

Kupe Gas Project Gets Go-Ahead, a \$980 Million Investment

4 July 2006 - Kupe gas condensate project gets construction green light with final investment decision approved.

The Kupe gas condensate project offshore South Taranaki, has been given the green light to be built with the joint venture partners approving the final investment decision.

Kupe is the fourth offshore Taranaki petroleum project now at various stages of construction following the Pohokura gas condensate field, and the Tui and Maari oil fields.

Kupe operator, Origin Energy, said higher world petroleum offshore construction costs would see Kupe's cost rise to \$980 million from an estimated \$800 million last year while the project would now come on stream by mid-2009 — a year later than earlier planned.

Origin Energy said Kupe will produce around 20 PJ a year of sales gas – approximately 15% of New Zealand's current annual demand. The project will also produce LPG commencing at approximately 90,000 tonnes (1.06 million barrels) per annum and condensate commencing at 1.7 million barrels per annum, declining over the life of the field.

"A tremendous amount of technical, design, consultation and assessment work has been undertaken to get the project to this point. We are delighted now to see the fruition of this work in a decision by the joint ventures to proceed," said Origin managing director and CEO, Grant King.

That work has included:

- design of a new onshore production station to process gas from offshore;
- extensive community consultation resulting in the obtaining of resource consents for the project;
- project reserves being increased by around 15% to 389 petajoules equivalent (PJe) and;
- a renegotiated gas supply contract to accommodate the higher capital costs resulting from the booming oil and gas construction market.

"The high level of associated liquids production means that the project also stands to benefit if the significant increase in oil prices, seen over the last two years to around US\$70 per barrel today, is sustained into the future," Mr King said.

The estimated NZ\$980 million overall cost included appropriate project contingencies.

"However, the renegotiated gas supply agreement, coupled with higher expected condensate and LPG prices and increased reserves announced last year, have assisted in offsetting project cost increases and have provided the joint venture with the confidence to proceed."

Construction is being managed through an alliance contracting arrangement with the major contractor, Technip. Having one owner/contractor alliance team managing all the major activities other than drilling will lead to more effective and efficient execution of the project," Mr King said.

New Zealand Oil & Gas Ltd chairman Tony Radford, said his company which originally discovered the Kupe field in 1986, was delighted as a partner to be a part of this decision to proceed to development of the Kupe project following NZOG's long involvement in the field.

Murray Jackson, chief executive of major Kupe gas customer Genesis Energy said, "The decision to develop Kupe assures Genesis Energy of long term gas supplies for our new e3p power generation project. Both Kupe and e3p are critical assets which will help underpin New Zealand's energy future". Stripping out LPG would also preserve New Zealand's ability to meet the bottled gas market, he said.

The Kupe gas project will comprise an unmanned offshore platform at the Kupe Field supporting up to six wellheads; a new onshore production station; a shore crossing, bored under the coastline cliffs, connecting the offshore pipelines from the platform to the production station; and a network of onshore pipelines.

Construction is expected to commence in Taranaki in September 2006.

Commenting on the Kupe gas project joint venture parties' decision to commit to the project, Deputy Prime Minister, the Hon. Dr Michael Cullen said, "Oil and gas have a vital role to play in the future energy mix of New Zealand. The development of the Kupe Gas Project now sees it become an important part of that mix. The importance of gas projects such as Kupe is recognised by both central and local government" he said.

Participants in the Kupe Joint Venture are: Origin Energy, through Origin Energy Resources (Kupe) Ltd 32.1875% and Kupe Mining (No 1) Ltd 17.8125%, Genesis Energy through Kupe Holdings Ltd 20%, GP No 2 Ltd 11%, New Zealand Oil & Gas Ltd through: National Petroleum Ltd, Nephrite Enterprises Ltd and Petroleum Equities Ltd 15%, and Mitsui E&P New Zealand Ltd 4%.