

**ECONOMICS AND INDUSTRY
STANDING COMMITTEE**

INQUIRY INTO DOMESTIC GAS PRICES

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 22 NOVEMBER 2010**

SESSION THREE

Members

Dr M.D. Nahan (Chairman)
Mr W.J. Johnston (Deputy Chairman)
Mr M.P. Murray
Mrs L.M. Harvey
Mr J.E. McGrath

Hearing commenced at 3.07 pm

TOWNSEND, MR WILLIAM WATERS

General Manager, External Affairs, Inpex, examined:

WILSON, MR RICHARD NIGEL

Government Affairs Adviser, Inpex, examined:

CHIN, MR MICHAEL

Senior Legal Counsel, Inpex, examined:

The CHAIRMAN: Thanks very much for coming. Thank you for your attendance today. This committee hearing is a proceeding of Parliament and warrants the same respect that proceedings in the house itself command. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as contempt of Parliament. In the lead-up to today's hearing you indicated to the secretary that you would request restriction of some of the questions that the committee may pose to you today. In accordance with this request, we can close the latter part of the hearing to the public to discuss these questions in the manner you may be comfortable in answering them. We will go to an in-camera session. Let us know throughout the proceedings if you would rather hold those answers back to the in-camera session.

Have you completed the "Details of Witness" form?

The Witnesses: Yes.

The CHAIRMAN: Did you understand the notes at the bottom of that form?

The Witnesses: Yes.

The CHAIRMAN: I do not know why we are requested to ask you that—signing something you have not read!

Did you receive and read the information for witnesses briefing sheet regarding giving evidence before a parliamentary committee?

The Witnesses: Yes.

The CHAIRMAN: Do you have any questions about giving evidence before the committee?

The Witnesses: No.

The CHAIRMAN: Thanks very much. Do you wish to make an opening statement?

Mr Townsend: I have a statement, yes. Good afternoon, Mr Chairman and committee members. We are here at the request of the committee. I have drafted a prepared statement to address the committee's request. This is a short presentation and we will be happy to answer questions following that if it is amenable to the committee and to you, Mr Chairman. We have discussed the in-camera issues, so we understand those, and will make that clear if there is something we would like to discuss in-camera. Mr Chairman, the committee's request for Inpex to appear before it contained some suggestions in terms of how Inpex might assist the committee and your inquiry into domestic gas pricing by providing information on the prospectivity of the Browse and Carnarvon basins; barriers to exploration and development in Western Australia; the international market for LNG and an update on the Ichthys project. Before addressing the specific questions I would like to provide some information to familiarise the committee with Inpex and our activities in Australia, if I may.

Inpex Corporation is a Japanese company listed on the Tokyo Stock Exchange. It has a cornerstone investment from the Japanese government of 18.2 per cent held through the Ministry of Economy Trade and Industry. The Japanese government also holds a golden share. Japan has few oil and gas resources of its own, and the formation of Inpex Corporation was specifically designed to ensure Japan has a secure source and supply of energy. Inpex has been active in Australia since 1986 and has invested more than \$3 billion in the Australian economy since that time, mostly in Western Australia and mainly through the acquisition of stakes in producing oil and gas fields and on exploration. Inpex holds non-operator stakes in the Van Gogh and Ravensworth developments offshore Western Australia and in the Bayu Undan gas development in the Timor Sea and associated LNG processing facilities at Wickham Point in Darwin. These non-operated activities are managed from our Tokyo headquarters.

In 2000 an Inpex exploration program in the Browse Basin discovered the Ichthys gas and condensate field approximately 450 kilometres north of Broome. Since then the main activity of Inpex in Australia has been the development of a world-scale project to commercialise the Ichthys gas and condensate resource in partnership with Total E and P Australia, which has a 24 per cent stake in the Ichthys permit, WA-37-R, and WA-285-P. Ichthys is central to Inpex Corporation's publicly announced aspiration to become a mid-sized internal oil and gas company supplying the Japanese market through a vertically integrated operation that stretches from exploration through to delivering petroleum products and natural gas to customers by 2020. We are making good progress on the Ichthys project and a final investment decision is expected in Q4 2011.

Onshore, the natural gas liquefaction plant, the front-end engineering and design, is virtually complete. Offshore, which comprises the central processing facilities, the floating production storage and off-loading vessel and the gas export pipeline, FEED continues and invitations to tender have recently been issued for major offshore scopes of work, including for the central processing facility, the FPSO, and the umbilicals, risers and flowlines.

