Whiteley-1 was the first in a series of unconventional exploration gas wells drilled by Central in the South Georgina Basin. *(Source: Central Petroleum)*

Central Petroleum's Australian Pipe Dream

Central Petroleum captain Richard Cottee has set his sights on conquering one of the last frontiers in Australia as he fires up the company's engines to unearth the untapped gas treasures of the Great Outback.

BY DALE GRANGER

Richard Cottee felt a glow of pride as vibrant as QCLNG's cargo when BG Group made history in December when the Methane Rita Andrea steamed out of Curtis Island to deliver the world's first CSG-to-LNG gas export.

Metaphorically, Cottee had already scaled his Everest but instead of enjoying the view, he kept gazing upward on the realisation that there were further mountains to climb.

In fact, Cottee's real red-letter day was 6 October 2008—the occasion on which he sold Queensland Gas Company (QGC) to BG Group for $5.7 billion on the sixth anniversary, to the day, of his joining what had been a $30 million junior that employed only nine people at the time.

In Cottee's six years at the helm, QGC delivered a 2800 per cent total shareholder return to investors with all the momentum of a runaway train. "And every time they kept on saying it was overvalued. But as you bought in new value creation that dam wall just could not hold back the value," he said.

Having reinvented himself as managing director of another junior, Central Petroleum, and subscribing to a new vision of opening up gas exports from Australia's vast interior, Cottee said on reflection, "I've closed the door behind me well and truly,

but I felt that it (QCLNG) was a confirmation of a journey.

"I felt particularly privileged that QGC had probably created 10,000 jobs over my lifetime and the whole of the export was from my old company," he continued. "It has opened up nearly 2 per cent of our export earnings as a country. You don't often get the chance to tell your grandkids (when I get them) I was there."

Transformations

QGC's transition from junior explorer to the playground of global LNG export giants is even more astonishing considering that Cottee first took the reins at a time when Queensland had no real gas exploration and was thinking about a PNG pipeline.

"That was less than a decade ago. Now it's going to contribute $600 million in royalties to the state," Cottee said. "And for regional Australia... what I'm really quite proud of is that it has not been done fly-in, fly-out. The lowest unemployment in the region is in and around Chinchilla, whereas a decade ago it was the highest in the region."

Richard Cottee
Managing Director
Central Petroleum

All of this may never have come to pass had the finger of fate not intervened when Cottee, as a young exchange student in Japan in the early 1970s, experienced discomfort when the town of Matsuzaka ran out of toilet paper due to a shortage of oil.

"That made me realise how important oil was to energy and everyday needs. As a result I decided to study resource law at the University of Queensland," he said.

New challenges

Inspired by the experience of previous conquests, Cottee has set himself a new challenge at Central Petroleum, the explorer and producer that holds a dominant acreage position—about the size of France—in central Australia.

"The prime thing I learned from my time at QGC is that there is a lot of value can be created if there is a resource that is known, but with no market. There was no market for that product in Queensland until the PNG pipeline disappeared and from there on you could create enormous value. It was not the actual resource that was creating the value, it was creating the market for the resource," Cottee explained.

The irony is that while it took the disappearance of a planned pipeline, from PNG to Brisbane, for QGC and Cottee to unlock Queensland's coal seam treasure trove, Central Petroleum's destiny will be defined by the emergence of a pipeline connecting Darwin and the greater Northern Territory to the eastern states gas markets.

Central Petroleum counts critical support for a pipeline project from the NT Government of Chief Minister Adam Giles. The Council of Australian Governments (COAG) has also thrown its support behind an NT-to-eastern states interconnector, with three potential tie-in routes on the drawing board: In the north from Mt Tennant to Mt Isa, a middle route that traverses Central Petroleum's Southern Georgina Basin blocks and a southern route close to the company's Amadeus Basin assets.

"We've got a dominant acreage position in the Amadeus Basin and it is only without a market because it's not connected by pipelines," Cottee said. "I believe that if this NT [pipeline] can come about, you are suddenly going to unlock the geological treasures that have been locked up not geologically, but by lack of markets."

The pot of golden gas at the end of Central Petroleum's rainbow is the looming gas famine that industry has red-flagged for the eastern states—an energy crisis brought about by the sucking of coal bed methane into the Gladstone LNG trains predicted to crescendo within two years—leaving a domestic vacuum in its wake.

