

# The Sydney Morning Herald

Gas

## It's a gas, gas, gas: How Aussie richlisters plan to unlock a fracking fortune in the NT

By Anne Hyland

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The Beetaloo basin, which lies 600km south of Darwin, has the “potential to rival the world’s biggest and best gas resources,” according to the federal government.

**I**n June 2018, federal politician Jane Hume rose in the Senate to hail the recipients of that year’s Queen’s Birthday honours. Among them, she noted, was a “special” person, businessman Paul Espie, who Hume counts as both a friend and mentor. Hume described Espie as a business titan and doyen of the Liberal Party, who had just received an Order of Australia for his services to the nation, particularly in the mining and infrastructure sectors.

The award might have been enough to cap off a substantial career for Espie, an investment banker, who later founded and chaired his own private equity investment group Pacific Road Capital, as well as chairing copper and gold miner Oxiana and the Australian Infrastructure Fund. But the then 73-year-old, who comes from an impressive mining industry lineage, wasn’t

ready to retire. Espie, who's father Sir Frank Espie was involved with Rio Tinto, Woodside and Western Mining Company, had more to do, and it involved a vision of building one of the biggest shale gas companies in Northern Australia.

Espie became chair of a little-known gas and oil company Empire Energy in February 2019, eight months after receiving his AO. In October that same year, Espie also assumed the chair at Liberal Party think tank, the [Menzies Research Centre](#).

Empire had interests in shale gas in the US and the Northern Territory's Beetaloo and later McArthur basins. Espie was an experienced hand, who would help steer Empire to develop its Australian assets. He knew John Gerahty, a shareholder, who also sat on Empire's board until March this year. Gerahty was one of the founding directors of Macquarie.

Espie's ambition for Empire - to supply gas to Australia's east coast and also for export through Darwin - is shared by Tasmanian billionaire Dale Elphinstone, fellow rich-lister Paul Fudge, Macquarie Group, and Global Energy and Resources Development (GERD), the company's biggest shareholders, who believe it has the potential to unlock a fortune and redefine the nation's energy market.

So does the federal government, which has thrown more than \$200 million towards developing shale gas in the Northern Territory, with the money supporting the drilling of wells and infrastructure. Federal Energy Minister Angus Taylor even made a visit to Empire's gas fields last October after announcing the government's plans for a gas-fired recovery of the economy.

Natural gas, locked up in shale rock and other geological formations, is extracted through fracking where water, sand and chemicals are blasted into wells at high pressure, fracturing the shale, and releasing the gas. Fracking has created thousands of jobs and boosted energy security in countries such as the US, but the risks to land and the environment make it controversial.





“It’s going to be a really serious part of the next round of energy alternatives in Australia,” says Paul Espie, of shale gas company Empire Energy. JIM RICE

## Filling the gap

After Espie joined Empire three years ago, one of his first tasks as chair was to preside at an extraordinary general meeting, which removed Linda Tang, the representative of GERD, from the company’s board. GERD has links to an American-Chinese businessman (Michael) Tang Yan Tian , who has an outstanding arrest warrant for alleged insider trading in another company in Hong Kong.

When Espie started with Empire, the company was at the beginning of a turnaround led by chief executive Alex Underwood, who joined in May 2018. Underwood had been Empire’s banker at Macquarie and became CEO one month after a moratorium on fracking in the Northern Territory was lifted.

After Underwood took the reins he implemented a program to cut Empire’s crippling debt from \$US38 million to around \$US7.5 million, through sales of some of its US assets and also renegotiating the debt facility with Macquarie. A global pandemic would make that process harder and Empire would breach the covenants of its lending facility with Macquarie in 2019 and 2020 but the bank would waive both those breaches.

Under Underwood and Espie, Empire would pivot away from the US to focus on its domestic assets, even changing its accounting from US dollars to Australian. The company had been named Empire after New York’s Empire State building.

## ***‘[The Beetaloo basin] is going to be a really serious part of the next round of energy alternatives in Australia.’***

Paul Espie, Empire Energy chairman

Empire’s assets in the Beetaloo and McArthur basins are where Origin Energy and Santos also have interests. According to the federal government, the Beetaloo, which lies 600km south of Darwin, has the “potential to rival the world’s biggest and best gas resources”. It also has the potential to be one of the country’s most contentious energy developments, just as the federal government pushes ahead with its controversial plan to build a [\\$600 million gas plant](#) in New South Wales’ Hunter Valley.

The government says the gas plant, for which there was no private sector interest to build, is needed to fill a supply gap once the [Liddell coal-fired plant closes](#) in 2022-23, and as Australia transitions to renewables. Critics view the government’s gas plant as a stop-gap to appease the right-wing of the Coalition as it shifts away from coal.

The government further claims that gas is necessary to drive a manufacturing-led recovery in Australia. However, this has been disputed by bodies such as the Grattan Institute, which says gas does not stack up as a transition fuel.

Grattan’s energy director Tony Wood, a former Origin executive, in a report last year, argued: “Even if the government could significantly reduce gas prices, the benefits to manufacturing are overstated. The companies that would benefit most contribute only about 0.1 per cent of gross domestic product.”