[3.14 pm]

These are major contracts. We have formally submitted an application for a licence for a pipeline route to Darwin. Inpex and Total are jointly marketing LNG from the Ichthys project. Talks are well underway with buyers. All of our marketing activities are managed exclusively from Tokyo. Inpex recently raised \$US6.6 billion through a global share issue for Ichthys, with further financing for the project to be drawn from commercial lenders and export credit agencies. Financiers are undertaking due diligence at this time.

Perth is the FEED headquarters for Ichthys. Today we have around 300 staff working from our St Georges Terrace offices. We have also established a small office in Darwin with four staff. To date we have spent nearly \$900 million in Western Australia on developing operated projects, principally Ichthys. Inpex's Australian workforce is involved in project management and engineering as well as the selection of contractors and suppliers, the obtaining of government and regulatory approvals such as those required for environmental management, and stakeholder engagement. It may help the committee if I report that Inpex Corporation has not received a formal commercial proposal to supply gas to domestic customers either in Western Australia or in the Northern Territory.

On the prospectivity of the Browse and Carnarvon Basins specifically, we are not in a position to comment other than to point out that we and our partners have made discoveries in offshore WA, including Ichthys and Mimia in the Browse Basin, and van Gogh and Ravensworth in the Carnarvon Basin. We maintain exploration acreage and continue to invest in both basins.

Information on the resource contained in both basins is supplied by individual operators, including us, to the Western Australian government as the designated authority under the present arrangements covering offshore exploration in areas administered under commonwealth law. We point to those departments for further information on prospectivity.

With regard to barriers to exploration and development in Western Australia: to the specific question of whether there are barriers to exploration in Western Australia, we have not encountered any worth noting. In regard to barriers to development, we would, however, suggest that land access is a critical issue for LNG developments, particularly in the north. Access to land was the determining factor in the decision to choose the Darwin onshore location for the Ichthys development. We were unable to secure certainty around land access at a Western Australian location within our required time frame and we therefore chose to develop the project at a location in the Northern Territory where we could achieve certainty of land access. It is important that I emphasise that this decision was apolitical and was made on the grounds of expediency.

Last year Inpex Corporation was granted a retention lease over WA-37-R and we are currently negotiating a field development plan with regulatory authorities. We are now in the middle of a seismic acquisition program that is designed to further delineate the Ichthys reservoir. We are also in the process of preparing a supplement to the draft environmental impact statement following an eight-week public review period earlier this year. We plan to submit the supplement to the EIS early in 2011.

On the international market for liquefied natural gas: the Ichthys project activities at our Perth headquarters do not extend to marketing of planned production from any of our facilities. This is handled directly by our head office in Tokyo; thus we are unable to provide information to the committee on the international LNG market other than that which is in the public domain.

Mr Chairman, I would like to circulate our latest update on the Ichthys project and respond, if I can, to any questions that you may have

The CHAIRMAN: Just a bit on Inpex: you have described its investments here in Australia.

Mr Townsend: That is right.

The CHAIRMAN: What other things does it do in Japan, for instance?

Mr Townsend: It might be useful to go through the presentation. The very first slides of the presentation itself address some of these. I might be able to —

The CHAIRMAN: It is mainly an oil and gas —

Mr Townsend: We are Japan's largest oil and gas company. Our activities are exclusively around oil and gas activities. We are active in 26 countries around the world, with 76 separate operations in those 26 countries. Principally, we have been an investor; so a non-operator rather than an operator of projects. Ichthys represents a step out for us in that regard. It is not an exaggeration to say that it is the single most important project for the company at this time. It is central to the corporate strategy to become a vertically integrated oil and gas company by 2020. At the moment we have roughly 400 million barrels of oil equivalent a day production. We are aiming to almost double that by the end of the decade. This project is really central to realising that.

[3.20 pm]

The CHAIRMAN: The Japanese government has two forms of ownership.

Mr Townsend: It has one form of ownership.

The CHAIRMAN: The ministry of economics —

Mr Townsend: It is METI - the Ministry of Economy, Trade and Industry.

The CHAIRMAN: It has equity in it, and then you have a golden share.

Mr Townsend: Also through the same entity. There is an 18.2 per cent stake as well as the golden share.

