

KPHL proposed acquisition of up to a 5% interest in the PNG LNG Project from Santos Limited

**Submission to the Independent Consumer and Competition
Commission in support of application for clearance**

Date: 30 October 2023


Information confidential to the parties is highlighted 

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1. Summary of Submission

1.1 Nature of this Submission

This submission details the proposed transaction whereby, if fully implemented, Kumul Petroleum Holdings Limited (Registration 1-100145) (**KPHL**) will acquire, through a wholly owned subsidiary, up to a 5% Project Interest¹ in the PNG LNG Project from wholly owned subsidiaries of Santos Limited (ABN 80 007 550 923, ASX: STO) (**Santos or STO**) (KPHL and Santos together, the **Parties**) (**Proposed Transaction**).

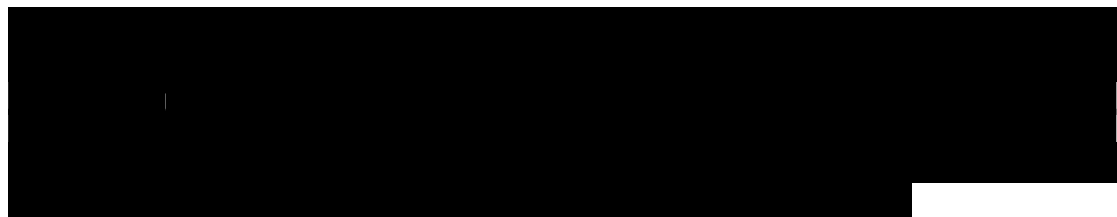
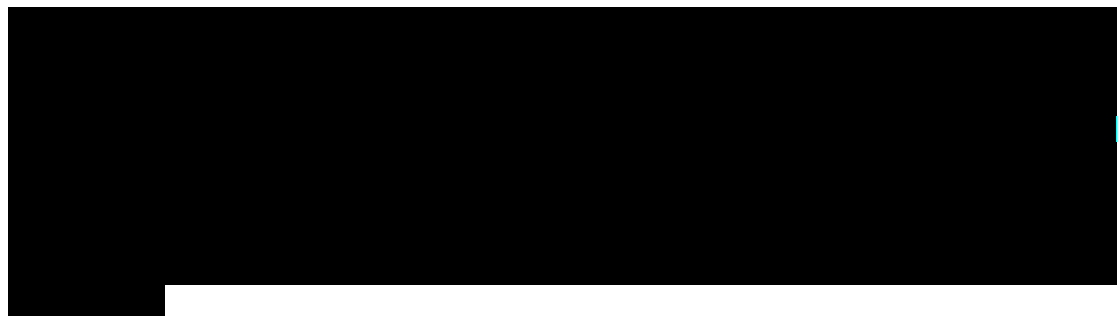
This submission is made in support of the Form 2 Notice of Application for Clearance for a Business Acquisition under section 81 of the *Independent Consumer and Competition Commission Act 2002 (ICCC Act)*, filed on 30 October 2023, under which KPHL seeks clearance for the Proposed Transaction.

1.2 The summary of the case for clearance

The Proposed Transaction will not result in any lessening of competition or change to the competitive dynamics in any related market in PNG, as the Parties' operations in these markets are not affected by the Proposed Transaction.

Following completion of the Proposed Transaction, KPHL will have only incrementally increased its interest in the PNG LNG Project from 16.8% up to 21.8%. KPHL will not gain any additional control or influence over the operation of the PNG LNG Project.

ExxonMobil will continue in its role as project operator, controlling the day to day operations of the PNG LNG Project including marketing and sales of LNG under long-term Sale and Purchase Agreements (**SPAs**).



No other assets, operations or markets are affected by the Proposed Transaction, noting that:

- (a) the Proposed Transaction does not impact on any existing PNG LNG sales arrangements (domestically for gas or LNG exports)
- (b) KPHL will continue to have no role in marketing of condensate; and

¹ **Project Interest** means an ultimate beneficial interest in the PNG LNG Project as described in section 2.3 below.

- (c) none of the parties interests outside of the PNG LNG project are impacted by the Proposed Transaction.

The Proposed Transaction will ensure that KPHL as the national oil and gas company of PNG continues to play a positive role in the development of LNG in the country and facilitating a strong and viable business in PNG into the future. It is also consistent with the objective of ensuring that PNG's government and people share in a greater proportion of wealth generated from its gas resources.

2. The Parties' operations and interests in PNG

2.1 KPHL

KPHL is Papua New Guinea's national oil and gas company established and incorporated under the *Companies Act 1997* and the *Kumul Petroleum Holdings Limited Authorisation Act 2015*. The shares in KPHL are held beneficially for and on behalf of the Independent State of Papua New Guinea (**State**).

Pursuant to section 165 of the *Oil and Gas Act 1998 (O&G Act)*, the State has the right to acquire, directly or through a nominee, all or any part of a participating interest not exceeding 22.5% in each petroleum project, usually at the time that a project is approved and a petroleum development licence issued. KPHL is the exclusive nominee of the State in respect of such participating interests arising under the O&G Act.³

The principal objective of KPHL is to hold and develop petroleum interests and projects in Papua New Guinea, participate in the PNG LNG Project and to participate in the exploration for and the development, production, processing, transportation and marketing activities of oil and gas in Papua New Guinea.⁴ Consistent with that mandate, KPHL currently participates in the conduct of oil and gas development, production, processing and marketing activities, including all related upstream, midstream and downstream activities.

When participating as a co-venturer in petroleum projects, KPHL pays its share of the operating costs of the various licences and projects and receives its share of either the profits or production of these. KPHL pays dividends annually, less amounts required to meet its approved annual operating plan directly to the State.⁵ Apart from its project and licence area shareholding, KPHL is the operator of four petroleum retention licences.⁶

KPHL also plays a vital role in the PNG economy and has established the Kumul Petroleum Academy for specialist industry training, supports the construction of rural electrification infrastructure, health infrastructure and services, various sporting codes and other community development initiatives. KPHL's support of the construction of rural electrification infrastructure will assist the Government to achieve its goal under the National Electricity Roll-Out Plan for the connection of 70% of the nation's population to electricity by 2030. In 2020, KPHL funded the construction of over 160 kilometres of electricity transmission lines in the Hela and Southern Highlands provinces. The electricity transmission lines provide the next level of power reticulation to enable communities and local infrastructure to connect to the high voltage

³ *Oil and Gas (Amendment) Act 2015*, s 175A; *Kumul Petroleum Holdings Limited Authorisation Act 2015*, s 14.

⁴ *Kumul Petroleum Holdings Limited Authorisation Act 2015*, s 7(2)(b).

⁵ *Kumul Petroleum Holdings Limited Authorisation Act 2015*, s 13(7).

⁶ See Schedule 4 for a list of the Petroleum Retention Licences.

extensions to the Ramu grid from Hagen and Mendi into these provinces, being carried out by PNG Power Limited.

The structure of KPHL is set out in Schedule 2. Schedule 1 sets out KPHL's subsidiaries. The assets of KPHL are set out in Schedule 4.

