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Texas trouble clouds APLNG resources

Drilling down

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Dormant "reversion rights" held by a Texas company over a chunk of Origin Energy's coal seam gas reserves have been roused this week to dog Origin's flagship LNG project in Queensland.

The issue has come back onto the table after private Texas-based outfit Tri-Star Petroleum went to court in Queensland arguing that conditions agreed to under a 2002 deal had been triggered, and that rights to the resources must revert to its ownership.

At stake is a not-insignificant 22 per cent of the proven, probable and possible coal seam gas resources held within the Australia Pacific LNG venture. The gas is held within more than 60 petroleum licences and licence applications, including some key APLNG fields, such as Fairview and Walloon.

Origin, which has played down the significance of the matter, insists the rights have not been triggered.

But the issue emerged as a bone of contention in the bitter $14 billion takeover bid by the UK's BG Group for Origin in 2008 and its re-emergence casts a pall over the $24.7 billion venture, which is due to begin production of LNG mid-2015.

While there seems little scope for the case to affect APLNG's march towards production, legal process may see lawyers slugging it out in the courts for some time, and this could colour sentiment around Origin stock.

As Deutsche Bank analyst John Hirjee put it, while APLNG seems to have a strong legal position, "court outcomes are inherently uncertain".

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Even if Tri-Star's claim is unsuccessful, the rights remain in place "and there would remain risks that at some point in the future Origin's stake in APLNG could fall with no compensation or cash proceeds, which has always been the case". Hirjee told clients.

The matter dates back to a "farm-out" deal carved out by Tri-Star and Oil Company of Australia in May 2002, under which OCA secured Tri-Star's 45 per cent stakes in more than 60 CSG permits.

The deal included a "reversion deed" under which 45 per cent of the rights would revert back to Tri-Star once revenues exceed costs, plus an uplift factor. The exact terms have not been revealed but in any case, the mechanism is seen by some as unusual and murkily complex.

OCA, then 85 per cent owned by Origin, was subsequently fully taken over by it, and then mostly transferred into the APLNG project.

At issue is the definition of revenues that count toward triggering the rights. Tri-Star claims that big-ticket deals that Origin inked to bring ConocoPhillips and Sinopec into APLNG, worth almost $13 billion in total, plus a 20-year LNG sales contract, count in that regard. In Origin's view, the proceeds from those deals hardly can be seen as revenue, a conclusion lawyers acting for those global investors must have reached in due diligence.

But it is a question the courts will decide if the case proceeds.

Should Tri-Star be successful, the implications are interesting. It contends that reversion could have been triggered by October 29 2008, or alternatively by February 2012. But if Tri-Star took back the reserves effective from that date, it would own gas that has only one possible buyer – APLNG. Or it could be liable for a huge bill to cover its share of development capex so far. It is a messy situation that Origin and APLNG could have done without.

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