

Financial Review -

OPINION

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Venice Energy is floating South Australian energy answers



by **Matthew Stevens**

The proponent of South Australia's proposed liquid natural gas terminal finally has a name.

Late last week Venice Energy launched itself quietly into the public domain through a new company website that reveals it is taking a more structured approach to a plan to foster an estimated \$800 million of new gas and electricity capacity at Adelaide's industrial hub, Pelican Point.

Venice, whose initial project investigation has been jointly funded by Japan's industrial megalith Mitsubishi, has divided its project into two distinct stages and pressed the accelerator on the LNG re-gasification phase given it is the gateway for its pitch to resolve South Australia's present and future energy security challenges.

One aspect of the project that is avoided by the website is a new fluidity to the way the discrete wings of Venice Energy's ambitions might be funded. [Until June Mitsubishi had an exclusive call over the future of the project. That exclusivity has been allowed to lapse. But that does not mean that Mitsubishi has left Venice.](#)

The Japanese trading house is still the most likely supplier of gas to the project. But it has freed Venice Energy to offer a more obliging welcome to a growing number of approaches from

potential suppliers and off-takers that are interested in taking a position in the project.

The revised schedule has Venice Energy deep into its approval and regulatory processes by the end of this year with a target of first gas by early 2020. That is a year ahead of the initial planning.

Venice Energy has now secured an option over its preferred site to park its floating re-gas and storage facility, which is the last quay line at the Pelican Point Outer Harbour, operated by Flinders Ports.

There are three obvious reasons to make that so.

First, building yourself a 500-megawatt gas-fired, network firming power station without access to the fuel you need to feed it makes no sense whatsoever, given the uncertainties of the east coast gas markets.

Second, the floating re-gasification project that Venice plans for the outer harbour at Pelican Point arrives with less complication, a lower capital cost, and with a supply and demand risk that is already more manageable.

And that risk could yet be further mitigated should either the federal or state government decide to foster new entrants to the energy sector by pursuing policy reforms recommended in the review of the retail electricity sector by the Australian Competition and Consumer Commission.

The third reason for alacrity is that the space Venice Energy plans to play in has become so crowded with project planning that there is a growing and sensible debate over just how many of these re-gas facilities the east coast market might economically support.

There is a view emerging from experts like Wood Mackenzie that there is likely room for only one re-gas project in our future east coast gas market. For mine that underestimates the tyranny of distance that produces distinctly different supply security challenges across the states.

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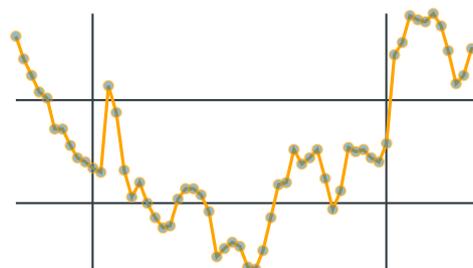
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ASX Announcements

At the moment there are three observable projects, one in each of NSW, Victoria and South Australia. Each is different either in size or intention or both. Two are fostered by market disrupters while one is an incumbent.

The disrupters are Australian Industrial Energy and Venice Energy. AIE wants to import up to 150 petajoules of gas through an LNG re-gas plant parked in Port Kembla. Venice Energy is talking about 80PJ annually through Pelican Point. And both want to link their gas to new network firming power projects.

The incumbent is AGL, which is talking about importing up to 130PJ through Crib Point at Victoria's Wester Port Bay in a project aimed at filling the supply boots of existing commercial, industrial and retail customers.

Taurean travails

Taurus Fund's travails with the takeovers rules is not done with yet.

The feisty new Indonesian owners of Finders Resources have successfully earned a concession from the Australian Securities and Investments Commission that has allowed them a direct pathway to the Federal Court to challenge an odd change of mind at the Takeovers Panel.

Taurus has been kept busy over recent months as a defendant in back-to-back Takeovers Panel actions that aimed to test the tactics the fund used in the failed defence of Finders and in the fund's separate and controversial pursuit of another junior, Realm Resources.

The Finders case has proved a particular embarrassment because it resulted in two panels announcing Taurus as a precedent-setting landmark in the truth in takeovers law.

The background there is that Taurus somehow allowed Finders management to represent that its biggest institutional owner would not accept a 23 cents a share takeover of the copper junior. Taurus subsequently ignored a fleet of opportunities to correct the record by introducing the usual caveats to a public determination of intentions.

So it was quite a surprise to Finders' new owners, Eastern Field Developments, when Taurus suddenly flipped and sold its 11.33 per cent of Finders into the offer.

Once Taurus folded, the gig was up and Eastern Fields moved promptly through the compulsory acquisition threshold of 90 per cent. So why might Eastern Fields want to worry about whether the Taurus statement of rejection might be misleading?

Well, Eastern Fields wanted to influence Finders and even to control it. But it did not want to own all of it and it certainly did not want the business delisted. As we have noted before, full ownership and delisting of Finders changes the tax status of the business for its owners. The effect is that the entity will become taxable in Indonesia. And that was not the plan.

Eastern Fields approached ASIC with its concerns. And ASIC trooped off to the Takeovers Panel seeking a precedent-setting decision that would hold a big investor liable to the truth in takeovers tests. ASIC won the day.

The first panel found that the truth in takeovers rules binds the statements of owners of influence, in this case Taurus. As a result, the panel issued orders that saw Taurus recover its 11.33 per cent of Finders and left unable to accept a price of 23 cents or less. The panel also opened a recovery window for other shareholders that accepted on the back of the Taurus flip.

This was a neat outcome for Eastern Fields because it deflected the need to compulsorily acquire and delist and it created a potential small pool of liquidity in the stock given the whole plan was built on driving the Finders share price higher.

Taurus then decided to test its position and called for a Takeovers Panel review of the initial finding and orders.

The review panel, headed by investment banker of deserved legend, Ron Malek, unanimously repeated the finding that Taurus should have corrected the record and was thus unable to accept into the offer. **But, on a two-to-one decision, the panel changed the orders in a profound way.**

Rather than prevent Taurus from selling for less than 24 cents, the new orders gave the fund at fault an open-ended option to put the shares to Eastern Fields at 23 cents. The contested 11.33 per cent of Finders will be returned to Taurus until the Eastern Fields' offer closes. From that moment, Taurus will be free to put the shares back to Eastern Fields. That put is open for six months depending on circumstances.

It is worth noting that the dissenting panellist on that oddity was, you guessed it, our man Ron.

Given it was ASIC that took this case to the panel in the first place, the regulator was left holding the bag on whether to appeal. But, as grumpy at the regulator was with the outcome, it decided that testing the review orders was not priority enough to attract the investment in external legal advice that would be necessary.

Eastern Field, on the other hand, was very keen to test the matter. But its problem was that it would need to make a visit first to the High Court before getting the matter back to the appropriate appellant court. And that was just going to eat up a whole lot of time that no one really has, given this is a takeover in train.

So ASIC, in its wisdom, decided to speed the path by granting modification to the Corporations Act to allow Eastern Field to go directly to the Federal Court. And early last week the company did just that. It is seeking to overturn the review panel's orders and replace them with those of the original panel. Eastern Field claims the replacement orders are an "erroneous exercise of power" by a review panel that also erred in not taking evidence from the parties involved.

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