Central, Incitec break new ground with NT gas deal

Angela Macdonald-Smith and Tim Binsted

Central Petroleum chief executive **Richard Cottee** has defied sceptics of the idea of Northern Territory gas supplying eastern manufacturers, signing up **Incitec Pivot** in a conditional deal that could be worth over $1 billion.

The initial accord struck by Mr Cottee with his long-time friend, Incitec Pivot chief executive **James Fazzino**, envisages deliveries of 15 petajoules a year of gas for ten years, potentially starting in 2018.

Gas would be delivered from Central's Palm Valley and Dingo fields near Alice Springs and shipped through a mooted $1.3 billion pipeline linking the NT with the national gas grid.

The viability of the NT gas pipeline has been questioned by some observers including the Grattan Institute, and would require several more customers and supply sources to go ahead. But Mr Cottee said the agreement with Incitec Pivot shows the concept is realistic.

He said Central could prove the sceptics wrong, just as he did in the embryonic days of Queensland's coal seam gas industry when heading up Queensland Gas Co. more than ten years ago.

"We are clearly stating that you can produce Northern Territory gas at a price acceptable to manufacturers on the eastern seaboard," Mr Cottee said.

"We have put our foot on the sticky paper. I don't care what the commentators say: they don't have to put their foot on any sticky paper. I have, and I did it at QGC against all the commentators."

Gas would be supplied at a price per

Richard Cottee. PHOTO: JIM RICE

gigajoule below the "double figures" that Industry Minister **Ian Macfarlane** suggested that NT supplies would cost for NSW users, Mr Cottee said, adding that price would make it unaffordable.

Assuming a price of $8 a gigajoule, the deal, if firmed up, would be worth $1.2 billion over its ten-year life.

Mr Fazzino said the tariff for the gas would "take us back to the price before the recent mark-up" in tariffs due to the LNG export projects being developed in Queensland.

"There is a lot of water to go under the bridge but if anyone can do it it's Richard," Mr Fazzino said.

The gas would be supplied through an expansion of Central's fields, Dingo and Palm Valley, which have been mothballed due to a lack of customers in the NT.

Under the non-binding heads of agreement, Incitec Pivot would "provide assistance in sourcing capital" for drilling and reserve certification at the fields.

Mr Cottee said the project involved an expansion of existing conventional gas fields, with no need for major new infrastructure, making the gas cheaper than many were anticipating. The gas pricing assumes a tariff that is slightly more than potential NT pipeline developer APA Group has suggested transportation would cost.

The transportation tariff to get gas from the Alice Springs fields to the fertiliser manufacturer would be about 50 per cent more than the tariff from the Moomba gas plant in South Australia to Sydney, Mr Cottee said.

"People are forgetting this can be brownfield, this can be low cost curve," Mr Cottee said. "The cost structure for us is really quite low."

He said development of Palm Valley

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Incitec Pivot chief paints a gloomy picture for miners

Tim Binsted

Incitec Pivot managing director **James Fazzino** has painted a gloomy outlook for the resources sector, saying miners and their suppliers face a challenging few years as the industry cuts costs to deal with significantly weaker commodity prices.

Mr Fazzino said that Incitec Pivot – which makes mining explosives and fertiliser – is in a good position in Australia because its Moranbah plant has all of its output fully contracted, but "everything else looks challenging".

"It goes back to the cost structure of the industry," he said. "Our customers are still very focused on cost reduction. Some mines are scaling back and some are closing. If you are a miner or supplier to miners it is going to be a challenging couple of years."

His comments come as Incitec Pivot reported an underlying full-year net profit of $356.3 million, up 21 per cent on 2012-13 and ahead of market expectations.

Investors looked past the $109.2 million of write-downs that weighed on statutory profit to send Incitec shares up 5.5 per cent to $3.08 on Tuesday. The company said the outlook in 2015 for the resources and agriculture sectors is tough, but its own operating performance is significantly stronger.

The Moranbah and Phosphate Hill manufacturing plants have achieved "major maintenance turnarounds" and were both running at nameplate capacity in the last quarter of the 2013-14 year.

Both plants have suffered outages and reliability problems in the past.

Chief financial officer Frank Micallef confidently said the Moranbah ammonium nitrate plant is now "unreservedly delivering shareholder value".

Moranbah generated $115 million of earnings before interest and tax in 2014 and is expected to deliver $140 million of EBIT next year.

Mr Fazzino's Business Excellence (BEx) program, which he describes as "getting the people who do the work to solve the problems" delivered $27 million worth of benefits during the year.

The company also said a $US850 million ($982 million) ammonia plant it is building in Louisiana remains on track for first production in third quarter 2016.

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and Dingo may cost $10 million to $20 million. Like other manufacturers relying on gas, Incitec Pivot has been hit hard by price hikes for new contracts, partly due to the new Queensland LNG projects and slower than expected development of NSW CSG.

Mr Fazzino called for more gas and suppliers to broaden and deepen the supply market, saying that having just four gas suppliers in the eastern states was not a functioning market.

He said that in Australia an industrial buyer might get just one offer of supply, whereas in the US a shortlist of 100 suppliers can be whittled down competitively.

"Not only do we need more gas we need more gas suppliers," Mr Fazzino said, adding that Incitec Pivot was looking to develop a portfolio of five or six gas deals to diversify supply and risk.

The NT government earlier this month briefed industry on the proposed NT pipeline link, which APA has voiced interest in building, while others such as **Duet Group** and Jemena are also thought to be considering.

A final investment decision on the pipeline may occur in about 12 months' time, Mr Cottee said.