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# Coal Seam Gas Still Hot - BG Tries Again

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In my recent post on coal seam gas (CSG) I noted that BG's bid for Origin Energy was the event that kick-started the boom in interest in Australian CSG producers.

BG's bid for Origin eventually failed (with ConocoPhilips instead buying a share of Origin's CSG assets), but they have now returned to the fray - this time with a $5 billion bid for QGC (Queensland Gas Company).

BG already owns 9 per cent of QGC (and 20 per cent of QGC's CSG reserves) and is keen to secure supplies for planned LNG export plant at Gladstone.

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The Australian is speculating that the offer could "open QGC up to rival bids from other global majors, such as Shell or BP looking to enter or increase their presence in CSG".

> QGC and AGL both went into a trading halt yesterday pending announcement of a material transaction.
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> Shareholders of Sunshine Gas and Roma Petroleum, whose shares also went into a trading halt, were advised to take no action on QGC's current separate bids for each company. Wilson HTM analyst Andrew Pedler said it was not surprising that the bigplayers were still pushing to get hold of CSG reserves amid global market turmoil and fears of recession.
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> "There's no other apparent major source of new gas on the east coast and domestic use alone is pointing to compound annual growth rates of between 7 and 10 per cent for coal seam gas, which is an attractive business to be exposed to," Mr Pedler said.
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> "Add LNG to that and you easily double the amount of gas that's required in 2014."
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> QGC, BG and AGL all declined to comment or confirm the deal yesterday.
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> In a takeover offer that is still playing out, QGC in August agreed to pay 82c a gigajoule for Sunshine Gas's proved, probable and possible, or 3P, reserves. If QGC accepted the same for its 5683 petajoules of reserves, it would value the company at $4.67 billion, or $5.10 a share.
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> The credit crunch and a nearly 50 per cent fall in QGC's shares since June have probably saved BG from paying close to the unprecedented prices Conoco will fork out next week for half of Origin's reserves. Conoco paid $1.88/GJ for half of Origin's 3P reserves and a 50 per cent stake in a planned LNG plant in a deal worth up to $9.6

> billion.
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> If BG had agreed to pay that much for QGC's reserves, the deal would value the company at more than $10 billion, or more than three times QGC's market value.

The Sydney Morning Herald concentrated on what the deal meant for QGC shareholder and local power generator AGL.

> The deal would involve AGL agreeing to sell its 25% stake in QGC to BG. QGC and BG are partners in a proposed $8 billion liquefied natural gas project at Gladstone.
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> That deal would immediately boost BG's stake in QGC from 10% to 35% and serve as a strong platform from which to launch its friendly takeover. In return, AGL would be granted the right to coal seam gas resources, possibly through a direct equity ownership in permits. AGL has been considering options for its valuable stake in QGC for months.
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> In August, AGL's managing director, Michael Fraser, said the holding could be leveraged in return for access to more direct control over gas resources. "In the longer term, one of our aspirations is to have our foot on our own equity gas production at the asset level, rather than through a company," Mr Fraser said.
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> AGL at present sells more gas through its retail business than it has in reserve, forcing it to buy additional gas from other suppliers.
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> Carbon trading is expected to raise the value of gas on domestic markets, as gas-fired power plants emit up to 70% less carbon than do brown coal-fired plants. But increased demand for gas around the world is increasing the value of controlling gas assets directly.