NiuPower and NiuEnergy

Through its joint venture with Santos, KPHL holds a 50% interest in NiuPower Limited (**NiuPower**) and NiuEnergy Limited (**NiuEnergy**). NiuPower is an independent power producer incorporated in PNG focused on natural gas fuelled power generation. NiuEnergy is a gas distribution company focussed on developing gas supply chain capability to support gas fuelled power generation in PNG.

NiuPower and NiuEnergy were established in 2017 with Kumul Energy Limited, a subsidiary of KPHL, and Oil Search Power Holdings Limited (**Oil Search Power**) as equal foundation investors of both companies. Following the merger of Santos and Oil Search Power's parent company Oil Search Limited (**Oil Search**) in 2021, Santos is now the parent company of Oil Search Power.

NiuPower owns and operates the Port Moresby Power Station and dispatches power to PNG Power's Port Moresby grid through a separately constructed, dedicated transmission line from its gas-fired power plant. The PNG LNG Project supplies gas under a gas supply agreement to NiuEnergy, which in turn supplies gas to NiuPower for the Port Moresby Power Station.

There is no change in the ownership of NiuPower or NiuEnergy or gas supply arrangements to the Power Station occurring as part of the Proposed Transaction.

2.2 Santos

Santos is listed on the Australian Securities Exchange (ASX: STO) and is an Australian natural gas company with operations across Australia, Papua New Guinea, Timor-Leste and North America. Santos is one of Australia's biggest domestic gas suppliers and a leading LNG supplier in the Asia Pacific Region.

Santos' operations are focused on five core, long-life asset hubs: Cooper Basin, Queensland and NSW, Papua New Guinea, Northern Australia and Timor-Leste, and Western Australia.⁷ Its assets include onshore and offshore operations, conventional, coal seam gas (CSG) and LNG developments, upstream and midstream facilities, carbon capture and storage (CCS) and clean fuels. The merger with Oil Search, completed in December 2021, added further assets in Papua New Guinea (additional equity in PNG LNG and operated oil fields) and North America (Alaska) to Santos' portfolio.⁸

Santos has been a committed partner in PNG for over 40 years. Over that time, it has been involved in more than 30 different licenses in the Papuan basin and has significant community partnerships and projects across the nation.⁹ Schedule 3 sets out the subsidiaries of Santos incorporated in PNG and their IPA registration numbers.

In PNG, in addition to its Project Interest in the PNG LNG Project, Santos:

⁷ Santos Annual Report 2022, p 22.

⁸ Santos Annual Report 2022, p 22.

⁹ Santos ASX Announcement, 27 September 2022, 'Kumul offers to acquire 5% of PNG LNG'.

- (a) operates the Kutubu, Agogo, Moran and Gobe fields. These fields produce oil and raw gas, with the gas being sent to PNG LNG, delivering 14% of PNG LNG gas supply in 2022;¹⁰
- (b) holds independent interests in a number of exploration and appraisal assets, including petroleum prospecting licences and petroleum retention licences (including a 22.8% interest in the fields which would form part of the Papua LNG development – prior to KPHL’s right to back-in to the project); and
- (c) holds a 50% interest in NiuPower and NiuEnergy as co-venturer with KPHL.

Schedule 3 sets out Santos’ PNG subsidiaries and the assets of Santos in PNG are set out in Schedule 4.

2.3 PNG LNG Project

Operations

The PNG LNG Project is an end-to-end integrated LNG development that includes gas production and processing facilities extending from the Hela, Southern Highlands, Western and Gulf provinces to Caution Bay in the Central Province. The PNG LNG facilities gather multiphase fluids from Hides wells and transport them through the Hides SpineLine to the Hides Gas Conditioning Plant (HGCP), where the fluids are stabilised and transformed into two streams – gas and condensate.¹¹

The dry gas from Hides, together with associated gas from the Moran, Kutubu and Gobe fields, is transported through over 700 kilometres of pipeline to the LNG Plant, which is located northwest of Port Moresby in the Gulf of Papua. At the LNG Plant, the gas is liquefied so that it can be exported via ship to customers in Asia as LNG.

The condensate stream travels through the HGCP-Kutubu Condensate Pipeline to the Kutubu Central Processing Facility, and from there, to the Kumul Marine Terminal in the Gulf of Papua for export.¹²

Gas is also supplied domestically to the NiuPower and Dirio Gas & Power companies for power generation to supply energy for Port Moresby businesses and communities.

Ownership

KPHL and Santos, together with ExxonMobil PNG Limited (a wholly owned subsidiary of ExxonMobil Corporation) (**ExxonMobil**),¹³ JX Nippon Oil and Gas Exploration (**JX Nippon**), and Mineral Resources Development Company Limited (**MRDC**) are the co-venture partners and holders of Project Interests in the PNG LNG Project. The Project Interests of the co-venture partners in the PNG LNG Project are as follows:

¹⁰ Santos Annual Report 2022, p 23.

¹¹ ExxonMobil [‘PNG LNG Environmental and Social Report – Annual 2021’](#), p 1.

¹² ExxonMobil [‘PNG LNG Environmental and Social Report – Annual 2021’](#), p 1.

¹³ Exxon Mobil Corporation is a publicly traded, American multinational oil and gas corporation headquartered in Irving, Texas.

Table 1 – Co-Venture Partner Project Interests

Co-venture Partner	Project Interest (current)	Project Interest (after completion of Share SPA)	Project Interest (after completion of Asset SPA)
KPHL	16.8%	19.4%	21.8%
Santos	42.5%	39.9%	37.5%
ExxonMobil	33.2%	33.2%	33.2%
JX Nippon	4.7%	4.7%	4.7%
MRDC	2.8%	2.8%	2.8%

The Project Interests reflect the ultimate beneficial interests of the co-venture partners and are calculated based on the unitisation of the various upstream interests supplying gas to the PNG LNG facilities. The legal interests of the co-venture partners in individual upstream fields therefore vary from these proportions.

The PNG LNG Coordinated Development and Operating Agreement dated 13 March 2008, as amended and restated on 8 December 2009 (**CDOA**) together with the related project agreements govern the integrated activities of the PNG LNG Project, including the development and joint operation of the underlying gas fields, the transportation and storage of gas and condensate, and the sale and marketing of LNG.

As shown above, neither KPHL nor Santos controls or majority owns the PNG LNG Project, and that will remain the case post-completion of the Proposed Transaction.

ExxonMobil is the designated operator of the PNG LNG Project under the CDOA, and will remain the designated operator post completion of the Proposed Transaction.

Marketing and sale of LNG

Currently, all product from the PNG LNG Project is sold and marketed under a jointly marketed LNG sales structure. ExxonMobil, as the designated operator of the PNG LNG Project, is also responsible for the sale and marketing of all LNG product on behalf of the co-venturers.



Marketing and sale of oil products

The PNG LNG Project also produces some condensate. ExxonMobil independently markets its share of condensate derived from the Project, while Santos markets the other condensate as agent on behalf of the remaining co-venturers (and will continue to do so post completion of the Proposed Transaction).

The condensate is combined with existing oil production from Santos' PNG operated oil fields (Kutubu, Moran and Gobe fields) and exported as 'Kutubu Blend' from the Kumul Marine Terminal, operated by Santos offshore in the Gulf Province.