The CHAIRMAN: They do that because of the strategic nature of it.

Mr Townsend: Yes.

Mr Wilson: It is the only company in Japan with a Japanese government stake holding that has a golden share.

The CHAIRMAN: That has a long history to it.

Mr W.J. JOHNSTON: What does the golden share entitle the government to do?

Mr Wilson: It stops the board selling out the company from underneath the stakeholders.

Mr W.J. JOHNSTON: Does it have any other rights?

Mr Wilson: No. That is the only reason it is there.

The CHAIRMAN: Does Inpex have very many investments in Asia outside of Australia?

Mr Townsend: Indonesia is at the heart of our operation.

The CHAIRMAN: So you have equity in that BP one?

Mr Townsend: Yes, in the Tangguh LNG project. Inpex originally stood for Indonesian petroleum exploration and our initial fields were all in Indonesia. I believe I am correct in saying that to this day in terms of barrels of oil equivalent, we are the largest producer in Indonesia. In terms of the LNG area, we are a participant in the Tangguh project operated by BP but also in the Bontang LNG project, which until recently was the largest LNG project in the world. It has recently been overtaken.

The CHAIRMAN: How long has Inpex been investing in Australia?

Mr Townsend: Since 1986.

The CHAIRMAN: Mainly in gas or looking for petroleum generally?

Mr Townsend: In both oil and gas.

The CHAIRMAN: What makes Western Australia attractive relative to other places? You mentioned that this venture is a first off in some sense for the company because it is the first one in which you are the major operator.

Mr Townsend: When we discovered it, we had a 100 per cent stake in the field. It is sizeable—roughly 12 TCF of gas. It also has a very attractive condensate, a liquid component, roughly 500 million barrels, which represents the largest liquid discovery in Australia since Bass Strait. It is a very attractive resource. In that sense, Western Australia is blessed to have significant resources. Beyond that, the nature of the LNG business in particular relies on long-term contracts. The nature of the Australian investment environment and the political climate makes it attractive for a long-term proposition, particularly when you compare it to other countries where oil and gas is frequently discovered.

The CHAIRMAN: When did you start a drilling program?

Mr Townsend: We discovered it in 2000, roughly 10 years ago.

The CHAIRMAN: Did you just put it on a retention lease for a while? Back then the oil price was not that high.

Mr Townsend: We drilled. We made the discovery and since then we have been working to commercialise it, and that has underpinned our retention lease application. We have been working to commercialise it as quickly as possible.

The CHAIRMAN: The history is that you found it. Did you need to do more drilling?

Mr Townsend: We did more drilling to size up the resource. In 2006 Total farmed into the project with a 24 per cent stake. We have been working on building our team here, assessing the fields and getting our approvals in place. We have gone through a concept selection. As you would understand, a lot of work needs to happen in order to determine what you want to develop. We landed on an LNG project due to the nature of the field.

The CHAIRMAN: I am trying to get a grasp, at least from your case study, of the history of these things. You found that you had to do more drilling. You never put it on care and maintenance like Scarborough.

Mr Townsend: No. From day one, we recognised it as a significant discovery and we have been working to commercialise it.

The CHAIRMAN: It has taken 10 years to get to that stage.

Mr Townsend: Roughly, from the first discovery.

The CHAIRMAN: How much money would you have invested to date?

Mr Townsend: In Western Australia?

The CHAIRMAN: On Ichthys.

Mr Townsend: The majority of the almost \$900 million I referred to earlier would have been spent on Ichthys. I think it is safe to say that in excess of \$800 million would have been spent on developing the Ichthys project in Western Australia alone.

The CHAIRMAN: Besides drilling, have you put any rigs or pipeline in yet?

Mr Townsend: No. Right now we are in the front end engineering and design phase of the project. We have gone through a concept select. We have virtually completed the onshore component of the FEED phase of the project. We are still in the engineering stage, working towards a final investment decision, which is due next year.

The CHAIRMAN: Will the onshore FEED be back in Darwin?

Mr Townsend: That is correct.

The CHAIRMAN: Why did you move the FEED or the processing unit from onshore WA, or included perhaps an island, to Darwin?

