



Crunch time for stalled Barossa gas project

Santos sticks to ambitious production target after costly year of delays and mounting regulatory challenges

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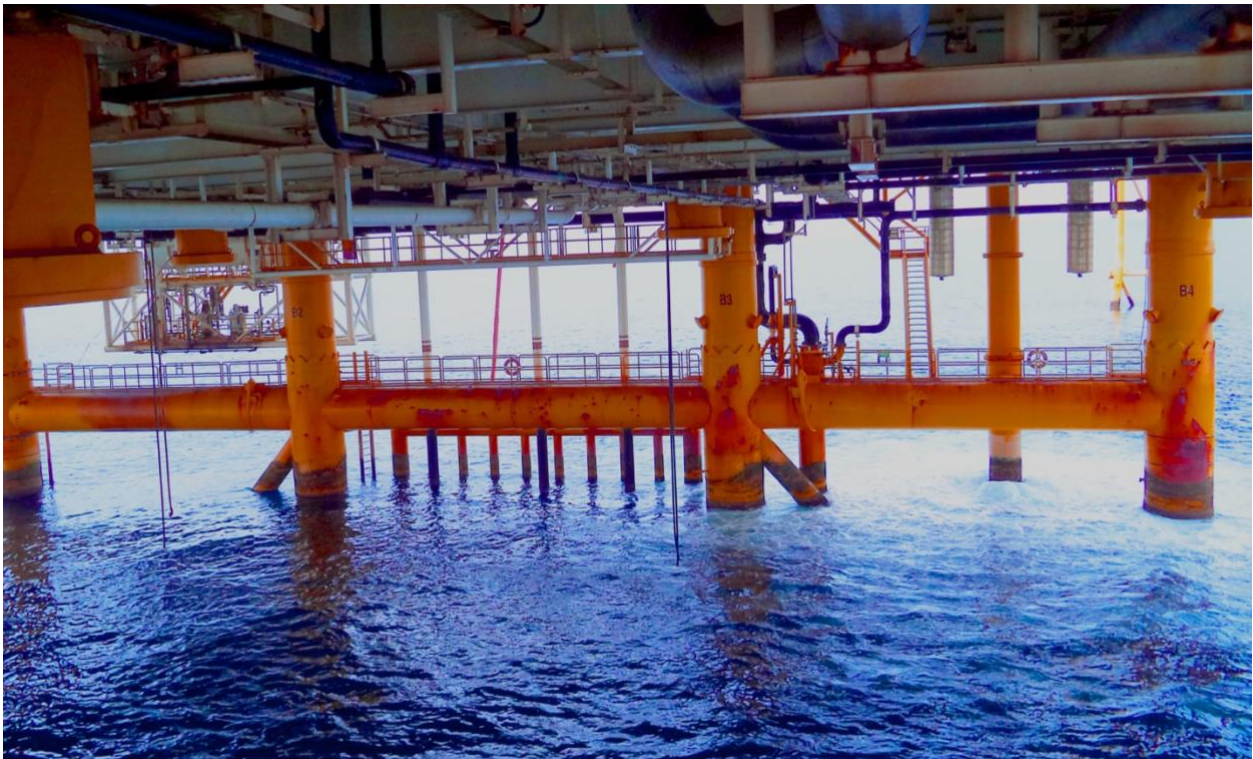
Despite the delays, Santos is still hopeful it can start drilling by the end of 2023.

Key Findings

A year after the Federal Court shut down the Barossa gas field development, Santos has not amended its increasingly ambitious production target for the stalled project.

Even if Barossa clears its many regulatory hurdles, Santos may not have a rig to drill the gas field as its contract is due to expire and the equipment is now booked elsewhere.

Investors deserve full and clear disclosure of any material impacts the many legal and environmental issues surrounding Barossa will have on the project's timeline.



