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Mitsubishi backs $800m gas solution for South Australia

by Matthew Stevens

Japan's Mitsubishi Corporation is backing the joint venture that is working to solve South Australia's future energy needs with a "virtual pipeline" project that would see liquid natural gas imports linked to a new firming capacity power station.

The now $800 million project proposed, which was reported first in *The Australian Financial Review* in March last year, has been developed by a group of former BHP managers who work at Melbourne-based management consultancy Integrated Global Partners.

In the wake of the *Financial Review's* story, IG Partners was approached by a host of interested investors and discussions concluded with Mitsubishi earning an exclusivity deal on the project's future and with substantial equity in the joint venture.

Mitsubishi has invested $15 million to fully finance a feasibility study on a proposal to land imported shipments of liquid natural gas at Pelican Point, 20 kilometres south of Adelaide, where it would be converted, stored and used to fuel a related power station development and be sold into South Australian gas markets.

It is understood the milestone agreement with Mitsubishi could see a further $5 millio

In February the *Financial Review* revealed that former Santos executive James Baulderstone had lured Marubeni and the emperor of LNG traders, JERA, into a joint venture with Andrew Forrest that aims to rescue he state from its twin gas and power dilemmas.

Baulderstone's project has apparent access to the intellectual and financial capital needed and the former Santos and Duet executive is currently working to make a decision on which regional NSW port might be the best site for his floating re-gas and storage vessel and is attempting to lock in custom for the gas and power he wants to sell.

As constructed at present, the Baulderstone plan would see the Forrest-led Australian Industrial Energy joint venture secure the economics of its re-gas terminal by "facilitating" construction of a 750 megawatt power plant that would offer firming supply to the fragile east coast power markets.

The third re-gas proposal is slightly different both because it is not driven by a market disrupter and because the investment proposition is not sustained by building cornerstone gas demand through the related construction of new power generation.

AGL has committed $20 million to fund feasibility work on building a gas import facility at Crib Point on Victoria's Western Port Bay. AGL has targeted 2019 for a final investment with the aim of delivering first gas by 2020-21.

It is clear that the Outer Harbour project sits closer in strategy to Baulderstone's AIE market fields, enters a decline made more rapid by the failure of some of the Gladstone export proponents to align gas production with their export capacity.

Meanwhile, according to recent customer pitches seen by the *Financial Review*, the South Australian project has matured and expanded significantly since we last looked at it.

Now called the Outer Harbour Power Project, the proposal is that a re-gas and storage vessel would be parked at a new wharf to be built at Pelican Point. It would then be connected to a 540 megawatt power station that would feed into the state grid through the same infrastructure (if capacity expanded) that connects an existing and recently re-activated plant that is owned by Engie.

Customers have been assured that negotiations with the port authority are at a mature stage with a level of agreement reached over securing the last available slice of the outer harbour, which already hosts a fuel landing facility.

Discussions over access to a nearby property that will be the site of the power station are continuing. The best site is owned by the port authority but it is not clear whether the site can be acquired or whether it will need to be leased.

Talks with the South Australian government, on the other hand, remain at a very high level. It is not clear when new Premier Steven Marshall might receive news of gathering progress but it is hard to imagine there might be any objection to a plan that introduces new private capital to pay the price of filling a future power supply gap that the official forecaster has said will hit 600 megawatts early in the next decade.

The most obvious targets for foundation supply contracts would be the power-short retailer AGL, which owns about 70 per cent of the state's retail market, and distant heavy users such as miner BHP, which has been casting a wide net for options that generate supply security ever since the statewide blackout back in October 2016 that threatened to destroy its Olympic Dam copper processing facility.

18 months and cost about $3 billion and the miner lost power more briefly again in November 2016, it is an energy security issue that BHP simply cannot tolerate.

Olympic Dam is already the state's biggest single power user and its needs will likely grow by 20 per cent with the expansion. BHP wants to invest an estimated $US2.1 billion to lift Olympic Dam name-plate copper production from the rarely achieved 200,000 tonnes a year to 330,000 tpa by 2023. To make that happen, BHP will need, among many things, surety of power supply.

The other big Gawler Craton operator is Oz Minerals, and like BHP, outside of mitigating risks made obvious by the two-week outage, it needs to find a good deal more power, given rapidly maturing expansion plans.

Put simply, Oz is moving to double its South Australian mine fleet and its copper production. While it is working to add material amounts of renewable power to its supplier base, no matter how you cut it, Oz will need to draw more rather than less from the network to keep its lights on.

It would be a fair bet that duration and quantum of future power demand in South Australia's copper country will attract the interest of Baulderstone's EIS venture. Given the obvious and huge distance between wherever EIS sites either its re-gas or its possible power plant, direct sourcing will not be an option. But, for mine, swapping gas would be.

The idea there would be to save transportation costs by doing swap deals with Cooper Basin producers that are supplying into NSW. The EIS gas could be delivered more cheaply to those customers while the swapped gas could be landed with the miners.

There are complexities aplenty with that solution though, not the least of being that someone would have to build a new power plant near Olympic Dam and then link it to the Oz fleet. The other core challenge would be lining up Cooper Basin ducks enough to build a pool of swap volumes big enough to meet the miner's demands.

in his pathway to the Global Australian's executive was running the Olympic Dam facility.

As well, the managing partner of IG Partners is Herman Kleynhans, an 18-year BHP veteran, who sits on the new venture's board, while the project's managing director, Kym Winter-Dewhirst, has long experience with both the SA government and BHP. After a career as a political lobbyist, Winter-Dewhirst worked with the BHP copper team in Adelaide before being appointed chief executive of the SA Department of Premier and Cabinet in 2015, a job he left February 2017. If things go to plan Winter-Dewhirst is within reach of making a Macarthur-like return to home territory.

BHP OZL