Shell flags gas project delays because of cost pressures

BY:MATT CHAMBERS , The Australian, July 28, 2012

THE world's biggest oil company, Royal Dutch Shell, has warned it may delay some of its $17 billion planned investment in Australian liquefied natural gas projects as construction costs soar and rival nations push for assets to be rapidly developed.

Shell chief executive Peter Voser said cost pressures in Australia were a growing problem and he would not be pushed into the "wrong development at the wrong time".

Shell's major Australian assets include stakes in the Arrow coal-seam gas project in Queensland and the Browse and Sunrise LNG joint ventures operated by Woodside Petroleum.

"Australia is a key component of our growth but we will not overdo it and perhaps not get the right profitability out of it," Mr Voser said when asked on an investor call on Thursday whether Shell's investment pipeline was too weighted towards Australia.

Shell's main upstream projects in Australia

UNDER CONSTRUCTION	Approved cost	First production	Shell % stake
Gorgon	$43bn	2014	25
Prelude Floating LNG	$US12bn	2016	83.5
Wheatstone LNG	$29bn	2016	6.4
TO BE APPROVED	Estimated cost	Targeted approval	
Arrow LNG	$20bn	Late 2013	50
Sunrise Floating LNG	$US13bn	2013	26.6
Browse LNG	$40bn	2013	9.1

Mr Voser's comments come amid analyst speculation Shell wants to diversify away from Australia where the company also has a 24 per cent stake in Woodside.

Shell this week posted a worse-than-expected 53 per cent slide in second-quarter net profit to $US4.06bn ($3.9bn) amid sliding oil prices.

Under Australia's regulatory framework, projects could be put on hold without loss of development rights, Mr Voser said.

"Australia obviously has some advantages because you may actually delay it (a project), which maybe you cannot do in other countries because we have permits expiring, etc," he said.

Mr Voser said Shell had a number of project options in advanced stages, so it could develop the most profitable ones first.

In April, the federal and West Australian governments gave Woodside an extra year to decide whether to build a $40bn LNG plant at James Price Point near Broome to process Browse gas.

In 2001, then-treasurer Peter Costello blocked a Shell bid for Woodside on the view that a local company would be more likely to develop its Australian assets.

Mr Voser last month said Shell had delayed a final investment decision on the Arrow project to ease rising cost pressures in Gladstone. Expanding on that yesterday, he noted that a single contractor, Bechtel, was building three separate $20bn LNG plants -- for BG Group, Santos/Total/Petronas and Origin Energy/ConocoPhillips -- at Gladstone at the same time.

"When we hear one of the suppliers is the EPC (engineering, procurement, and construction) contractor for all three and is promising us a fourth 'A team' then we get very suspicious.

"You normally don't get four A teams, you may get one and then you pay the price for the rest."

Mr Voser said Shell had long been talking to Canada's InterOil and the Papua New Guinea government about an LNG project.

In the US it is looking at the export of cheap shale gas and in Canada it is looking at an LNG plant at Kitimat on the west coast.

On the Sunrise field in the Timor Sea, Mr Voser gave no indication the decision to commit to a floating LNG project using Shell technology was in doubt.

Project operator Woodside is in talks with East Timor, which wants a plant built on its soil.

"The joint venture decided to use floating LNG technology," Mr Voser said. "We are working on that one."

http://www.theaustralian.com.au/business/mining-energy/shell-flags-gas-project-delays-because-of-cost-pressures/story-e6frg9df-1226437152235