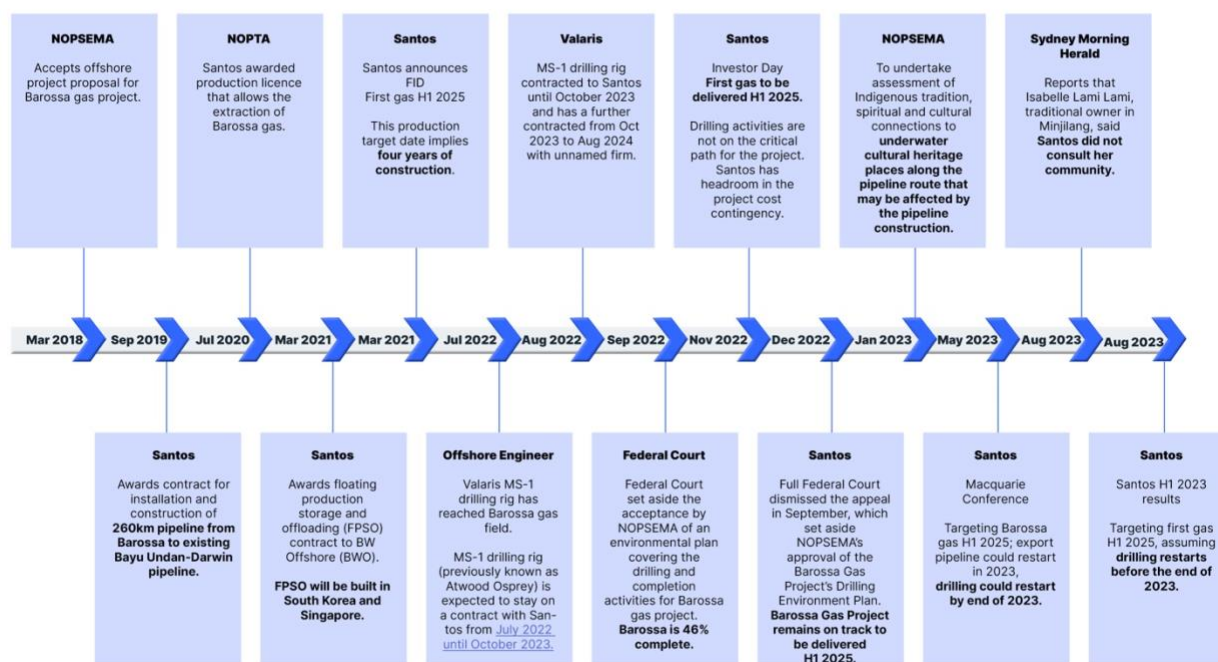
Executive Summary

Australian gas company Santos' largest project under development, the Barossa gas project, has been impacted by delays on its drilling activity and is not allowed to lay the pipeline to connect the Barossa gas field to Darwin where the gas will be processed.

Drilling activity was first halted following the Federal Court ruling on 21 September 2022 that overturned approvals for the Barossa gas project's drilling environment plan. This ruling was upheld when Santos lost its appeal on 2 December 2022. This has meant Santos is not allowed to conduct any drilling activity until it has completed its consultation with Indigenous groups.

Further work was impacted in January 2023 when the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) issued a direction requiring Santos to undertake assessment of Indigenous traditional, spiritual and cultural connections to underwater cultural heritage places along the route of the new Barossa pipeline in the Bonaparte Basin offshore the Northern Territory.

Santos Barossa Timeline



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Yet despite these major delays, Santos has maintained its original timeline to have the first gas from the Barossa project produced in the first half of 2025. This implies that it plans to complete a four-year construction project in around three years.

There is further uncertainty about the drilling rig Santos has contracted for the Barossa field, once it receives regulatory approval. The company's contract for the rig expires in October 2023, although

Santos says it has options to extend it. However, details of the drilling rig contract have not been publicly disclosed.

After a year of delays, if Santos does not know the timelines for the relevant approvals, it should update the market.

After a year of delays, Santos keeps Barossa timing unchanged

Is Australian gas producer Santos adhering to the continuous disclosure rules for the Australian Securities Exchange (ASX)¹ over its US\$3.6 billion Barossa gas project offshore northern Australia? Santos has had a year of delays following the Federal Court ruling on 21 September 2022² that overturned approvals for the Barossa Gas Project's Drilling Environment Plan.

