



CSG blocks provide lots of opportunities

SUE FITZGERALD

THE COAL seam gas industry is emerging as a powerful player in the energy sector, receiving substantial support from both State and Federal Governments as well as attracting national and international investment.

Queensland's Bowen Basin is seen as the jewel in the crown for CSG, with a number of players lining up to tap into this alternative energy source.

After acquiring a number of promising CSG blocks in the basin strategically located near Gladstone, Bow Energy is rapidly emerging as one of the industry's leading CSG companies.

Background

Bow Energy listed on the ASX in May 2005, in a \$6 million IPO supported by CSG producer Arrow Energy. Fast forward four years, and as of October 2009, the company's market capitalisation was approaching \$300 million, and it had been promoted to the S&P/ASX300 index as well as the S&P All Australian 200.

The Brisbane-based company was founded by Nick Mather, Stephen Bizzell and Ron Prefontaine, with all three Bow directors having played a role in the formative years of Arrow Energy's successful development.

Bow, however, began its corporate life with a focus on conventional oil and gas assets in the Cooper and Surat Basins.

Bow Energy chief executive commercial John De Stefani said while those assets had attracted the interest of companies such as Santos and Mosaic Oil, Bow had since broadened its focus into the fast-growing CSG industry with the acquisition of the Bowen Basin blocks.

Bow's strategy is now to farm out its oil projects so as to reduce exploration risk and cost.

It has already successfully conducted farm-outs with Mosaic Oil (ATP 608P) in the Surat Basin, while a farm-out to a Santos-led joint venture (ATP 752P) resulted in the Cuisinier oil discovery in the Cooper Basin, which is a substantial oil field seen as having long-term production potential.

Mr De Stefani said production of oil was

expected to start at the Cooper Basin block in November 2009. (Bow will have a 20 per cent interest in the Barta Block after the farm-out is completed). Santos had invested significant expenditure to push the project ahead, he said, and as an established Cooper Basin operator, could proceed with activities quicker than Bow.

The company's drive into CSG followed its application for three high potential CSG blocks in the Bowen Basin in August last year.

In March 2009, Bow was granted two of the CSG blocks, Comet Block (ATP 1025P) and Norwich Park (ATP 1031P), with the third block at Gonyah (ATP 1051P) subject to concluding Native Title negotiations.

The blocks are in a CSG fairway recognised as having huge gas resources and multiple coal measure targets. Importantly, they are strategically located near the emerging export liquefied natural gas projects planned for Gladstone.

Opportunity abounds

A capital raising early this year provided more than \$22 million, which set Bow up for exploration appraisal and proving a significant amount of reserves at the company's Blackwater field.

As of October 30, 2009, Bow had achieved net 2P certified reserves of 55PJ and 993PJ of 3P, with further reserve upgrade anticipated by the end of the calendar year.

The company is targeting 450PJ of 2P and 1900PJ of 3P by 2010.

"For us it is an opportunity in the export market with what is happening with the LNG facilities at Gladstone – we're close to that," Mr De Stefani said. "Secondly, there is opportunity for us in the domestic market.

"The majors have earmarked all their reserves of gas for the export market. There's still a lot of domestic activity, so that's opening up doors for us to put our gas into that market as well."

Bow Energy has not committed any of its reserves to either the export or domestic

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market at this stage. Mr De Stefani said the aim of the company was to get a stronger reserve position in the next six to twelve months.

On the commercial side, he said the company was initially looking at domestic markets.

"We are looking at a small-scale power generation plant in Blackwater," he said. "We are going through the development process to do that by the end of this year.

"We're looking at connection into the grid, equipment supplies and initial results coming out of our drilling program this year that is under way – our 2P program."

He said there were still a few things "to tick off" but the company was hopeful that construction could start by the end of 2009.

The target was to have a 30MW power station in place by the end of 2010, providing Bow with some near-term cash flow, prove up the area in terms of commerciality, and provide a platform to tackle bigger developments.

"Once we start a bigger 2P program, it will be a matter of getting gas into the LNG side, but there's also a lot of domestic customers out there who are looking for gas as well," he said.

Discussions were ongoing with a number of interested parties, he said, and the company was hopeful of securing a large scale off-take arrangement in the near term.

The potential of the company's opportunities in domestic power is shown by recent research by ACIL Tasman. The energy forecaster expects gas demand for power generation in eastern Australia will almost triple from 200PJ in 2008 to 560PJ by 2030, putting upward pressure on gas prices.

On the export front, a number of LNG projects are planned for the Gladstone area, with CSG companies such as Bow set to benefit from the higher international prices available for its gas (up to three times those available in the domestic market). Asian demand for LNG is forecast to grow strongly in the next 20 years, with offtake deals for the LNG having already been signed with companies in China, Japan and Malaysia.

Bowen Basin prospects

Initial core hole drilling has been completed at the Blackwater field and Comet prospect.

Mr De Stefani said by early next year, Bow would know what 3P reserves were contained in the whole field

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"We have started a nine hole 2P program," he said. "What our core hole has shown us

that we have reasonable permeability in the shallow section of our field.

"All going well, we've got everything ticked in terms of the coal seam gas requirements. We've got the coal thickness, high gas content, saturated coals and it's really the permeability that we need to test."

Following the nine hole program, it was expected the company would have a reserve upgrade from 3P to 2P early next year.

The Norwich Park block, north of Blackwater, will also be targeted with a seven core hole 3P program.

The block comprises 874sqkm and is adjacent to tenements operated by BG Group and Arrow Energy.

Mr De Stefani said after the core hole program was complete, the company would follow up with a similar program as at Blackwater.

There is a lot of coal mining in the area and he said that available data and analysis appeared very promising.

"That's really the focus in the Bowen," he said.

"We believe we've got over 2tcf (trillion cubic feet) of gas reserves at Blackwater. We'll get into Norwich Park and hopefully deliver similar results."

Other assets

Bow's CSG assets also encompass the Surat Basin, with the company having a 55 per cent stake in the Don Juan project (Victoria Petroleum has the remaining equity).

Mr De Stefani said it was a well developed project with a core hole program completed within the last 12 months.

The company recently announced the near tripling of the certified 2P gas reserves for the project to 101PJ, achieving the company's target more than a year ahead of schedule.

The field is also within 15km of a gas pipeline, giving it potential to supply either domestic or export markets.

Meanwhile, Native Title negotiations are ongoing for the Gunyah block, also in the Bowen Basin, and he said it was hoped to have the block granted by early next year.

Big year ahead

It will be a big and busy year for Bow Energy in 2010, following a similar period of activity to year's end.

Upgrades in reserves in a relatively short period of time, another Bowen Basin block to add to the portfolio and kick starting a



new power station, as well as investigating domestic and export market demand, will certainly keep the company occupied in 2010.

Mr De Stefani said the company's advantage was that it had a significant amount of uncontracted gas.

"We're targeting an opportunity in the domestic market for our gas and power generation... and this is an opportunity for us to create a platform for our business," he said.

"And we'll still have a lot of uncontracted gas which will provide very good potential to supply into the LNG facilities, which is about four or five years down the track.

"So we're really gearing up for that upside

by creating a sustainable business in the near term for the domestic play.

"And we will be an important cog for some of the majors who want to meet their investment dates – that's where we see ourselves positioned as well.

"Our drilling programs are targeting significant growth in CSG reserves over the next two years. Given Bow's record of exceeding its targets, we have every confidence of becoming a major upstream energy company with a diversified CSG and oil portfolio, supplying the Australian and international energy markets."



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RS Depco Rig 28 on hole BW-2a at dawn