Mr Townsend: There is a bit of a history here. Our initial development proposal was to locate the facilities at Maret Islands, which is the closest land to the offshore fields. We did extensive work, in consultation with both the state and federal government at the time, to progress that proposal. During the process of working up that development, we were advised by the then state government that it was looking at a hub concept, the idea being that the state did not want to have multiple LNG facilities dotted up and down the coast, particularly in the Kimberley. At the initial point, it was understood that because our project was so far advanced, we would be outside of that hub process. Over time and through consultation, it became clear that the state preferred that we engaged as part of the hub process in what was called the Northern Development Taskforce. We participated in that. We made the case that the Maret Islands could and should be selected for the hub location. Ultimately, it became evident that that was not going to be the case, in spite of the fact that we had already spent tens of millions of dollars there and considerable resource to develop the Maret Islands and we would be back to square one really on a WA location whereas in parallel we were provided with an offer from the Northern Territory government of a location in Darwin Harbour that was ready to be developed effectively from that point forward. We were really presented with a situation in which the only available land for the project to proceed was in Darwin as opposed to anywhere in Western Australia.

The CHAIRMAN: What are the time lines on these—when did you first decide to look at Maret Islands to the time you decided to move to Darwin?

Mr Townsend: In 2002 we started doing an overall survey of locations. We probably landed on the Maret Islands by 2006—it was fairly well established by then—and work would have probably begun in earnest in 2006 on advancing the Maret Islands, and ultimately we moved to Darwin in 2008.

[3.30 pm]

The CHAIRMAN: Okay. What were the problems with the Maret Islands? The previous government wanted to have a hub and congregate the prospective LNG operations in a limited number of spots. Was that a major issue?

Mr Townsend: That is right. As I understand it, the state government wanted to identify a single site for LNG processing and potentially other processing. The Maret Islands are fairly remote, of course. Perhaps the land size did not afford the expandability that the state was looking for. I do not know whether we are the right people to be asking about that. That was not our decision. We did actively participate in the Northern Development Taskforce process. We made submissions and participated in meetings and workshops, and I personally travelled to all the sites that were being considered—at least by air—to oversee them and assess them.

The CHAIRMAN: The fact is we do not have a site yet, do we?

Mr Townsend: That is correct. There is a preferred location, as I understand it, but the security of land access is a major issue for LNG projects wanting to develop.

The CHAIRMAN: The Browse Basin, through evolution, would be the outcome of that task force?

Mr Townsend: That is right. The James Price Point, Kimberley LNG precinct.

The CHAIRMAN: If you had relied on that, would you still be waiting?

Mr Townsend: I think that is a fair statement, yes.

The CHAIRMAN: One of the issues, in the literature at least, is that you decided to put that pipeline from, I assume, your stationary platform, all the way to Darwin. That is pretty rugged coastline. Were you going to do that underwater?

Mr Townsend: It is a sub-sea pipeline. As rugged as the coastline is, the seabed is very benign. It is a sandy seabed so there are no major obstacles to doing that. Our development proposal is for a semi-submersible platform. I can point you to some slides on that. Slide 11 shows the offshore development. We are looking at a central processing facility. It is semi-submersible platform that is permanently anchored in the field and would treat the initial gas and condensate, and separate those. There is an FPSO infield that is permanently moored to treat 85 to 90 per cent of the condensate. That would be offloaded to market straight from the field for the condensate.

The CHAIRMAN: Your condensate rate is higher than for the North West Shelf.

Mr Townsend: It is a very rich field in condensate.

Mr Wilson: It will be bigger than Laminaria when it is producing.

Mr W.J. JOHNSTON: I am wondering of the 26 other countries you are operating in, do you have production sharing agreements or other arrangements in those other countries?

Mr Townsend: In some countries we would have production sharing agreements. It would depend on the country and how they run their business. It is certainly not unusual in our business for countries to enter into production sharing agreements or contracts.

Mr W.J. JOHNSTON: At the moment, do you sell any gas out of your own Bayu-Undan facilities to Australia, or is that all LNG export?

Mr Wilson: For Bayu-Undan, we are just a small part in the venture. All the Bayu-Undan gas and the liquids, as I understand it, go to the world market and, indeed, to Japan—3.3 million tonnes is taken over to Japan for an electric power company and a gas company.

Mr Townsend: I believe they have an agreement in place to supply gas to Darwin in the event that that is required. Effectively, as I understand it, the Northern Territory's gas demand is currently being met by other sources, so the Bayu-Undan and Darwin LNG facility is largely for export, although in an emergency, there is an agreement that it could be supplied into the market.