Figure 1 – Map of PNG LNG Project

3. Proposed Transaction

3.1 Share Sale and Purchase Agreement

On 31 August 2023, the Parties entered into a Share Sale and Purchase Agreement for KPHL to acquire, through a wholly owned subsidiary, a 2.61912% Project Interest in the PNG LNG Project via the acquisition of all shares in Lavana Limited (**Lavana**) from Santos for US\$576.2 million (PGK2.14 billion) (**Share SPA**). Under the Share SPA, KPHL will also assume liability for the proportion of project finance debt attributable to the 2.61912% Project Interest, being approximately US\$160 million (PGK593.7million).

Completion of the Share SPA is not subject to finance and is conditional only on KPHL obtaining clearance from the ICCC on or before 31 December 2023.

3.2 Call Option Deed

Upon completion of the Share SPA, Santos International Holding Pty Limited (**SIH**) is obliged to procure another Santos subsidiary, Oil Search (Tumbudu) Limited (**OST**), to enter into a Call Option Deed under which OST will grant Lavana an option to acquire a further 2.38088% Project Interest in the PNG LNG Project on the terms and

conditions set out in the Call Option Deed and the Asset Sale and Purchase Agreement (**Asset SPA**). The Call Option must be exercised on or before 30 June 2024.

Upon exercise of the Call Option, Lavana, OST (procured by SIH) and KPHL will execute and complete the Asset SPA to deliver a further 2.38088% interest in the PNG LNG Project to KPHL. Lavana will purchase the 2.38088% Project Interest for a cash purchase price of US\$523.8 million (PGK1.94 billion) and assume liability for the same proportion of project finance debt, being approximately US\$145 million (PGK538.0 million).

The Asset SPA is subject to completion of the Share SPA and satisfaction of various conditions precedent, including KPHL obtaining clearance from the ICCG.

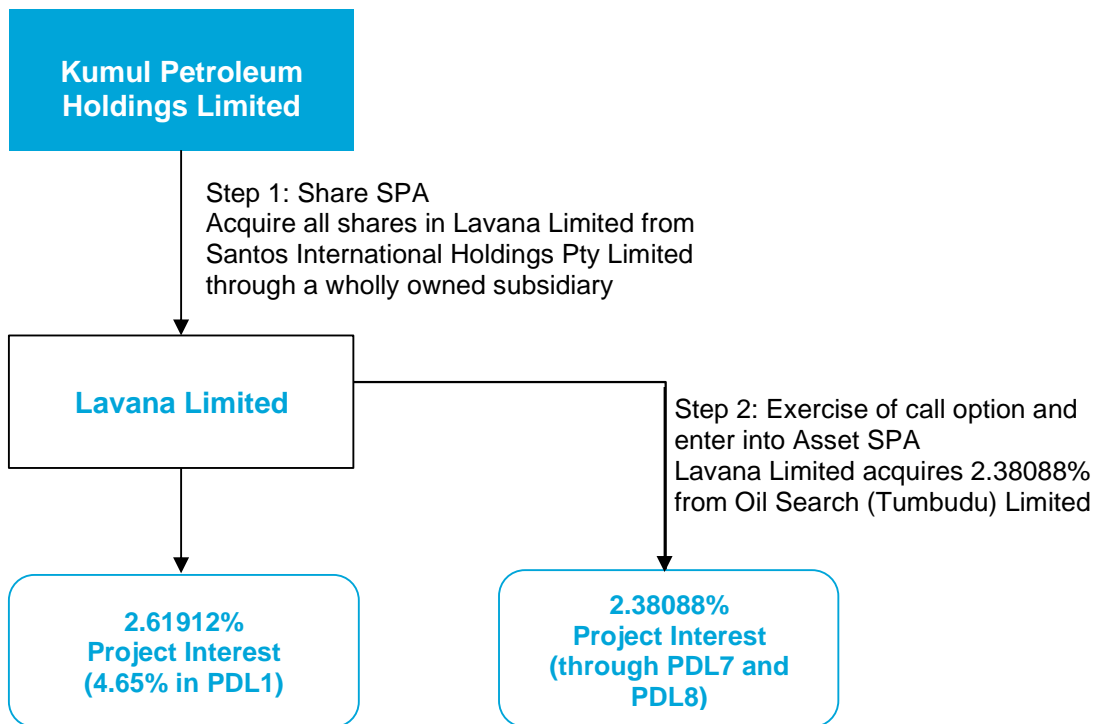


Figure 2: Diagram of Proposed Transaction

KPHL is seeking clearance for the Proposed Transaction, constituting both the proposed acquisition under the Share SPA and the proposed acquisition under the Call Option Deed/Asset SPA.

If fully implemented, the Proposed Transaction will increase the equity interest of KPHL in the PNG LNG Project by 5% to 21.8%, increasing PNG’s interests in the PNG LNG Project and the financial returns for KPHL. The Proposed Transaction also supports the PNG government’s objectives for the people of PNG to have a greater equity interest in the development of their natural resources.

4. Industry overview

The Proposed Transaction relates to the industry in which the PNG LNG Project operates, namely the global LNG industry. The LNG industry in PNG is rapidly developing with significant growth in gas and LNG production anticipated in the medium term.

Currently, the PNG LNG Project is the only operational LNG project in PNG, with the P'nyang Gas Project and Papua LNG Project still in pre-development phase, with the proponents aiming for final investment decision for the Papua LNG Project in 2024 and first gas in 2027-2028. The Hides Gas to Electricity Project (**Hides GTE Project**) only produces gas for domestic use and does not produce LNG for export. The Hides GTE Project is not currently operational.

4.1 Upstream – Exploration and production

Exploration for oil and gas reserves occurs on a global scale and is primarily driven by supply and demand in the global economy. Globally, exploration is usually subject to receipt of exploration licenses and often occurs in conjunction with the search for other hydrocarbon resources. Once resources are discovered, appraisal involves the determination of technical feasibility and the assessment of commercial viability of an identified reserve.

Gas suppliers invest significant capital into developing gas production and processing facilities, transmission pipelines and distribution systems to facilitate the processing and export of LNG. An LNG project will typically comprise of several developmental phases, including estimation of gas reserves, project screening, evaluation, pre-front end engineering design (pre-FEED), FEED, tender, selection of the engineering procurement and construction (EPC) contractor, the EPC phase and facility startup.

LNG export projects assist in monetising large gas reserves that may otherwise be undeveloped if dedicated to the domestic gas market due to the large capital investment requirements for gas production and processing facilities and comparatively smaller volumes of domestic demand.¹⁵

The PNG LNG Project is a fully integrated, end-to-end LNG development, meaning the exploration and production is fully integrated with the LNG liquefaction and export. The PNG LNG gas production and processing facilities extend from the Hela, Southern Highlands, Western and Gulf provinces to Caution Bay in the Central Province.

4.2 Midstream – Processing and transportation

This sector of the supply chain involves the processing of natural gas to remove impurities, such as small amounts of nitrogen and carbon dioxide and condensate. After processing, the remaining natural gas is almost entirely methane. The natural gas is then transported via pipeline to the LNG plant for liquefaction and export.