In March, the Australian Energy Market Operator also predicted that industrial demand for natural gas would not grow in the next 20 years, and could fall as users start to decarbonise.

Still, gas was favoured as the transition fuel to a low-emissions economy only a decade ago. That was before high prices – partly due to the LNG industry exporting most of it offshore – derailed that plan. Now the federal government and companies such as Empire are hoping that the Beetaloo and McArthur basins will be the key to finally delivering cheaper gas.

“The Beetaloo is clearly one of the more advanced and promising basins in the whole country, in the whole region, in fact,” says Espie. “The work that various parties including Santos, Origin, and now Empire have done, prove it’s going to be a really serious part of the next round of energy alternatives in Australia.”

It’s that potential, says Espie, which drew him to become Empire’s chairman. “My interests stretch from the policy stuff in Menzies through to this sort of thing. Empire Energy is on the edge of something very big. It may be a small company but it was much smaller when I was invited to join the board. I like project development. I like national development.”

At Empire’s annual general meeting on Thursday, Espie pointed to the outage at Queensland’s Callide Power Station this week, which left half a million homes without power for several hours, as an example of why gas is needed to stabilise the electricity system.



## Doubling down

The federal government first committed to supporting the development of the Beetaloo basin in 2018, when it and the Northern Territory government signed a memorandum of understanding in relation to expanding the territory's onshore and offshore gas industries.

Then in September last year, federal Energy Minister Angus Taylor announced the government's [gas-fired recovery plan](#) to help rebuild the economy after the pandemic. The Beetaloo is one of five gas basins the government wants to open up under that plan.

“The Beetaloo basin has the potential to supply more gas to Australian homes and manufacturers, helping to increase competition and drive down gas prices across the market,” said Taylor on a visit to the Northern Territory last October, when he also visited Empire's fields.

In January this year, the federal government committed \$224 million to developing infrastructure in the Beetaloo basin, including \$50 million to support companies exploring and drilling there.



Empire Energy's gas fields in the Beetaloo basin. Empire Energy chairman Paul Espie, chief executive Alex Underwood, NT Opposition Leader Lia Finochiarro, federal Energy Minister Angus Taylor and Senator Sam McMahon.

“The government have badly needed some breathing space on carbon dioxide [emissions],” says Espie. “The Beetaloo as a basin provides it, and Minister Taylor, in particular, has got the message. He came up to the drilling of our Carpentaria-1 [well], and he was deliberately there because he was looking for evidence that there were real people doing real stuff, and that this basin was going to produce real gas in a relatively short term.”

In April this year, Empire doubled down on its bet on the Beetaloo and McArthur basins, acquiring rival Pangaea, in a cash and scrip deal, giving it the biggest footprint of any shale gas company in the Northern Territory, with almost 29 million acres.

Pangaea was controlled by Paul Fudge, who's worth \$672 million and made much of his fortune in gas in Queensland. Pangaea is now Empire's biggest shareholder at 22.6 per cent, and Fudge also has a board seat. Elphinstone, who also made a large chunk of his \$1.06 billion wealth in gas in Queensland, is Empire's second biggest shareholder owning 8.6 per cent. Macquarie owns 4.3 per cent of the company. While GERD, once Empire's biggest shareholder, owns 5.2 per cent.

Andrew McConville, chief executive at the Australian Petroleum Production and Exploration Association (APPEA), says the federal government's financial support has helped catalyse private development in the Beetaloo basin just as state and federal government support elsewhere has done for gas and renewables. “It is about the overall supply picture and in that context, the Beetaloo is incredibly exciting and has enormous prospects. However, it's going to take some time.”

It could be at least four or more years before any gas, if it does prove to be commercial, flows from the Beetaloo and McArthur basins, to the east coast or Darwin. The expansion by pipeline operator Jemena of its Northern Gas Pipeline will be crucial in delivering that gas from the Northern Territory to the east coast. In the short term, Empire is hoping to supply gas to a nearby mine.



Tasmanian billionaire Dale Elphinstone is among the big name backers of Empire Energy. A chunk of his fortune was made in gas in Queensland.

Lawyers Johnson, Winter & Slattery view the development of shale gas in the Northern Territory with caution given the lack of existing infrastructure. “The infrastructure necessary to achieve the Commonwealth government’s ambitious plans for the development of the Beetaloo sub-basin’s resources, will likely require significant investment by not only private companies but also the Northern Territory and Commonwealth governments,” the firm said in a note in March.

Max Vickerson, an analyst with Morgans, a broker that has done work for Empire, agrees expectations have to be tempered. “While the early indications are that there is a lot of gas in the ground that could be commercially recoverable, a lot of work still needs to happen to prove those resources up and make sure that they are actually commercially accessible. Provided that goes as well as the companies hope, then Empire does have the potential to be a very significant global and domestic gas producer.”

Regulatory, environmental, financing and competitive hurdles to the development of shale gas in the Northern Territory, and to Empire, which doesn’t have the balance sheet or operating depth of its rivals Santos and Origin, also remain. Santos boasts a market capitalisation of \$14 billion, while Origin is half that size. In contrast, Empire is a minnow with a market capitalisation of \$123 million but with big ambition and big names backing it.



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