Mr W.J. JOHNSTON: Just to clarify, you said that Inpex was originally created to deal with the security of supply of energy for Japan?

Mr Townsend: Yes.

Mr Wilson: It stems from the oil “shoku” in the 1970s.

The CHAIRMAN: It is not just for LNG.

Mr Wilson: It was, essentially, for oil originally. As the petroleum industry worldwide has matured, it has moved on to gas.

Mr Townsend: You will appreciate that Japan does not have large natural resources of its own for energy. It is a strategic move by the government.

The CHAIRMAN: Do you have any requirements in Darwin to provide—if you built the processing unit from the Inpex project in Darwin, does the territory or federal government lean on you to provide domestic gas?

Mr Townsend: No. Other than perhaps as an emergency supply. No, there has not been a request of that nature. Again, we believe that is due to the fact that the market is largely being met by other sources, including black tip.

The CHAIRMAN: As a major world investor, what do you think about the retention leases that the Western Australian government has, in terms of risks, assessment or otherwise?

Mr Townsend: I do not know whether I can comment in terms of the overall global picture, but I can say that we are quite comfortable with the arrangements that are in place in Australia and our ability to meet them and work within the legislation as it is drafted.

The CHAIRMAN: You can work within the rules of the land.

Mr Townsend: In my statement I said it was specific to Western Australia, I guess, but it holds true for Australia that we are quite satisfied with the arrangements in place here.

The CHAIRMAN: The policy is to require projects to provide 15 per cent of their total production, with negotiations. The project, in essence, is quite flexible, okay. One of the issues is that projects such as yours are pretty isolated in distance from any pipeline. One of the potentials is to require projects such as that to still meet the 15 per cent but to get the gas from somewhere else.

Mr Townsend: Yes.

The CHAIRMAN: What do you think about a policy such as that?

Mr Townsend: We actually had direct experience in dealing with this policy at the time the policy was introduced. We were contemplating our development on the Maret Islands. We entered into direct discussions with the then DOIR—the predecessor to the Department of State Development. We provided a written offer of how we would meet the requirement. We did not receive a response because the response was contingent upon land access being identified in Western Australia —

The CHAIRMAN: Other than the Maret Islands?

Mr Townsend: It could well have been the Maret Islands. The policy, as I understand it, cut its teeth through an onshore development project in Western Australia. To the extent that that was not yet in hand at the time we were negotiating and made our proposal, the DOIR said it would come back to us once that land arrangement had been finalised. We did not receive a response, but we came up with what I believe was a credible and legitimate offer to comply with that.

The CHAIRMAN: If you built on the Maret Islands, would you have agreed to a retention lease, or a proportion of your gas being sold into the domestic market and were you going to source that from, I assume, some other means?

Mr Townsend: First and foremost, our position is very clear that we would comply with the laws and rules of the land, and this is no different in that regard. The proposal that we came up with was not along those lines. That might be something we can talk about in camera, given there are some commercial aspects of it.

The CHAIRMAN: Okay.

Mr M.P. MURRAY: Looking at the map, what ruled Derby out as an onshore base? As the crow flies, what was wrong with Derby as a site?

[3.40 pm]

Mr M.P. MURRAY: Yes. We do not want technical detail. It is just when you look at a map like that, you go, well, that is the closest place.

Mr Townsend: The main issue is access to deep water for the LNG tankers. King Sound has very strong, high tides. I believe the world's second highest tides are in King Sound. The navigation of large LNG tankers into and out of King Sound prohibited that. Derby itself, if you have been there, the port during certain times of the day is a mud field. In fact, these tides, which are eight-plus metres, I believe, are very evident. For an LNG operation, we were looking at a 24/7 kind of operation. The ships would not be able to come in and safely moor with the tides being what they are.

Mr Wilson: Mr Murray, the Department of Transport was one of the organisations that assisted the Northern Development Taskforce, and it held that the Derby area was unsafe for LNG tankers to move. That was one of the reasons why the Northern Development Taskforce did not pick Derby as the site for an LNG hub.

Mr W.J. JOHNSTON: Where onshore would have been appropriate? Did you make a request for any particular location onshore in the Kimberley?

Mr Townsend: The process was such that we had selected the Maret Islands and were developing that, and then the Northern Development Taskforce commenced its process; so in effect with that process ongoing we chose to cooperate with the Northern Development Taskforce and work with the Northern Development Taskforce to assist in their thinking around onshore locations.