In PNG, the PNG LNG Project facilities gather multiphase fluids from the Hides wells and transport them through the Hides Spine to the Hides Gas Conditioning Plant, where the fluids are stabilised and transformed into two streams – gas and condensate. The dry gas from Hides, together with associated gas from the Moran, Kutubu and Gobe fields, is transported through more than 700 kilometres of pipeline to the LNG Plant, which is located northwest of Port Moresby in the Gulf of Papua.

4.3 Downstream – Liquefaction and export

This sector of the supply chain involves the liquefaction and export of LNG. The liquefaction process cools the feed gas to below the methane boiling point (approx. -161°C). At this temperature, the gas liquefies to 1/600th of its original volume. After liquefaction, the LNG is ready for export via specialised LNG carriers to regasification facilities in other countries.

¹⁵ US Department of Energy (2018), 'Global LNG Fundamentals', p 18.

In PNG, natural gas is liquefied at the PNG LNG Plant for export via ship to customers in Asia as LNG. Gas is also provided (without liquefaction) to the local NiuPower and Dirio Gas & Power companies to supply energy for Port Moresby businesses and communities. The condensate stream travels through the HGCP-Kutubu Condensate Pipeline to the Kutubu Central Processing Facility, and from there, to the Kumul Marine Terminal in the Gulf of Papua for export. That domestically produced condensate competes with imports of condensate for any sales of condensate to domestic customers (such as the Napa Napa refinery).

4.4 Downstream – Marketing and sale of LNG

The vast majority of global LNG supply occurs under long-term, high volume, point-to-point sale and purchase agreements (**SPAs**). This feature of the market is primarily attributable to risk management of the substantial capital expenditure required to construct LNG production and export facilities. While a greater demand by gas buyers for flexibility in supply has led to an increase in shorter term agreements and spot trades, long-term SPAs remain the principal basis of LNG sales. Recent volatility in spot markets has also driven a growing preference amongst buyers for long-term SPAs.

Sales of LNG from PNG compete with sales from other LNG projects in major LNG producing countries such as Australia, Qatar, United States, Malaysia, Algeria, Russia, Nigeria and Indonesia.

Factors which may impact the price of LNG on the:

- (a) supply side, are the volume of natural gas production, level of natural gas in storage, pipeline capacity and the volumes of natural gas imports and exports; and
- (b) demand side, are seasonal factors, economic growth, geopolitical factors and the availability of other energy sources.

For example, in early 2022, the Russian invasion of Ukraine coincided with deep and sustained declines in Russian gas supply to Europe and put upwards pressure on global oil and gas prices. This decline in supply pushed already rising European gas prices to record highs, with gas prices in 2022 significantly higher than their historical levels.¹⁶ Bans on Russian oil drove countries to diversify their supply and to decrease dependence on Russia for both oil and gas, sending ripple effects across global supply chains.¹⁷ In 2023, while international LNG prices have declined from the historic peaks in August 2022, prices still remain above long term averages.¹⁸

5. Markets

5.1 Relevant Markets

The nature of the Proposed Transaction, being solely a transfer of up to a 5% interest in the PNG LNG Project from Santos to KPHL if fully implemented, will not have any effect on any relevant market.

¹⁶ Australian Competition and Consumer Commission, [‘Gas Inquiry 2017-2030: Interim Report – January 2023’](#), p 15.

¹⁷ Australian Energy Regulator, [‘State of the energy market 2022’](#), p 126.

¹⁸ Australian Competition and Consumer Commission, [‘Gas Inquiry 2017-2030: Interim Report – June 2023’](#), p 37.

The PNG LNG Project is an export-focused LNG project, with some production reserved for domestic gas supply. Therefore, the Proposed Transaction is most relevant to:

- (a) the market for the supply of domestic gas in PNG; and
- (b) the market for the supply of LNG for export.

5.2 Market for domestic supply gas in PNG

Gas is supplied domestically in PNG to facilitate power generation.

The PNG LNG Project is currently the only supplier of gas for domestic use. The Hides GTE Project is not currently operational as the Porgera Joint Venture is on “care and maintenance”. It is anticipated that, once operational, future LNG projects developed in PNG will also supply gas for domestic power generation (and be required to do so through imposition of contractual domestic supply obligations).

(a) PNG LNG Project

The PNG LNG Project supplies gas under gas supply agreements with PNG Power, NiuEnergy and Dirio Gas & Power Company Limited to facilitate domestic power generation. ExxonMobil as Project operator administers these supply agreements, nominated as Seller by the co-venturers. The parties estimate that the PNG LNG Project has a 100% market share of this market; and

(b) Hides GTE Project

Santos owns and operates the Hides GTE Project under which gas is sold to the Porgera Joint Venture for electricity generation under a gas sale contract with Barrick Niugini Limited [REDACTED]. The Hides GTE Project is not currently operational as the Porgera Joint Venture is on “care and maintenance”. The parties estimate that Santos has a minimal share of this market (which is principally supplied by the PNG LNG Project).

(c) Customers

The current domestic PNG customers of the PNG LNG Project are:

(i) PNG Power

Power generated at the PNG LNG liquefaction plant on Caution Bay is supplied under an interruptible power supply agreement with PNG Power. [REDACTED]

(ii) Port Moresby Power Station

As noted in section 2.1 above, NiuPower is the owner and operator of the Port Moresby Power Station and dispatches power to PNG Power’s Port Moresby grid through a separately constructed, dedicated transmission line from its gas-fired power plant. The PNG LNG Project supplies gas under a gas supply agreement to NiuEnergy, which in turn supplies gas to NiuPower for the Port Moresby Power Station. [REDACTED]

(iii) Dirio Gas & Power

The PNG LNG Project supplies gas under a gas supply agreement with Dirio Gas & Power Company Limited to the Dirio Gas & Power Plant. The Dirio Gas & Power plant is a gas based power plant, 100% owned by PNG landowners and provincial governments, providing 45 megawatts of power to Port Moresby. [REDACTED]

The Proposed Transaction involves no changes to any of those domestic gas supply arrangements within PNG.

5.3 Market for the supply of LNG for export

The PNG LNG Project is currently the sole supplier of LNG for export from PNG. More than 90 percent of LNG production from the PNG LNG Project is sold under contract, with the remainder sold on the LNG spot market. In 2022, in addition to the 8.3 million tonnes of LNG exported via mid- to long-term contracts, the PNG LNG Project exported 1.98 million tonnes via spot and short-term contracts. The total LNG sales from PNG LNG only amount to approximately 2.2% of the global LNG market.¹⁹

The co-venturers entered into the Supply and Sales Commitment Agreement on 8 December 2009 to give effect to the multi-party basis of sales to common purchasers. The co-venturers currently use a joint sales structure for all LNG and gas sales under which ExxonMobil is responsible for managing all such sales on behalf of the Project participants.

[REDACTED]

[REDACTED]

(a) Market is characterised by mid- to long- term SPAs

The PNG LNG Project supplies LNG to customers under mid- to long-term SPAs, which are currently for the following quantities:

[REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

¹⁹ Total global LNG trade in 2021 was 389.2 MTPA. (International Group of Liquefied Natural Gas Importers (2023) The LNG industry GIIGNL Annual Report 2023, page 4 <https://giignl.org/wp-content/uploads/2023/07/GIIGNL-2023-Annual-Report-July20.pdf>).