"That will be the equivalent of the New Guinea pipeline disappearing," Cottee said. "If that interconnect occurs, suddenly you've got a market and therefore the incremental value of enormous multipliers will come about."

But as Cottee shuffles his chess pieces across the NT and Queensland landscape, his preferred pipeline preference is for an artery that would traverse more to the north, from Tennant Creek to Mt Isa along the Barkly Highway.

"In this instance it's a $500 million to $600 million pipeline, so it's about half the price," he said.

Cottee pointed out that the underutilised Darwin-to-Alice Springs pipeline could have advantages. "If the Amadeus connects to a 60 petajoule (PJ) interconnector, Amadeus providing 30 PJ and Blacktip 30 PJ, you would be riding physical flyers from Alice Springs to Tennant Creek of 30 PJ and physical flyers from Darwin to Tennant Creek of 30 PJ to come across the 60," he explained.

"When it hits Mt Isa it has 30 PJ of indigenous demand that is presently being supplied from Ballera with a pipeline that is 45 PJ to the north. That would be reversed and you would be flowing 30 PJ south. But because you've done the swap, the tariff would be turning advantageous."

Cottee said that he's spoken to most of the bidders. "I really am as tight as it comes with money, and I think sometimes you are best to go the cheapest route that can be quickly augmented," he admitted. "You will have spare capacity from Mt Isa to Ballera, if flowing south, and from Darwin to Tennant Creek and from the Amadeus to Tennant Creek. Therefore further compression or looping on those 60 PJ can provide an enormous amount of growth."

Cottee has always heard naysayers chirping from the peanut gallery. But in November the sceptics were silent when he penned a conditional $1 billion deal for Central Petroleum to supply Incitec Pivot with 15 PJ of gas for 10 years beginning in 2018. The plan is for the gas to be transported from Central's Palm Valley and Dingo fields near Alice Springs via a $1.3 billion pipeline.

A natural visionary

Cottee's visionary zeal surfaced early in his career as a director of coal miner Oakbridge Cyprus Minerals. That's when he first recognised the potential of the Surat Basin as a basket for coal seam gas extraction.

"We opened up methane drainage which opened up the first gas-fired power station, Red Bank Power station, running off just effluent gas from the Hunter Valley coal mines," he said. "It struck me that ever since Welsh boys were invented, and canaries, there have been problems of water and methane in coal, but this was an energy source.

"Moving into the electricity generation sector and then back into QGC, I was absolutely convinced by that stage. The U.S. had CBM, as it was called, and that was around 15 per cent of their gas supply. It appeared to me that the Surat Basin was going to be fairly ideal, because it was too deep for economically viable underground mining.

"Other countries do mine at that depth, but the ideal depth is between 300m and 700m, otherwise you lose permeability and it appeared to me there was enormous potential with a huge environmental benefit in that methane was always going to be leaked into the atmosphere. It might as well be harvested and cleaned up environmentally."

Cottee's return to the game with Central Petroleum, parachuting onto the bridge of the floundering company in July 2012, proved anything but smooth.

"When I joined the company it was in more problems than the early settlers. In fact the early settlers probably had it easy," he said. "We had the (former) managing director (John Heugh) trying to dismiss the board and the board trying to dismiss the MD, and in the background was (billionaire mining magnate and PUP political party founder) Clive (Palmer) of Queensland.

"[Central Petroleum] was financially a basket case. It had no money to speak of. It was $30 million in arrears on its exploration commitment, which had to be paid within a year...a high turnover of staff, low morale and high costs. We were spending more money on lawyers, that great charity. Apart from that it had a lot going for it."

Central eventually settled and Cottee was able to focus his undivided attention on farm-in deals to resolve the pressing dilemma of permit renewals.

No wonder the oil and gas sector stirred when one of Cottee's first coups, in November 2012, was securing Total SA as a farm-in partner to four permits in Central's South Georgina, unconventional portfolio. The French major committed to funding 80 per cent of exploration and appraisal costs over four years, including US$48 million for stage one. Central Petroleum would fund the next US$12 million. Total has an option to commit an additional US$130 for stages two and three of the exploration program.

"We were able to do theTotal farm-out, but we were able to retain operatorship during the early stages." Cottee said of the deal. "People asked me, 'Well, how do you get a super major to consent, when you don't have a cent in

An aerial view of Central Petroleum's Surprise-1 site, Northern Territory. *(Source: Central Petroleum)*

Central Petroleum acquired the Palm Valley Gas Field on April Fool's Day 2014. *(Source: Central Petroleum)*

the bank, to retain operatorship for the first few stages and then settle?'

