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Santos LNG to swallow 20pc domestic gas

Angela Macdonald-Smith

Santos' $US18.5 billion GLNG project in Queensland will swallow about 20 per cent of the gas expected to be available this year for users on the east coast, piling pressure on the venture to ease the squeeze by increasing output or restricting exports.

The latest estimate from consultancy Wood Mackenzie hones attention on how the project is straining the east coast supplies of gas, where local manufacturers are being left short as more gas is shipped to Asia as LNG.

At last week's meeting between Prime Minister Malcolm Turnbull and the heads of east coast gas producers, Queensland's two other LNG export ventures committed to selling more gas into the domestic market than they use.

But GLNG is much more reliant on third party gas and could only take the matter "on notice".

"GLNG is in a difficult spot here, having to choose between complying with the pressure to supply to the domestic market, and maintaining gas feedstock to salvage what value it can from its investment in GLNG," said Wood Mackenzie analyst Saul Kavonic.

"And as long as GLNG keeps hoovering up gas from the domestic market, it is a struggle to see how additional domestic gas supplies from the neighbouring LNG projects will alleviate the shortage. Those volumes may just end up being exported via GLNG anyway."

Still GLNG secured government approval for its $US18.5 billion gas export project on the basis it could buy extra gas.

"GLNG was originally sanctioned [and approved by government] on the assumption on buying third-party gas," said Citigroup analyst Dale Koenders.

"We don't think this will change either."

Wood Mackenzie estimates GLNG will rely on third party gas for almost 40 per cent of its gas feedstock over the next five years, while Credit Suisse puts the figure at about 50 per cent.

The situation has led to calls for restrictions on GLNG's ability to export third-party gas. Or, for LNG exporters such as GLNG to consider buying cheap LNG on the spot market to fill their sales contracts and free up gas on the east coast for local use.

Santos declined to comment but sources point out that GLNG is the only one of the three Queensland LNG ventures that is not exporting any more LNG than required under its long-term sales commitments.

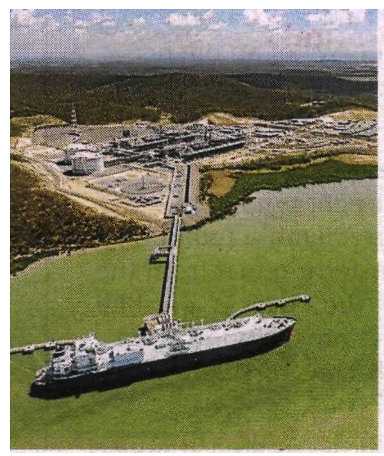
Credit Suisse analyst Mark Samter said a temporary restriction on GLNG's ability to export third party gas seemed the option with the lowest total cost.

"The question is, what is the least painful solution to free up sustainable short-term gas into the market and it still feels like its those third-party volumes into GLNG, and QCLNG to an extent," he said.

Mr Samter said that at an average price of about $6 a gigajoule for third party gas being sold to GLNG, that gas was the cheapest potentially available.

Imported LNG would in contrast not land in south-east Australia for less than $10-$11/GJ while any new gas development was only a longer term option and wouldn't be cheaper than $8-$10 for an industrial customer.

But restricting GLNG's exports of third party gas would cause a loss on the project partners, which include international major Total SA and customers Petronas and Korea Gas Corporation as well as Santos.



Santos' GLNG project in Queensland is straining the supply of gas on the east coast.