[REDACTED]

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

5.4 Related Markets

For completeness, descriptions of the other markets in which the Parties operate in PNG are set out below. The Proposed Transaction will not result in any change to the competitive dynamics in any related market in PNG.

5.5 Market for the exploration and appraisal for oil and gas in PNG

Overview

Exploration for oil and gas reserves occurs on a global scale and is primarily driven by supply and demand in the global economy. Exploration is usually subject to receipt of exploration licenses and often occurs in conjunction with the search for other hydrocarbon resources. Once resources are discovered, appraisal involves the determination of technical feasibility and the assessment of commercial viability of an identified reserve.

In PNG, the State owns all oil and gas resources.²¹ Where the government grants rights to explore gas and other petroleum products in a specified area, those rights are documented in Petroleum Prospecting Licences (**PPLs**) and Petroleum Retention Licences (**PRLs**) issued by the Department of Petroleum and Energy (**DPE**). The DPE sets the terms and availability of PPLs and PRLs in PNG.

Petroleum Prospecting Licences

The potential acquirers of PPLs in PNG include international and domestic exploration and production companies. These are heavily resourced companies, due to the long term, capital intensive nature of establishing exploration wells.

Santos holds, and is a potential acquirer of, PPLs in PNG. KPHL does not hold any interest in PPLs. KPHL is also not a potential acquirer of PPLs as its operations do not currently extend to PPL exploration activities, rather KPHL has rights to acquire participating interests in petroleum projects at the time they proceed to the point of a petroleum development licence being issued.²²

Petroleum Retention Licences

PRLs are available for discoveries of gas that are not currently considered commercially viable but may become commercially viable in time. Acquirers of PRLs may develop commercialisation pathways for any discoveries, which may encourage further exploration by third parties for PPLs and PRLs in that prospective area.

Both KPHL and Santos currently hold, and are potential acquirers of, PRLs.

²¹ O&G Act, s 6.

²² See section 2.1.

5.6 Domestic electricity supply

The market for the supply of electricity in PNG occurs predominantly through hydropower. This is followed by diesel, gas-fired generation and geothermal.

The parties have limited participation in this market, but KPHL and Santos each have an interest in the market for domestic electricity supply through their shareholdings in NiuEnergy and NiuPower. As noted in section 2.1 above, NiuEnergy supplies gas to NiuPower for the operation and generation of electricity from Port Moresby Power Station.

The PNG LNG Project has an interruptible gas supply agreement with PNG Power.

Those ownership interests and arrangements are not changing as a result of the Proposed Transaction.

By way of completeness, we note that the market for electricity supply is a regulated industry for the purposes of the *Independent Consumer and Commission Act 2002*.²³

5.7 Market for the supply of condensate

As noted in section 2.3 above, some condensate is produced by the PNG LNG Project through the processing of natural gas. The condensate is combined with existing oil production from Santos' PNG operated oil fields (Kutubu, Moran and Gobe fields) and exported as 'Kutubu Blend' from the Kumul Marine Terminal, operated by Santos offshore in the Gulf Province.

The condensate is not marketed through the PNG LNG Project, with ExxonMobil independently marketing its share of condensate, while Santos markets the other condensate as agent on behalf of the remaining co-venturers.

A small proportion of Santos' sales are also made domestically to the Napa Napa refinery [REDACTED]. 'Kutubu Blend' cargoes compete against imports of intentionally produced condensates for sales to the refinery, and the refinery had predominantly been supplied from international sources.

As the marketing arrangements for condensate will not change, the Proposed Transaction will not impact on the market for supply of condensate.

6. No anticompetitive effects

The Proposed Transaction will solely result in a transfer of up to a 5% interest in the PNG LNG Project from Santos to KPHL.

The Proposed Transaction will not result in any change to the competitive dynamics in any relevant market in PNG for the following reasons:

- (a) following completion of the Proposed Transaction, KPHL will have only a 21.8% interest in the PNG LNG Project;
- (b) for the purposes of competition analysis, the PNG LNG Project is a single economic entity;
- (c) all of the LNG/gas production of the PNG LNG Project is currently jointly marketed by ExxonMobil [REDACTED]

²³ *Electricity Industry Act (Chapter 78), s 24C.*



- (d) KPHL will not gain any control or influence over the operation of the PNG LNG Project from the Proposed Transaction as:
- (i) the PNG LNG Project will remain co-owned by Santos (37.5%), ExxonMobil (33.2%), KPHL (21.8%), JX Nippon (4.7%) and MRDC (2.8%);
 - (ii) the commercial operations of the PNG LNG Project will continue to be governed by the CDOA and the related project agreements;
 - (iii) ExxonMobil will continue its role as project operator, controlling the day to day operations of PNG LNG Project including its LNG marketing and sales functions of long-term SPAs; and
 - (iv) KPHL will not be granted any special voting or management rights with respect to its additional 5% interest;
- and,
- (e) Santos currently, and will continue to do so post-completion of the Proposed Transaction, markets condensate produced from the PNG LNG Project for all participants other than ExxonMobil (including KPHL); and
- (f) no other assets or operations of the Parties are affected by the Proposed Transaction.

The Proposed Transaction will ensure that KPHL continues to play a positive role in the development of LNG in the country and in facilitating a viable business in PNG into the future. This is consistent with the objective of ensuring that PNG's government and people share in a greater proportion of wealth generated from its gas resources.

6.2 No change to market for the domestic supply gas in PNG

For the purposes of competition analysis, the PNG LNG Project is a single economic entity and is not controlled by either of the Parties.

The relevant counterfactual for domestic supply by the PNG LNG Project of gas is the same in both the future with and future without the Proposed Transaction.

The Proposed Transaction will increase KPHL's Project Interest in the PNG LNG Project, but following completion of the Proposed Transaction, the operations of the PNG LNG Project will continue to be governed by the CDOA and the related project agreements. ExxonMobil will continue in its role as project operator, controlling the day-to-day operational decisions of PNG LNG Project. The PNG LNG Project will not be operated, majority owned or controlled by KPHL following the Proposed Transaction. The only thing which is changing is the economic exposure of the merger parties to the PNG LNG Project (i.e. KPHL's exposure is increasing and Santos' exposure is decreasing).

Therefore, the Proposed Transaction will not result in any change to the operations of the PNG LNG Project, nor will it alter any current supply arrangements in the market. As a result, the Proposed Transaction will have no effect on the market for the domestic supply of gas in PNG.

6.3 No change to the shares of PNG export sales of LNG

The Proposed Transaction will have no effect on the parties' shares of PNG export sales of LNG, nor will there be any change to global LNG markets. The Proposed Transaction will not result in a change to the current PNG LNG mid- to long- term SPAs. ExxonMobil's role as project operator in relation to the PNG LNG Project's mid- to long-terms SPAs will also not be affected, and they will remain jointly marketed.



6.4 No change to exploration incentives or competitive dynamics

The Proposed Transaction only increases KPHL's existing interest in the PNG LNG Project and will not alter the Parties' independent operations in the oil and gas exploration and appraisal market. The Proposed Transaction will not affect either the exploration incentives for the Parties or the competitive dynamics in the exploration and appraisal market for oil and gas in PNG.