Mr W.J. JOHNSTON: You did not have a view that this spot would have been good or this other spot would have been better or anything like that?

Mr Townsend: Well, we did have views which we communicated to the department at the time, in terms of each location was assessed, and we offered key insights into what we saw as being the pros and cons of each site.

Mr W.J. JOHNSTON: But you did not have a preferred location on the Kimberley coast?

Mr Townsend: Our preferred location was always the Maret Islands. I hate to dwell on that.

Mr W.J. JOHNSTON: Just in respect of the Maret Islands, who owns them?

Mr Townsend: The traditional owners are the Uunguu people, represented by the Kimberley Land Council in terms of their native title dealing.

The CHAIRMAN: Did you have agreements with them to develop at the Maret islands?

Mr Townsend: We were in negotiations with them to develop on the Maret Islands, yes. We had established a good relationship with the Uunguu people themselves.

The CHAIRMAN: So in 2008 you decided to go to Darwin. You had done some work on the Maret Islands.

Mr Townsend: We had done significant work on the Maret Islands.

The CHAIRMAN: Like what?

Mr Townsend: Geotechnical evaluations, environmental surveys, flora and fauna, and bathymetry. We had developed concepts and layouts, and we had looked at how we could actually develop it in terms of phasing and the engineering work required. We even, once the Northern Development Taskforce was established, undertook to do some studies that showed how it could be expanded. I do not remember how many trains we squeezed onto the islands, but we wanted to show the maximum case to make it if it were to be developed as a hub.

The CHAIRMAN: How much did you spend, do you think?

Mr Townsend: It was tens of millions of dollars. I could not be more precise than that without looking.

The CHAIRMAN: And then in around 2006, the Northern Development Taskforce was set up and basically said that they wanted to have a concentrated hub rather than have them sprinkled around.

Mr Townsend: Yes; and that is a concept that makes sense to us.

The CHAIRMAN: But with many of those discoveries, you do not know what you are going to find out, though. You said that you were told that you had to move to that hub once it was established, but it did not fit your time schedule, so you looked at the alternatives and you went to Darwin. That is how the story unfolded, is it not?

Mr Townsend: The only gas location in northern Australia at the time that we were looking to make the decision was in Darwin, that is right, and it was not a—for us, it was an apolitical decision. We were just looking at it from an expediency and from a practical standpoint; that is, if we wanted to develop the resource in the time frame that was required, both under the retention lease and by our stakeholders.

The CHAIRMAN: Japanese firms have a long history of being very apolitical. I am not saying that in a political manner. I am just stating that as a reality. The cost of the pipeline, what would that be?

Mr Townsend: The overall development cost is greater than \$20 billion for Ichthys. I could not break it down. We are right now in the middle of a FEED process. One of the outcomes of that process is actually a cost. In December we will go out with the invitation to tender for the gas export pipeline. It is only when the tenders come back with the bids that we will be in a position to know what the cost of that is.

The CHAIRMAN: Is it possible that you will turn your focus south to the Browse Basin? If the Browse Basin at James Price Point was there now, would you consider going there?

Mr Townsend: To James Price Point? Yes. Our position has been, and continues to be, that if a gas hub is developed at James Price Point, we will consider it for future developments beyond Ichthys. For the Ichthys project, 2008 was when we needed to make a decision on the location. The engineering work that sits behind these LNG developments and the complex engineering that is required is very site specific. So we would be going back years in time if we were to look at a different location, other than Darwin. Just to be clear, it has not been contemplated since making the decision in 2008.

The CHAIRMAN: Shell is talking about floating platforms for Prelude. Have you considered that for Ichthys?

Mr Townsend: For Ichthys we did not consider floating LNG, for a number of reasons. One is that it is a new technology and unproven; and one of the criteria that we have for our developments is that they use proven technology. So that is one aspect of it. Another is that the size of the resource is not compatible, we do not believe, with floating LNG. Floating LNG as proposed for the Prelude development, among others, is appropriate. I think the industry conventional wisdom would suggest that for resources in the three to four TCF range, it is appropriate; but any bigger than that, you would need to have either multiple facilities, or it would make more sense to do a more

conventional, if you will, proposal. I think it is really for what they call stranded resources. But, again, it remains to be seen if it can be done.

The CHAIRMAN: You are working in a very isolated area. Have you seen costs of production and costs of operating and building go up rapidly since you have been looking over the last 10 years?