"We sold all the coal assets. We were selling steaks knives as well, I think, at one stage along with GTL, CSG, UCG, coal. You name it, we were in it," Cottee said.

Notwithstanding a 600 per cent increase in exploration expenditure and a 25 per cent increase in staff, Central was able to reduce its net cash burn by two-thirds from $1.5 million a month to $1.5 million a quarter.

Just weeks before the Total SA coup, Cottee had wooed Santos as a joint venture partner in a $150 million deal to explore up to 13 areas in the Amadeus, Pedirka and Southern Georgina basins. Santos agreed to fund $30 million for stage one exploration with the option to invest an additional $60 million in stage two and $60 million in stage three, earning a 70 per cent stake and the right to assume operatorship of the fields, located close to existing infrastructure at Alice Springs.

"The first lot of vision was in CSG and now it's in the shales. I find it comforting that my reign of terror at Central Petroleum is commencing with a company of the stature of Santos," said Cottee, a man renowned for his dry sense of humour.

Within a year of Cottee's arrival, Central Petroleum was granted the first onshore production licence in the NT since the passing of the native title act in 1993, for the Surprise oil field development.

It brought oil production online from Surprise and subsequently, on 1 April 2014, acquired the Palm Valley gas field situated 120km west of Alice Springs. The announcement was no April Fool's Day joke, considering it transformed Central Petroleum from being an explorer to a multifield producer in both oil and gas.

Subsequently, however, tough capital markets and plunging oil prices have conspired to sink Central Petroleum's share price from a high of 53 cents on the ASX to 8 cents at press time.

The company has reassured stakeholders that while all small resource stocks have suffered in a turbulent trading environment, Central Petroleum now has the right fundamentals in place to affect a turnaround.

Pushing ahead

In December, Central Petroleum announced it would operate its Surprise Field remotely from Alice Springs to reduce costs, before slashing its headcount, primarily consultants and contractors, by 40 per cent. Company directors also agreed to defer 20 per cent of their fees until the next financial year.

> **"The reason I joined Central Petroleum was because I saw something very similar to QGC: a good resource that needed a market outlay."**
> *—Richard Cottee*

In the interim, Central is pushing ahead with construction of wellhead facilities, gathering pipes, gas conditioning facilities and a 50km pipeline from its Dingo gas field to Brewer Estate in Alice Springs, to meet a contract to supply the Power and Water Corporation.

Cottee remains unfazed by the current oil doldrums as he keeps his focus firmly on the desert and the trickle-to-flood potential of central Australia.

He says the company began diverting to gas sales over a year ago due to his fears about oil pricing.

"The oil price slump is a lot worse than I thought, but at the end of the day the gas price is still going up," Cottee said. "If you take the industrial consumer, the competition for products is imports. They have just been given a 30 per cent tariff called exchange rates. So they've got an incremental 30 per cent protection because the (Australian) dollar collapsed, which means their demand is actually firming up. Not down.

"The oil price had remained for nearly 80 years at around $100. Historically, that had to come to an end. But gas prices have nothing to do with oil prices," he said.

"Take the United States; 18 months ago it was $2 MMbtu for gas and $100 per barrel for oil. Now, it's $43, or whatever, and $3 MMbtu for gas. It's not even going in the same direction. The IEA says there is going to be a 50 per cent increase in the consumption of gas and there is only going to be a 17 per cent increase in the consumption of oil over the next decade. They are not marching in tandem and there is going to be a lot of structural changes that the market gradually accommodates from that reality.

"The reason I joined Central Petroleum was because I saw something very similar to QGC: a good resource that needed a market outlay," he continued. "But Rome's not built in a day and you are never in control of events. I've never had a company that's had the balance sheet. You're always having to judo throw the macro economic forces, harness them and try to move them in your direction."

Cottee said the acreage is primarily oil and gas and it is 88 per cent gas in a proven province that was held back by markets. "I think I've shown, first as CS Energy CEO and then when I was at QGC, that the ability to play with market forces is something that I have a degree of confidence in," he said.

"And so I thought there is a chance that you could unlock the value. As it had been with QGC, you will go through some downtimes in your share price, but if you keep on adding to the fundamental value and the unlocking of that market then it is going to be a temporary hiccup." ■