6.5 No change to domestic electricity supply

The increased Project Interest held by KPHL will not alter any current arrangements in place for the supply of domestic gas by the PNG LNG Project to power entities in PNG.

The Proposed Transaction will not shift the incentives of the Parties to invest in domestic electricity supply or adversely affect ongoing supply of electricity in PNG.

6.6 No change to the market for the supply of condensate

The increased Project Interest held by KPHL will not alter any current arrangements in place for the marketing of condensate by Santos (which will continue to market condensate for all non-ExxonMobil participants in the PNG LNG project). Santos will also continue to face competition from ExxonMobil and imports of internationally produced condensate.

7. Conclusion and Request

Based on the matters set out in this submission, the Proposed Transaction will not substantially lessen competition in any relevant market.

KPHL therefore requests that the ICCC provides clearance for the Proposed Transaction.

Schedule 1 – KPHL Subsidiaries

Company	Percentage Shareholding	Registration Country	Registration Number	Principal activities
Eda Oil Limited	75.07% Note: The remaining minority interest is held by PNG landowners.	PNG	1-48401	Investment in development and production of hydrocarbons directly by participation in the Moran Joint Venture.
Kumul (Drilling Services) Limited	100%	PNG	1-103067	To hold interest in drilling and related services.
Kumul Energy Limited	100%	PNG	1-103068	To hold interest in NiuPower and NiuEnergy joint ventures which operations has started March 2019. Also holds interest in all future power generation projects.
Kumul LNG Limited	75.07% Note: The remaining minority interest is held by PNG landowners.	PNG	1-67810	Established as a special purpose entity to hold interest in the PNG LNG project.
Kumul Petroleum (Development) Limited	100%	PNG	1-103069	Holds interest in pipeline and midstream related services.
Kumul Petroleum	100%	PNG	1-103144	To hold interest in downstream and petrochemical

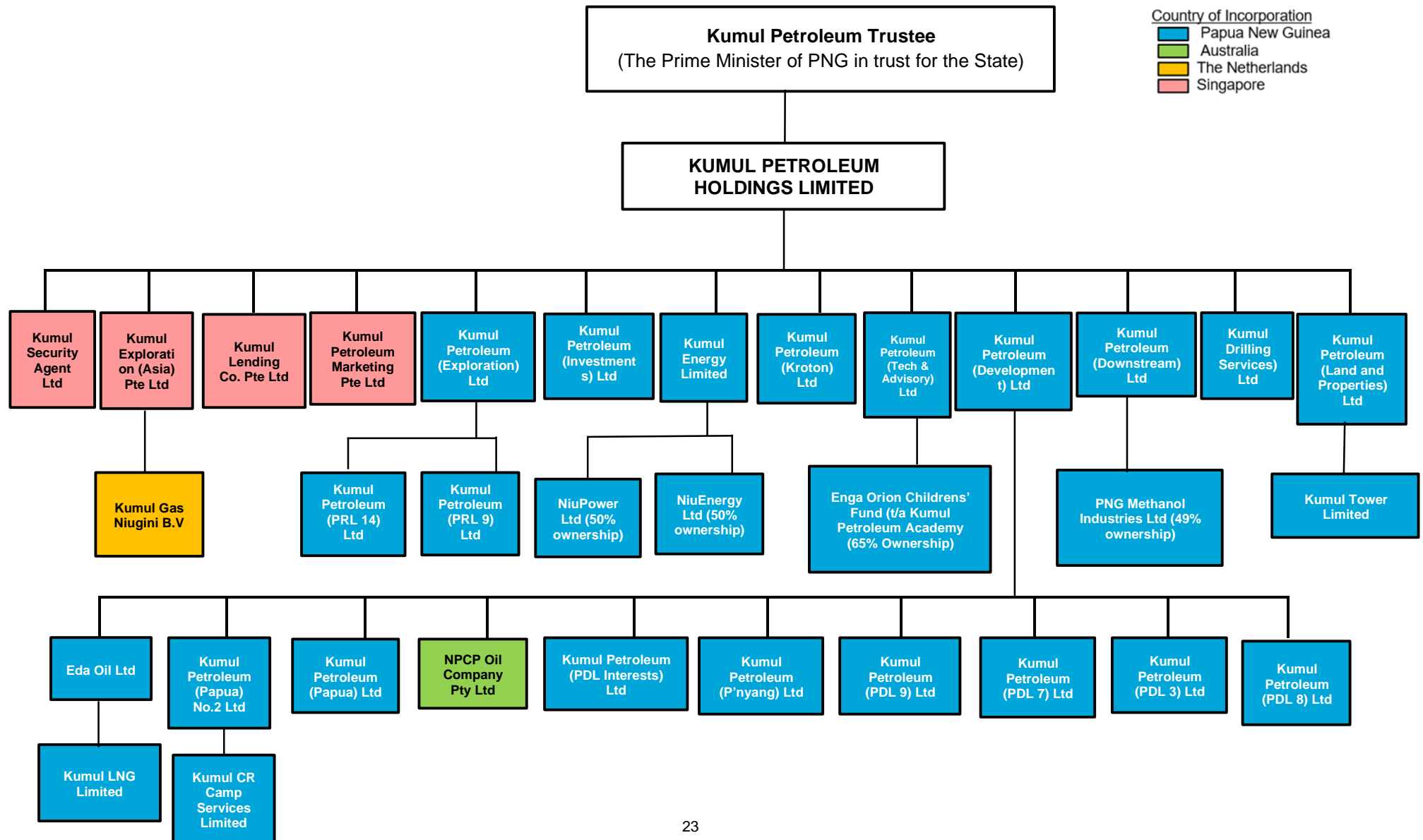
Company	Percentage Shareholding	Registration Country	Registration Number	Principal activities
(Downstream) Limited				related activities.
Kumul Petroleum (Exploration) Limited	100%	PNG	1-103070	To hold interest in new exploration activities.
Kumul Petroleum (Investments) Limited	100%	PNG	1-104026	Holds interest in marketable securities.
Kumul Petroleum (Kroton) Limited	74.25% Note: The remaining minority interest is held by PNG landowners.	PNG	1-63957	Holds the State's interest in the PNG LNG Project.
Kumul Petroleum (Land and Properties) Limited	100%	PNG	1-108517	Incorporated to the interest in the Western Pipeline (Strategic Pipeline) project.
Kumul Petroleum (Tech & Advisory) Limited	100%	PNG	1-103066	To participate in the Kumul Academy and any other up-skilling and training ventures that the Group undertakes.
Kumul Petroleum Foundation Limited	100%	PNG	1-128527	To hold charitable activities

Company	Percentage Shareholding	Registration Country	Registration Number	Principal activities
NPCP Oil Company Pty Ltd	100%	Australia	ACN 072 278 721 IPA Registration Number 3-25084	Exploration and production activities in oil and gas.
Kumul Exploration (Asia) Pte. Limited	100%	Singapore	UEN 201705803Z	Service activities incidental to oil and gas extraction and crude petroleum and natural gas production.
Kumul Lending Co. Pte. Ltd.	100%	Singapore	UEN 201621671E	Fund management activities.
Kumul Petroleum Marketing Pte Limited	100%	Singapore	UEN 201711718E	Marketing of liquefied natural gas, condensate and related products.
Kumul Security Agent Ltd.	100%	Singapore	UEN 201623638D	Fund management activities.
Western Oil Asia Pte. Ltd.	100%	Singapore	UEN 201903714D	To hold interest in exploration activities
Kumul Petroleum (P'nyang) Ltd	100%	PNG	1-108633	To hold State's interest in the P'Nyang Gas Project.
Kumul Petroleum (Papua) Ltd	100%	PNG	1-110781	To hold State's interest in the Papua LNG Project.

