"Hopefully by end of the year we will have enough sales gas reserves to underwrite the pipeline and start our march to 2023," Cottee says.

The pipeline aside, costs are reduced by the use of modular equipment that can be easily moved from well to well. "You end up with the sort of flexibility I only dreamed of at Queensland Gas," Cottee says.

He says neither prospect is subject to reservation restrictions requiring output to be allocated to domestic users, rather than to LNG exporters.

Both tenements have the advantage of being close to both the Gladstone-based LNG export plants and the Wallumbilla price hub, where three pipelines on the complex east coast gas transmission network connect.

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> Richard Cottee

The proximity to both presents pricing advantages.

The Reid's Dome Gas Project (PL231) already holds a production licence, which quickens the path to market.

Cottee adds that the conventional gas component of the project – which has a shorter lead time – provides for marketing flexibility. "You can bring on conventional at a moment's notice and surf the pricing because it's all been paid for by the coal seam gas," he says.

Production testing at Reid's Dome results in 220,000 cubic feet of gas a day across four wells. Daily rates continue to climb as coal seams are dewatered.

Nyanda-4 showed gas being produced from a depth of 1150 metres – well below the usual production depths for coal seam gas.

At Rolleston-West, drill-stem tests for the Rougemont-2 coal seam gas well showed "exceptional permeability" which, Cottee says, "reminds me of my early days at Queensland Gas."

State Gas listed in October 2017, and late last year raised $14.4 million in a raising that was supported by Queensland power industry veteran Trevor St Baker.

Funding options to move State Gas to production include presales, facility rental and vendor or traditional debt.

While some fund managers have mandates to reduce fossil fuel investments, which could make equity financing harder, other market forces – notably robust pricing – are making debt financing easier.

"It fascinating to see how markets actually work," Cottee says. "The law of unintended consequences can be quite dramatic."

Cottee adds that with four major players controlling eastern seaboard gas supply, it's crucial to foster alternative producers as well as bolstering overall supply.

"Hopefully we can play a key role in diversifying supply of what continues to be a crucial energy source for local industry."