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# The Origin Of The BG Takeover

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The big business story of the day has been British company BG's takeover offer for Australian gas company Origin Energy - which will be the second largest takeover in Australian history if successful.

The SMH noted that "Australian energy is in hot demand at the moment. Our resources are near the growth economies of Asia and we have the infrastructure to process and transport them cheaply".

BG has only been in the Australian market for a couple of months, initially buying 10 per cent of Queensland Gas and a 20 per cent stake in the Surat Basin coal seam gas fields - then announcing plans to build a 3 to 4 million tonne per year LNG plant at Gladstone in Queensland to export this gas to Singapore and possibly other parts of Asia.

While exporting LNG from Western Australia and the Northern Territory hasn't caused a great deal of concern (bar the WA state government's attempts to reserve 15% of production for the local market), the BG plan is causing more concern as gas supplies in the eastern side of the country are more limited, with coal seam methane being the major source for the future. Diverting gas offshore pushes up the domestic price and makes the longer term supply situation more clouded.

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The SMH pointed out that at the moment BG doesn't have enough gas reserves to meet its supply obligations to Singapore even if it acquires Origin, let alone expand to other Asian markets. BG's need to source more gas to meet the Singapore contract (3 million tonnes per year of LNG for up to 20 years) will mean more local producers will come under the spotlight - creating further price tension for the domestic market.

Bloomberg reported that Merrill Lynch is speculating that the ACCC may ask BG to sell the QGC and Surat stakes, which would further complicate the Gladstone LNG plant supply situation.

Total coal seam methane reserves in Australia are hard to get a handle on - The Australian claims that "as a guide, Queensland now has bigger estimated reserves of gas than offshore Western Australia", though they fail to quantify this or point to a source for the data.

Using coal seam methane for LNG is a new development - until now this hasn't occurred as the gas does not contain the higher value liquids (LPG and condensates) that can offset the high capital cost of an LNG development. Rising LNG prices seem to have changed this equation now.

John Durie at the Australian says the deal "means higher prices" for the domestic market almost immediately, and speculates on the possible impact on the privatisation of NSW electricity generators.

> The deal will almost single-handedly triple the price of east coast gas because it will now be priced on an export parity basis. In rough terms, east coast gas wholesales at $3 a gigajoule and, in the west, where Woodside pumps it into Asia, gas costs closer to $9 a gigajoule. If you are BG and able to get $9 a gigajoule from China, that is going to be a lot more promising than $3 to fire some brick plant in Brisbane.
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> Note also that the bid comes on the eve of the NSW ALP conference in Sydney to debate the state Government's planned energy privatisation plans. The Luddites in sections of the ALP hate nothing more than foreigners owning their assets and Origin was always going to be a key bidder for them. One assumes this will still be the case should BG's takeover proceed.
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> Coal seam gas is called such because it comes from coal seams too deep to mine profitably, just as so-called natural gas comes, as often as not, from sandstone deep under the sea.
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> Governments with some foresight, such as Queensland's Beattie government, encouraged the coal seam industry with its state gas scheme, hoping to ensure the PNG pipeline would result in an LNG plant at Gladstone. Now it will come from BG and local coal and in part thanks to carbon pricing.
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> In round terms, gas-fired electricity plants cost around $3 a gigajoule against $1.50 for black coal and 40c for brown coal.
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> Brown coal creates 1.2 tonnes of carbon dioxide for every megawatt of power, black coal creates 0.8 tonnes and gas some 0.4 tonnes. So at one third the carbon intensity and a carbon price of $20 a tonne, gas looks a winner.

On a related note, according to Woodside, LNG buyers are now paying more (close to the oil-price equivalent) than they ever have before as they search for cleaner sources of energy (with coal being the baseline).

> LNG - gas that has been cooled to liquid for transport in ships - has previously been supplied at a cheaper rate than oil, but demand is surging as energy use grows and countries seek cleaner forms of energy than oil and coal. Woodside Petroleum chief executive Don Voelte said he had signalled a portfolio review in light of the growing global demand for LNG. ...
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> Woodside operates more than $22 billion worth of projects, and today said the challenges of bringing on more projects are growing. "Developing major resource projects is becoming an increasingly expensive proposition," Mr Chaney said in a statement to the company's annual general meeting in Perth. "Scarcity of labour and the increasing cost of materials are now the greatest challenges to your company's growth and profitability," he said.