The court decision was made after legal action brought by a Tiwi islander that he and his fellow Tiwi people were not consulted properly on the Barossa project. The court ruling brought drilling to a halt at Barossa, leaving the project 46% complete at the time, according to Santos. This ruling was upheld when Santos lost its appeal on 2 December 2022.³

Despite these delays, as of 14 September 2023, Santos was maintaining its original timing guidance for first Barossa gas delivery, targeting the first half of 2025. It is still hopeful it can start drilling by the end of 2023.⁴

Santos has been unable to make much progress elsewhere on the project, which comes under the authority of Australia's national regulator of offshore oil and gas projects, the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA). It issued a direction in January 2023 requiring Santos to undertake assessment of Indigenous traditional, spiritual and cultural connections to underwater cultural heritage places along the route of the new pipeline to connect to the Barossa field, which is in the Bonaparte Basin offshore the Northern Territory, to an existing pipeline that will take the gas to Darwin.⁵ Until that assessment is completed, no pipelaying activities can begin.

Santos is not permitted to transport this infrastructure to the project site, install it, or operate it. The company currently has no approvals to conduct drilling, and cannot proceed with pipelaying activities until the heritage assessment of the pipeline route is completed. The impact that this assessment will have on pipeline activities is unclear. Santos is preparing an environment plan for the Subsea Infrastructure Installation Environment Plan, also known as the SURF EP, for the Barossa gas project.⁶ The SURF EP relates to the subsea umbilicals, risers and flowlines (SURF), manifolds and floating production storage and offloading (FPSO) moorings installation.

Despite extended stoppages on these significant parts of the Barossa project, Santos implies that it can achieve construction work that was going to take four years from when the project was

¹ ASX. [ASX Listing Rules](#).

² Santos. [Federal Court Decision](#). 21 September 2022.

³ Santos. [Full Federal Court Decision for Barossa Gas project](#). 2 December 2022.

⁴ Santos. [2023 Half-year results](#). 23 August 2023.

⁵ Nopsema. [General direction – s 574](#). 13 January 2023.

⁶ Santos. [Barossa Gas Project. Subsea Infrastructure Installation](#).

sanctioned in March 2021, within three years. Santos' most recent Barossa update says the project says it is 66% complete.⁷

More to be done, before drilling starts

To start drilling before the end of 2023, Santos will have to have completed its consultation with Tiwi islanders and other stakeholders. Santos appears to still be consulting; it has a consultation meeting scheduled for 22 September 2023 at the Darwin Convention Centre.

Santos has also been accused of failing to properly consult Indigenous people in Minjilang, also known as Croker Island.⁸ It is unclear how much more consultation will be required before it is complete and in compliance with the Federal Court ruling.

Once consultation is complete, Santos will need to submit an updated version of its environment plan addressing these consultations to NOPSEMA.

NOPSEMA will then need to consider whether the updated plan meets the requirements set out under law. It is unclear when that will occur.

Before any pipe-laying from the Barossa field can begin, Santos must undertake a cultural heritage study of the proposed pipeline route along the seabed from Barossa to the existing Darwin to Bayu-Undan pipeline. This study will be assessed by NOPSEMA, and further changes to Santos' pipelaying plans may be required. Given this is a relatively new area for oil and gas projects, the timing of this process is unknown. However, a similar study was undertaken by Woodside Energy through the Deep History of Sea Country (DHSC) project team and the Murujuga Aboriginal Corporation on submerged land off the Burrup Peninsula in Western Australia.⁹ This is where Woodside plans to lay a new pipeline connecting the Scarborough gas field to the North West Shelf (NWS) gas liquefaction plant.

Get the drill

Santos contracted a drill to operate on the Barossa gas field from July 2022. The New York-listed oil and gas drilling contractor Valaris towed its MS-1 semi-submersible drilling rig to the Barossa gas field that month.¹⁰ Valaris' latest fleet status report states that the MS-1 is contracted until October 2023. Valaris says the rig will then be contracted until August 2024 with an undisclosed customer.¹¹ Valaris has said little about the unnamed customer, except in its July 2022 Fleet Status Report when it disclosed that the customer in Australia had reached a final investment decision (FID) on a project in May 2022,¹² and that the contract remains subject to final customer approval.

