



Australian LNG project could shut down within weeks

Santos in talks to supply Bayu-Undan gas to domestic market as production rates make liquefaction commercially unviable

18 May 2023 4:29 GMT UPDATED 18 May 2023 4:29 GMT

By Amanda Battersby in Adelaide

Santos looks set in as little as one month to shut down its Darwin liquefied natural gas project in Australia's Northern Territory as feed gas levels from its ageing Bayu-Undan field offshore Timor-Leste fall below the level required for commercial operations.

The Australian operator is however in discussions with the NT government and some of the infrastructure owners there to potentially deliver gas to the territory and possibly to other domestic customers further away.

“We're still producing at a reasonable rate, [but] it will get to the point when it drops below the rate that makes sense to run an LNG plant,” Santos chief executive Kevin Gallagher told reporters on the sidelines of the 2023 APPEA conference in Adelaide.

“Historically, that would mean you're shutting the plant and you're shutting the field... and there's the loss of revenue for Timor-Leste as well. So, we're looking at whether we can produce at a lower rate, [so that] even though the LNG facilities [are] shut down, [we can] produce gas into the domestic market, which could then come east as well as south.

“It could be a matter of a month or two, it's pretty close,” he said.

The Northern Territory has been struggling with a reliable gas supply since last year when production at Eni's Blacktip field declined faster than had been anticipated – the Italian operator is said to be trying to rectify the issues at its offshore field.

Analyst sources suggested that the NT government of late has been buying volumes from Santos and Japan's Inpex, which operates the Ichthys LNG project, to meet domestic demand. Gallagher admitted that Santos had supplied emergency gas “from time to time” to the territory but denied his company was behind February's ramp-up in volumes.

Bayu-Undan is a crucial revenue stream for Timor-Leste, accounting for 92% of its GDP (gross domestic product) last year.

The gas and light condensate field came on stream in 2004 and the single-train Darwin LNG project, which has nameplate capacity of approximately 3.7 million tonnes per annum, was commissioned two years later with an original design life to 2027. Once the liquefaction plant is shut in, Santos intends to get to work on the DLNG life extension project to prepare it to receive backfill gas from the company's greenfield Barossa gas development that is targeting start-up in 2025.

Several brownfield work packages are expected to be on offer for this life extension project.

The NT government-owned Power and Water Corporation (PWC), which is responsible for electricity supply, in 2006 signed a 25-year deal to buy gas from Eni's Blacktip field in the Joseph Bonaparte Gulf, southwest of Darwin.

Partners in Bayu-Undan and Darwin LNG are operator Santos on 43.4%, SK E&S with 25%, Inpex having 11.4%, Eni on 11%, Jera with 6.1% and Tokyo Gas on 3.1%.