Company	Percentage Shareholding	Registration Country	Registration Number	Principal activities
Kumul Petroleum (PDL 3) Ltd	100%	PNG	1-107534	To hold interest in future production activities
Kumul Petroleum (PDL 7) Ltd	100%	PNG	1-107421	To hold interest in future production activities
Kumul Petroleum (PDL 8) Ltd	100%	PNG	1-107420	To hold interest in future production activities
Kumul Petroleum (PDL 9) Ltd	100%	PNG	1-107416	To hold interest in future production activities
Kumul Petroleum (PDL Interests) Ltd	100%	PNG	1-107419	To hold interest in production activities and for benefit sharing
Kumul Petroleum (PRL 14) Limited	100%	PNG	1-107418	To hold interest in future production activities
Kumul Petroleum (PRL 9) Limited	100%	PNG	1-107417	To hold interest in relevant licenses
Kumul (Papua No.2) Limited	100%	PNG	1-110782	To hold interest in marketing of liquefied natural gas, condensate and related products from Papua LNG Project
NiuEnergy Ltd	50%	PNG	1-110996	For distribution of power

Company	Percentage Shareholding	Registration Country	Registration Number	Principal activities
NiuPower Ltd	50%	PNG	1-110993	For power production
PNG Methanol Industry Ltd	49%	PNG	1-110180	To research and develop methanol resources
Orion Enga Childrens' Fund JV Ltd	65%	PNG	1-90471	For training and certification of students to join workforce in the LNG industry
Kumul CR Camp Services Limited	100%	PNG	1-133722	For steel fabrication facility project

Schedule 2 – KPHL Structure



Schedule 3 – Santos PNG Subsidiaries

Company	Percentage Shareholding	Registration Country	Registration Number
Oil Search Ltd	100%	PNG	1-125
Oil Search (Gas Holdings) Ltd	100%	PNG	1-69296
Oil Search (Tumbudu) Ltd	100%	PNG	1-15949
Oil Search Highlands Power Ltd	100%	PNG	1-86416
Oil Search (PNG) Ltd	100%	PNG	1-6947
Oil Search (Drilling) Ltd	100%	PNG	1-32416
Oil Search (LNG) Ltd	100%	PNG	1-69295
Oil Search Power Holdings Ltd	100%	PNG	1-69297
PNG Biomass Ltd	100%	PNG	1-69299
Markham Valley Renewables Ltd	100%	PNG	1-86417
Santos Foundation Limited ²⁴	100%	PNG	1-69300
Pac LNG Investments Ltd	100%	PNG	1-77583
Pac LNG Assets Ltd	100%	PNG	1-77584
Pac LNG International Ltd	100%	PNG	1-79732
Pac LNG Overseas Ltd	100%	PNG	1-77586
Pac LNG Holdings Ltd	100%	PNG	1-77585
Barracuda Ltd ²⁵	100%	PNG	1-14694

²⁴ Santos Foundation Limited (previously Oil Search Foundation Ltd) is a Trustee of the Oil Search Foundation Trust, a not-for-profit organisation established for charitable purposes in PNG. This trust is not controlled and is not consolidated within the Santos Group.

²⁵ Subsidiary of Santos International Holdings Pty Ltd (Australia), which is controlled by Santos Limited.

Company	Percentage Shareholding	Registration Country	Registration Number
Lavana Ltd ²⁶	100%	PNG	1-32230
Santos Hides Ltd ²⁷	100%	PNG	1-30340
Santos P'nyang Ltd ²⁸	100%	PNG	1-11440

²⁶ Subsidiary of Santos International Holdings Pty Ltd (Australia), which is controlled by Santos Limited.

²⁷ Subsidiary of Santos International Holdings Pty Ltd (Australia), which is controlled by Santos Limited.

²⁸ Subsidiary of Santos International Holdings Pty Ltd (Australia), which is controlled by Santos Limited.

Schedule 4 – PNG Assets

Assets	Description	Operations	Party Interests	Other Owners
Major PNG LNG Projects				
PNG LNG Project	<p>The PNG LNG Project is an end-to-end integrated LNG development that includes gas production and processing facilities extending from the Hela, Southern Highlands, Western and Gulf provinces to Port Moresby in the Central Province.</p> <p>2022: 8.6 MTPA</p>	<p>Status: Operating</p> <p>Products: LNG, condensate, naphtha (liquids) and domestic gas.</p> <p>Operator: ExxonMobil</p> <p>LNG Marketer: ExxonMobil on behalf of an incorporated marketing entity owned by all co-venturers</p> <p>Condensate Marketer: Santos on behalf of all co-venturers except ExxonMobil.</p>	<p>KPHL: 16.8%</p> <p>STO: 42.5%</p>	<p>ExxonMobil: 33.2%</p> <p>JX Nippon: 4.7%</p> <p>MRDC: 2.8%</p>
P'nyang Gas Project (PRL 3: pre-State back-in)	<p>The P'nyang Gas Project, licensed under PRL 3, is in the Western Province of PNG and has an estimated 2C recoverable gas resource of 4.3 tcf.</p> <p>The field is intended to expand the PNG LNG Project as well as provide natural</p>	<p>Status: Pre-development.</p> <p>Santos, ExxonMobil, JX Nippon and the Papua New Guinea Government executed a gas agreement on 22 February 2022, setting</p>	<p>KPHL: 0%</p> <p>STO: 38.51%</p>	<p>ExxonMobil: 48.99%</p> <p>JX Nippon: 12.50%</p>

Assets	Description	Operations	Party Interests	Other Owners
	gas for power generation.	<p>out the fiscal framework and supporting project scoping and evaluation.</p> <p>Products: Condensate, natural gas</p>		
<p>Papua LNG Project (PRL15 pre-State back-in)</p>	<p>The Papua LNG Project, licensed under PRL15, is in the Gulf Province of PNG and has an estimated liquefaction capacity of up to 6 MTPA.</p> <p>The Fully integrated Front End Engineering Design (FEED) for the project uses four electric LNG trains (e-trains) with a combined capacity of 4 MTPA to be developed within the existing PNG LNG project site. Papua LNG has also secured access to up to 2 MTPA of existing liquefaction capacity from the existing PNG LNG Project.</p>	<p>Status: Pre-development. Fully integrated FEED announced 7 March 2023. Final Investment Decision expected early 2024. First production expected by the end of 2027 or early 2028.</p> <p>Products: LNG and condensate</p> <p>Operator (expected): TotalEnergies</p> <p>Marketer (expected): Under consideration – currently anticipated to be based on equity lifting with each participant marketing their equity</p>	<p>KPHL: 0%</p> <p>STO: 22.84%</p>	<p>TotalEnergies: 37.55%</p> <p>ExxonMobil: 37.04%</p> <p>JX Nippon: 2.58%</p>