⁷ The Australian Financial Review. 'Moving the goalposts: [Inpex ramps up attack on gas policy](#). 14 September 2023.

⁸ Sydney Morning Herald. [Santos' \\$5.6bn Barossa gas project hit with new indigenous challenge](#). 18 August 2023.

⁹ Woodside Energy. [Australian Cultural Heritage Management](#).

¹⁰ Offshore Technology. [Valaris rig getting ready for new Australian campaign](#). July 20, 2022.

¹¹ Valaris. [Fleet Status Report, August 2023](#). Page 5. 11 September 2023.

¹² Valaris. [Fleet Status Report, July 2022](#). Page 4. 28 July 2022.

The only gas project in Australia that reached FID in May 2022 was the Crux gas field in the northern Browse Basin by operator Shell offshore northern Western Australia.¹³ The Crux field is to provide backfill to the 3.6 million tonnes a year (mtpa) Prelude floating LNG venture in the Browse Basin.

However, Santos told IEEFA the October date on the Valaris website was based on the minimum term of the contract, and that Santos had options to extend it. “We have optionality in the contract and can continue to use it longer, but commercially they cannot communicate anything more than the minimum until they have more certainty around revenue and time,” Santos said.

Shell said in response to an email from IEEFA that it does not “share information about our contracts”.

Nevertheless, this adds to the uncertainty on whether Santos will have a rig to drill the Barossa field should it receive the regulatory approval to do so.

Barossa is Santos’ largest project under development

Santos estimates the Barossa gas project will cost US\$4.3 billion to build, which includes the construction of the Darwin Pipeline Duplication project (DPD).¹⁴ This pipeline will provide a dedicated pipeline taking the Barossa gas and CO₂ to Darwin and a separate pipeline that carries the CO₂ from Darwin to Bayu-Undan. This is larger than the two other projects Santos has under development.

Santos has a 50% stake in the Barossa gas project,¹⁵ South Korean energy company SK E&S owns 37.5% and Japanese utility JERA owns the remaining 12.5%. Therefore, Santos’ share of Barossa’s development costs are about US\$2.15 billion (A\$3.32 billion) or about 13% of Santos’ market value of A\$25.07 billion based on a share price of A\$7.96 on 15 September 2023.

The second largest project Santos has under development is the Pikka oil project in Alaska. Pikka is estimated to cost US\$2.6 billion, of which Santos’ share is US\$1.33 billion (A\$2.06 billion) based on its 51% interest in the project.¹⁶ Santos has allocated US\$1.5-\$1.6 billion on capital expenditure in 2023.¹⁷ But spending on Barossa in the six months to 30 June 2023 accounted for less than 20% of the US\$1.14 billion of its capex, based on the US\$222 million¹⁸ it spent on its northern Australia and Timor-Leste business over that period.

Given that Barossa is Santos’ largest single new investment, any changes to timing of the project are material to the company, its market value and share price, and that in turn affects investors.

¹³ Shell. [The Crux Project. Project Overview.](#)

¹⁴ Santos. [2023 Half-year results.](#) Page 15. 23 August 2023.

¹⁵ Santos. [Santos completes sale of 12.5% Barossa interest to JERA.](#) 29 April 2022.

¹⁶ Santos. [Santos announces Pikka FID.](#) 17 August 2022.

¹⁷ Santos. [2023 Half-year results.](#) Page 15.

¹⁸ Santos. [2023 Half-year results.](#) Page 14.