Mr Townsend: There are two parts to that question, I suppose. One is that costs for the overall industry have been going up quite substantially. Whether or not that is linked to the remoteness of the field is probably arguable. I would actually disconnect the two. The oil and gas industry is a global industry, particularly on the engineering side, and so in spite of the eventual location of our facilities, many of the resources that we are competing for would be on a global basis. So it is difficult to say that it is due to the remoteness of the field.

The CHAIRMAN: It is just that people have said that the north west is very remote, and therefore the remoteness increases the costs substantially. You are particularly remote. There are not too many delis to go to up there.

[3.50 pm]

Mr Townsend: Sorry to interrupt, but in terms of our offshore facilities, once you are offshore you are offshore, so I would not think that there are too many delis next to Bayu–Undan. You could be 20 kilometres off the coast of Sydney or Perth and there are not too many delis there either. Our development actually, in some ways—to that same point, one of the attractive features of Darwin is that it is a capital city; it has infrastructure in terms of attracting and retaining workforce. In that sense it does have delis and it does have other things that a greenfields site in —

The CHAIRMAN: That is one of the countervailing benefits of putting it in Darwin; it is a capital city—a bit different from Karratha.

Mr Townsend: That is one of the features that certainly was highlighted to us by the NT government at the time, but it is certainly something that we also believe makes that a good location for us.

Mr M.P. MURRAY: This is a little bit different, but just an overall view on reservation policies, firstly, from your company and then what you believe the industry view is—do not worry about how much or whatever—into the future on reservation policies and the impact on investment. One is, what do you think of it yourself; the other one is, what you are hearing in industry; and the third one is about the impact that a reservation policy would have on investment.

Mr Townsend: I can take the third one first maybe, which is the —

Mr M.P. MURRAY: Okay, that is fine; whichever way you want.

Mr Townsend: That is basically the easiest one to answer. A reservation policy makes the biggest difference on projects that are marginal, I suppose. So if a project is marginal, it will get factored into the economics of the project, so anyone analysing the project economics will factor the reservation policy into their thinking. From a corporate perspective or if you are trying to develop a project, it is I suppose one more consideration that needs to be developed and thought through and considered, both in the development of the field and also in the economics of the project.

In terms of our corporate view, I think I covered it earlier in saying that we did look at it very seriously. We came up with a proposal that we believed met the spirit of the policy itself and we were fully willing to comply with it. For the Ichthys field, I think the main point that was raised earlier is that Ichthys is an awfully long way from any markets so you had to be creative when you were thinking about how you might meet the policy.

Mr W.J. JOHNSTON: But, just to summarise, it was not a deal breaker in respect of that?

Mr Townsend: No, it was not at all.

Mr Wilson: Very large cashflow businesses.

Mr Townsend: No, it was not a deal breaker at all in our consideration; it did not enter into any of the —

Mr W.J. JOHNSTON: Because this is not the marginal project, is it? It is a world-scale project, as you described it.

Mr Townsend: Right, and we have our corporate positions. I think personally there might be some other views that could be shared on that, but for us it was not a deal breaker. It was —

Mrs L.M. HARVEY: So just to be clear, you do not currently have any reservation policy that applies to the Ichthys project?

Mr Townsend: That is correct.

The CHAIRMAN: Because you are in commonwealth waters.

Mr Townsend: Hmm—commonwealth waters going to NT.

Mr Wilson: As I understand it, the only way that this arose was by the state government arguing it had a land management control, so if you actually wanted access to land on the shore, you then as an LNG project were subject to whatever the iteration of the reservation policy was at the time. As this project is actually essentially offshore, except in Darwin where we do not have a reservation, it does not apply.

The CHAIRMAN: You have mentioned you have part-ownership of the Van Gogh and the Ravensworth fields. Where are they? How large are they? Can you describe those?

Mr Townsend: They are in the Carnarvon Basin. Van Gogh is operated by Apache; we own 47 per cent of that project. I believe it is 80 000 barrels a day production

The CHAIRMAN: Is it oil?

Mr Townsend: Oil, yes—both are oil. Ravensworth production is about 47 000 barrels a day. That is a BHP-operated project. They are both in the Carnarvon Basin. There is a map on page 4. The Carnarvon Basin on the bottom left there shows the locations of both Van Gogh and Ravensworth.