Assets	Description	Operations	Party Interests	Other Owners
		share of LNG.		
Other Projects				
Moran Oil Project	<p>The Moran Oil Project is unitized across three licences, PDL2, PDL5 and PDL6. The Project is in the Hela Province. It is a mature field that began production in 1998 with peak production of around 21,000 bopd in 2007.</p> <p>Moran production is processed at the Agogo Production Facility and liquids are then piped to the Central Production Facility for further processing, storage and export through the crude oil export pipeline.</p>	<p>Status: Operating</p> <p>Products: Crude oil, condensate and natural gas</p> <p>Operator: Santos</p> <p>Marketer: Santos</p>	<p>KPHL: 11.28%</p> <p>STO: 49.51%</p>	<p>ExxonMobil: 26.82%</p> <p>JX Nippon: 8.31%</p> <p>MDRC: 4.09%</p>
SE Gobe Oil Project (PDL3 & PDL4)	<p>The Gobe Oil Project is in the Erave District of the Southern Highlands Province and Kikori District of the Gulf Province. The project consists of two producing oil fields, the South East (SE) Gobe Oil Field and the Gobe Main Oil Field.</p> <p>The Gobe Oil Project is unitized between PDL 3 (46.8%) and PDL 4 (53.2%). The Gobe Main field is</p>	<p>Status: Operating</p> <p>Products: Crude oil, natural gas</p> <p>Operator: Santos</p> <p>Marketer: Santos</p>	<p>KPHL: 21.40%</p> <p>STO: 27.79%</p>	<p>ExxonMobil: 7.72%</p> <p>JX Nippon: 39.09%</p> <p>MDRC: 2.00%</p> <p>The Project Interests reflect the ultimate beneficial interests of the Gobe Oil Project co-venture partners, and are calculated based on a unitisation of the upstream interests in PDL 3 and PDL 4. The legal interests of the co-venture partners in PDL 3 and PDL 4 therefore</p>

Assets	Description	Operations	Party Interests	Other Owners
	located within PDL 4, while SE Gobe field straddles PDL 4 and PDL 3.			vary from these proportions.
Gobe Main Oil Project (PDL4)	Both fields are mature fields with all produced gas and injected gas being sold to the PNG LNG Project. The operator continues to employ strategies to extend gas exports to the PNG LNG Project.		KPHL: 0% STO: 10.00%	ExxonMobil: 14.52% JX Nippon: 73.48% MDRC: 2.00%
Kutubu Oil Project (PL 2 and PDL 2)	The Kutubu Oil Project is in the Southern Highlands of PNG. The Kutubu development comprises a network of wells that produce oil from the lagifu-Hedinia, Usano and Agogo fields, a gathering system, on-site processing facilities (the Agogo and Central Processing Facilities), supporting infrastructure, a 270 kilometre crude oil export pipeline to the coast and a marine loading terminal in the Gulf of Papua.	Status: Operating Products: Crude oil Operator: Santos Marketer: Santos	KPHL: 0% STO: 60.05%	ExxonMobil: 14.52% JX Nippon: 18.69% MDRC: 6.75%
Port Moresby Power Station	The Port Moresby Power Station is PNG's first dedicated grid-connected gas-fired power plant and is in Port Moresby near the PNG LNG project plant site. It	Status: Operating Products: Electricity Operator: NiuPower	KPHL: 50% STO: 50%	N/A

Assets	Description	Operations	Party Interests	Other Owners
	<p>is owned and operated by NiuPower, a company jointly owned by Kumul Energy Limited, a subsidiary of KPHL, and Santos.</p> <p>The power station comprises of six high efficiency reciprocating gas engines with a capacity of 58MW.</p>	<p>Marketer: NiuPower</p>		
<p>Hides GTE Project</p>	<p>The Hides GTE Project consists of a pipeline (PL 1) connecting the Hides 1 and Hides 2 wells to a small gas conditioning plant at the Hides Production Facility (HPF) located in the Tagari River valley. Sales gas is then used by the Porgera Joint Venture to generate electricity in an adjacent facility. The electricity is transmitted to the Porgera Gold Mine by overhead wire.</p> <p>Condensate produced with the gas is distilled into naphtha and diesel which is used within the Hides facility and sold into the local market, with the balance transported by truck to the Central Processing Facility at Kutubu for export.</p>	<p>Status: Operating</p> <p>Products: Natural gas, condensate, naphtha</p> <p>Operator: Santos</p> <p>Marketer: Santos</p>	<p>KPHL: 0%</p> <p>STO: 100%</p>	<p>N/A</p>

Assets	Description	Operations	Party Interests	Other Owners
	The Hides GTE Project is not currently operational as the Porgera Joint Venture is on care and maintenance pending the potential restart of the project in Q1 2024.			
Projects under development				
PNG Biomass Project	PNG Biomass is based in Markham Valley in PNG's Morobe Province. It aims to use wood chips from sustainably grown plantation trees to power a 30MW power plant to feed into PNG Power's Ramu grid. The only currently operating aspect of this project is the tree plantation.	Status: Operating Products: Electricity Operator: Santos Marketer: Santos	KPHL: 0% STO: 100%	N/A
Petroleum Retention Licences				
PRL3 / PDL 13 P'nyang	Licence is for the gas field which is the principal source of the proposed P'nyang LNG Project	Status: Not operating, but gas agreement signed. Operator: ExxonMobil	STO: 38.51%	ExxonMobil: 48.99% JX Nippon: 12.50%
PRL14	Cobra / Bilip / Iehi	Operator: STO	KPHL: 0% STO: 62.56%	NPCP Oil Company Pty Limited: 37.44%
PRL15 Elk/Antelope	Licence is for the gas field which is the principal source of the	Operator: TotalEnergies	STO: 22.84%	TotalEnergies: 40.13%

Assets	Description	Operations	Party Interests	Other Owners
	proposed Papua LNG Project (see detailed description above)			ExxonMobil: 37.03%
PRL39	Triceratops	Operator: ExxonMobil	KPHL: 0% STO: 25%	ExxonMobil: 75%
PRL41	Flinders		KPHL: 0% STO: 100%	-
Exploration and Appraisal Assets²⁹				
PPL339	Aure Fold Belt	N/A	KPHL: 0% STO: 52.11%	Kina Petroleum: 12.89% Total: 35.00%
PPL402	NW Highlands	N/A	KPHL: 0% STO: 57.50%	ExxonMobil: 42.50%
PPL487	NW Highlands	N/A	KPHL: 0% STO: 57.50%	ExxonMobil: 42.50%
PPL545	NW Highlands	N/A	KPHL: 0% STO: 60.00%	ExxonMobil: 40.00%

Refer to section 5.3 of these submissions for more information.

²⁹ The parties also have an interest in PDL1 (KPHL: 20.5%, STO: 40.6%) which is relevant to the PNG LNG Project and PDL3 (KPHL: 21.4%, STO: 52.2%) which is relevant to the SE Gobe Oil Project. The parties also have an interest in various pipeline assets, such as PL3 (KPHL: 37.44%, STO: 19.9%) which is part of the Gobe Common Facilities.