Is it time to update the Barossa timing

Santos faces possible delays on three fronts on the Barossa project: the drilling, pipelaying and having a drilling rig contracted at the time it is approved to restart work again on the most carbon dioxide-laden gas field that will be used as a feedstock for LNG production in Australia.¹⁹

Santos is obliged to disclose information to investors that would have a material impact on the value of its shares listed on the Australian Securities Exchange (ASX), as are all companies listed on the ASX under the exchange's Listing Rules 3.1 to 3.22, which cover continuous disclosure.²⁰

The ASX is very clear what continuous disclosure means. "Once an entity is or becomes aware of any information concerning what a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately tell ASX that information."²¹

The ASX listing rules are compliant with Section 677 of Australia's Corporations Act.²² The ASX noted that the test in Section 677 is an objective one, and the fact that a listed company's officers may honestly believe that information is not market sensitive and therefore does not need to be disclosed will not avoid a breach of Listing Rule 3.1, if that view is ultimately found to be incorrect.²³

The ASX rules also cover "when did the entity become aware" of information.²⁴ Santos executives would have a better idea than investors or other stakeholders about how long it will take for Santos to conclude the various consultations it has to undertake and the length of time it would take for the regulator to decide on whether Santos has complied with the conditions of its development licence.

Santos updated the market in late July 2023 and stated that, notwithstanding the suspension of drilling, it has the potential to resume before the end of 2023, enabling the project to remain on schedule for first production in 2025.

"If there are changes to this schedule, it is for the company to determine the materiality of those changes and whether disclosure is required," the ASX told IEEFA.

Santos management confirmed in a call with analysts after the release of its 2023 first half results on 23 August 2023 that it was incurring costs for the rig that remains on standby at Barossa. "However, costs have been pared back as much as possible. Additionally, management remains confident of keeping the project within budget, provided that drilling commences by year end, noting that there was contingency in the original budget," the US investment bank JP Morgan wrote in a note to its subscribers.

¹⁹ IEEFA. [Santos' Loss forces them back to the drawing board on unapproved Barossa gas project](#). September 2022.

²⁰ ASX Listing Rules. Chapter 3 – [Continuous Disclosure](#).

²¹ ASX Listing Rules. Chapter 3 – [Continuous Disclosure](#). Page 301.

²² ASX. ASX Listing Rules. [Guidance Note 8. Continuous Disclosure: Listing Rules 3.1 – 3.1B](#). Page 11.

²³ [ASX. Continuous Disclosure: An Abridged Guide](#). Page 3.

²⁴ ASX. [Continuous Disclosure: An Abridged Guide](#). Page 4.

Santos is understood to have spent about A\$350 million on the rig while it has sat idle,²⁵ the NT News reported on 14 September 2023.

“Santos has reissued the Environmental Plan for Barossa project but so far there has not yet been a response from NOPSEMA other than to request an additional 10 days (in addition to the usual one month) to review the documentation. Management does expect NOPSEMA to come back with questions/clarifications at the end of the process because the documentation is so extensive,” JP Morgan said.

How much work has been done?

At the time of the Federal Court ruling on 21 September 2021, Santos claimed it had completed 46% of the Barossa project. Santos partially drilled and completed one development well by the time of the ruling.²⁶ It plans to drill up to eight subsea wells in the Barossa field, six wells from three drill centres, with contingency plans for an additional two wells.²⁷

On 19 January 2023, Santos said the Barossa project was 55% complete²⁸ at the end of 2022. On 23 August 2023, Santos said 66% of the Barossa project was complete²⁹ at the halfway point of the year, excluding the Darwin pipeline duplication project, which reflects the off-site work that can be built without NOPSEMA approval, such as the construction work done in fabrication facilities to build the FPSO system.

It is not clear how much of the Barossa project is included when Santos says two-thirds of the work has been completed, given it can't do any work on the part of the project governed by NOPSEMA. In the six months to 30 June 2023, Santos had spent \$222 million on capex on its northern Australia and Timor-Leste business. Even if all of this was spent on the Barossa project, it equates to only 10% of Barossa being developed for about \$400 million, given that Santos owns half of the project and its capex only reflects its share of costs.

If Santos does not know the timelines for the relevant approvals, it should update the market.

²⁵ NT News. [Santos confident Barossa project will resume work this year](#). 14 September 2023.

²⁶ Santos. [Barossa Gas Project, drilling and completions](#).

²⁷ Santos. [Barossa Gas Project, drilling and completions](#).

²⁸ Santos. [Fourth Quarter Report](#). Page 9. 19 January 2023.

²⁹ Santos. [2023 Half-year results](#). Page 5. 23 August 2023.

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