The CHAIRMAN: Do you have any other permits or a share in permits in the area—in Western Australia?

Mr Townsend: Yes. Again, if you look at slide 4, you will see that permit A is where we are active.

The CHAIRMAN: In the Browse Basin you have Ichthys, then you have Mimia.

Mr Wilson: They are the discoveries.

The CHAIRMAN: They are discoveries.

Mr Townsend: We have had a discovery in WA-344-P, which is the Mimia discovery. The operating fields that we have are the Ichthys, which is covered under the retention lease 37-R, and then WA-285-P for the exploration area. Mimia is in 344-P and we operate our 343 and 341 as well.

The CHAIRMAN: Okay, how many of those are you drilling now?

Mr Townsend: At the moment, we have a seismic survey over the Ichthys field and we do have a commitment well, I believe next year, on 341.

The CHAIRMAN: You have those permits, you drilled Ichthys and are doing some more seismic, you drill at Mimia —

Mr Townsend: Yes.

The CHAIRMAN: But you have not drilled that much more of your permit in that area, have you?

Mr Townsend: It is fairly recently that we farmed into those—acquired—341, 3 and 4.

The CHAIRMAN: I guess what I am getting at is that you have a pretty high discovery rate in that area.

Mr Townsend: I think that is fair to say—yes.

The CHAIRMAN: Two out of two, is it not?

Mr Townsend: I would not say that it is a perfect record, but we certainly have been pleased with what we have been able to discover. Ichthys in particular has been —

The CHAIRMAN: But they are close enough together—I mean, this is a small-scale map. If you were discovering gas, that would be a good long field if you got it going.

Mr Wilson: I think we do say that the field itself has a closure of 400 square kilometres—it is huge. But having said that, Mimia is about 70, is it not?

Mr Townsend: Seventy kilometres.

Mr Wilson: Seventy kilometres away from where we —

Mr Townsend: Page 10 shows the Ichthys field laid over Perth, just to give —

The CHAIRMAN: That is just the Ichthys field too!

Mr Townsend: That is just Ichthys. But you would have access to information from all the operators. I believe there is a lot of enthusiasm about the Browse Basin, I think it is fair to say, in the industry.

Mr W.J. JOHNSTON: You have some white space between Ichthys and Mimia. Is that somebody else's spot? They would be excited to be between —

Mr Townsend: That is the Shell Prelude.

The CHAIRMAN: Is it?

Mr Townsend: It is.

The CHAIRMAN: Are you going to buy them out?

Mrs L.M. HARVEY: They might request in camera protection!

The CHAIRMAN: This is the stuff that Nigel used to talk about all the time!

Mr Townsend: That is right.

Mr Wilson: Dr Nahan, you may or may not remember that when the acreage next door to Ichthys was put up for auction by the Australian government, Inpex bid a very sizeable work program but Shell bid a bigger one, so under the terms the government decided it was going to go with Shell. It is an interesting development.

The CHAIRMAN: Yes it is. Good pick up, Bill!

Mr Townsend: I believe they call it the F Block for obvious reasons!

The CHAIRMAN: But generally for the Browse, you and others you watch will have a pretty good, let us say, rate of discovery, a good return on drills in the area.

[4.00 pm]

Mr Wilson: It is slightly different. I think we have had two campaigns or three campaigns.

Mr Townsend: Eight wells in total.

Mr Wilson: Eight wells in total. Not all of them were discoveries. Not all of them actually produced a result; some of them were dry holes. To argue that because you have a discovery at Mimia and a discovery at Ichthys, the easy perspective that you have got two out of two is not quite right.

The CHAIRMAN: Where is Karoon drilling?

Mr Wilson: Further out, I think. They are a bit north of Mimia.

Mr Townsend: I think they are north west.

The CHAIRMAN: Next to WA-274-P?

Mr Wilson: I seriously do not know what the permit area is.

Mr Townsend: From memory, it would be in that area somewhere, but I could not say specifically.

The CHAIRMAN: They are the darlings of the stock market, of course.

Mr Wilson: They have allowed themselves to become darlings of the stock market.

The CHAIRMAN: Shall we go in camera?

Mr Townsend: There was a question on our domestic gas.

The CHAIRMAN: Do you want to go in camera on that?

Mr Townsend: I do. It involves a third party.

The CHAIRMAN: Why not?

[The committee took evidence in camera]
