



Catch-22 on licences

Billions of dollars at stake in Queensland

Resources

Tony Grant-Taylor

QUEENSLAND could lose billions of dollars in mining royalties over the medium to long term from underground coal gasification if it agrees to BG Group's demand for exclusive access to the coal in the huge exploration areas it now controls across the state.

That's the view of Mike O'Brien, chief executive of UCG hopeful MetroCoal, which like a number of other companies sees enormous potential for power generation, and liquid fuel production, using UCG technology.

"Such fuels will be of immense future strategic importance to Australia, reducing our reliance on imported fuels and saving billions of dollars in foreign exchange," he told *The Courier-Mail* this week.

MetroCoal has been among the UCG companies, including Linc Energy, Carbon Energy and Cougar Energy, that have been part of now long-running discussions on how to rationalise Queensland's mineral and petroleum exploration regimes, which allow both miners and oil and gas explorers to take out exploration licences over the same piece of ground.

UCG and CSG operations

are essentially incompatible — and Linc Energy recently announced it was putting its planned Chinchilla UCG and gas-to-liquids plans on the backburner to focus on South Australia, where overlapping licences are not a problem.

BG, the British group just about to complete its \$5.5 billion takeover of Queensland Gas Company, has told the State Government its plans for a large liquefied natural gas plant at Gladstone could be jeopardised if it does not get certain title to the huge reserves it will need.

BG recently commissioned a report on the topic from consultant McKinsey which said in part that: "Without intervention, overlaps (of exploration licences) are unlikely to be resolved quickly by industry participants themselves. Persisting overlaps leave the rights of licence holders uncertain and could cause investments and developments to be delayed or even abandoned."

McKinsey went on to say, perhaps rather tritely: "Delays or abandonment of developments would negatively impact energy security and substantially decrease the value to

Queensland of the CSG and UCG industries.

"For example, if additional CSG production is delayed by 18 months, it could lead to a loss of about \$3 billion in export revenues in 2008 money.

"Furthermore, it could lead to increases in natural gas and electricity prices."

The Government is reviewing the current regulatory regime.

And McKinsey suggests it has three options:

- To continue to issue overlapping licences and refine the arbitration system (which is supposed to settle disputes over priority between petroleum and mining licence holders) to ensure quick conflict resolution.

- Phase out overlapping exploration licences in a well managed process that allows the co-existence of CSG and UCG on different acreage.

- Or make a clear policy preference decision in favour of CSG until such time that UCG has demonstrated its commercial, technical and environmental viability.

The latter option, which envisages giving CSG groups five years to prove up reserves and apply for production licences, is

BG's immediately preferred course, with its chief executive Frank Chapman having recently said he hoped the Government was already "drafting" legislation to that effect.

McKinsey said, however, space should be carved out in Queensland's Surat Basin for the current UCG groups to prove up their technology and move to commercial production if it was feasible.

McKinsey suggested that for the time being UCG exploration licences be restricted to this "carve-out" area — with say a total of only 200 million tonnes of coal out of the basin's resource of about 20 billion tonnes as, in time, overlapping licences were phased out.

Mr O'Brien reckons, however, that BG is out to stop competition and lock out UCG companies, "a move that could cost Queensland billions in lost revenue and leave Australia even more reliant on imported fuel.

"It is estimated UCG can produce billions in royalties for Queensland ... over the next 20-plus years and could supply clean diesel, fertilisers and transport fuels for many decades."



Courier Mail
Thursday 11/12/2008
Page: 71
Section: Business News
Region: Brisbane Circulation: 222,500
Type: Capital City Daily
Size: 305.72 sq.cms.
Published: MTWTFS-

