Shell sees new hope in east coast energy

Angela Macdonald-Smith

Shell has revealed ambitions to become a "utility of the future" in Australia, combining investments in renewable power projects with trading contracts to supply electricity to customers on the east coast.

Director of integrated gas and new energies Maarten Wetselaar said the oil giant's new energy trading business in the eastern states may combine a potential new solar project in Queensland with other renewables investments and power purchase contracts to supply base-load power to users.

The idea of combining renewable energy and gas underpins Shell's New Energies division and fits its thesis that renewables, biofuels and gas will be the core of future energy supply.

Shell won development approval last month to build a 250MW solar farm near Wandoan in Queensland, although it has yet to sanction the investment. "That's a single project; if you think about a future-proof portfolio then what you really need to do is aggregate renewable power, gas-fired power to provide the stability and baseload ... that you can serve customers with," Mr Wetselaar said in Sydney.

He said the trading business, Shell Energy Australia, would use a mix of equity investments, power purchase and trading contracts to supply customers. "You can't just build one solar farm and say, 'here's your power', because they need 24-7 reliable power, so that needs a portfolio and that's exactly what we are aiming to build.

"From a standing start, so it will take some time for that to become material ..."hesaid.

Shell has had false starts in renewables but Mr Wetselaar said things were different this time because of the economic competitiveness of solar and wind, and because global society has "turned a corner" on climate change.

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"Acting against global warming has passed a point of no return," he said in an address at the Bloomberg office.

Shell expects the share of electricity in global energy demand will grow from 18 per cent to over 50 per cent as the energy industry "cleans up its act" and sectors such as light transport, cooling and heating are electrified.

But the task is much harder if not impossible in shipping, airplanes and industries such as cement and steel, leaving an "enduring" role for biofuels and gas. "You can't get a container ship across the ocean on a battery; you need a molecule to propel it," he said, giving a bullish outlook for growth in gas, and particularly LNG.

Shell Energy Australia is currently focused on gas trading in the tight east coast market but Mr Wetselaar said it would move also into electricity, looking to tap opportunities arising from increasing volatility in supply and demand.

"That market is transiting from a relatively stable and predictable game to one where there's a lot of optionality and optimisation to be had," he said.

"If a utility of the future is good at ... bringing those two together, using a digital layer, using investments and using smart commercial thinking, I would quite like to be that utility of the future."

Commenting on east coast gas, Shell's new Australian chair Zoe Yujnovich said she expected the energy market operator to declare a "structural shortfall" for 2018 within two to four weeks, despite a softening in gas prices in the June quarter.

While that could lead to the government triggering the Domestic Gas Security Mechanism for next year, she said caps on LNG exports from Queensland were "less likely" to affect Shell's business. "That won't be the case across all the venture partners on Curtis Island," she said.

Santos's GLNG venture is expected to be most affected.

Maarten Wetselaar and Zoe Yujnovich in Sydney yesterday. PHOTO: JESSICA HROMAS

Contractors stall on Qld rail project

Jenny Wiggins

Contractors are reluctant to submit bids for Brisbane's $5.4 billion Cross River Rail project until political and financial risks are tackled, after the Queensland government said it would build the rail link without federal funding.

The Queensland government held an industry briefing on the project last week with registrations for a tunnel, stations and development public-private partnership (PPP) opening on Tuesday.

Five new stations will be built as part of the 10.2-kilometre rail line project, which includes twin rail tunnels running through Brisbane's CBD.

More than 500 people attended last week's briefing, with another 120 people listening online, according to the government.

But large contractors contacted by *The Australian Financial Review* said they were worried by the uncertainty of the project. Although the Palaszczuk government has said it will "fully fund" the project, it has committed only $2.8 billion to date in state budgets. The government says it doesn't need to fund the entire project up front because it won't be finished until 2024.

The Liberal opposition has also warned that it will scrap the project if it wins the next state election, which is due to be held by May. But current opinion polls put the Palaszczuk government ahead of Labor, and an early election could resolve the political uncertainty by early next year.

Jackie Trad says the sale of public assets is "not supported". PHOTO: AAP

While contractors are happy to form consortiums and submit expressions of interest from mid-September, they are not prepared to submit expensive formal tenders until there is certainty over the election outcome and project funding. They also warn it may be difficult to find enough skilled people to work on Cross River Rail if it is built at the same time as the Inland Rail.

But Steve Abson, chief executive of the Infrastructure Association of Queensland, said the delivery model chosen by the government appeared to be "appropriate" because it did not transfer patronage risk to contractors. "Provided the successful proponent brings the right tunnelling equipment and skill sets, the construction price should be fairly well underwritten," Mr Abson said.

The Queensland government has accused the federal government of failing to support the project after it failed to receive funding in the federal budget despite a memorandum of understanding (MOU) signed last year in which the Commonwealth agreed to provide $10 million to support establishment of the Cross River Rail Delivery Authority.

Deputy Premier Jackie Trad this week sent a letter to Urban Infrastructure Minister Paul Fletcher saying the government was terminating the MOU, claiming the federal government had linked the funding of infrastructure to asset sales in a recent speech to the Queensland Infrastructure Summit. The sale of public assets was "not supported in Queensland", Ms Trad said.

The Queensland government has also disputed Infrastructure Australia's analysis of the Cross River Rail project after it said in July that assumptions used to justify its benefits were "well in excess" of those used for comparable projects. The infrastructure body said the cost-benefit ratio of the project was likely to be "less than one", meaning the projected benefits would not even cover the costs. The Queensland government has forecast the project would have a cost-benefit ratio of 1.4.

Swisse parent steps up celebrity brand building

Simon Evans

The Chinese parent of Swisse vitamins and Biostime infant formula is aggressively stepping up global celebrity brand-building, but analysts warn a deal struck years ago could divert up to half of Swisse China's profits to a global multinational from 2020.

Health & Happiness International Holdings, which was known as Biostime International when it spent $1.7 billion acquiring Swisse in two stages in 2015 and 2016, is aggressively stepping up its advertising and marketing, using French actress Juliette Binoche, Chinese actor Liu Ye and new signing Chinese movie star Fan Bingbing.

Swisse managing director Oliver Horn said on Wednesday the company would use Fan to represent the Swisse brand in China and Australia after negotiating with her and her management team "for some time now".

It is something of a slight to rival Blackmores, which had previously trumpeted Fan being photographed with a tube of Blackmores vitamin E cream in her handbag several years ago at an event in China, as being an important driver in elevating the Blackmores brand in China.

Health & Happiness chairman Luo Fei outlined what he called a "ramp-up" in celebrity endorsement activities in a rundown on the company's financial results for the six months ended June 30, 2017, which showed revenues were up 18.1 per cent to 3.55 billion Chinese yuan ($678.3 million). Profits were 2 per cent lower at 396.6 million Chinese yuan. Binoche and Liu will be closely associated with the Biostime brand as ambassadors.

The adult nutrition and care division, basically the Swisse vitamins business, generated a 14.2 per cent rise in sales to 1.46 billion Chinese yuan. The company said sales in China were strong, and the business in Australia produced results that were above internal expectations.

Swisse is a rival to ASX-listed Blackmores, which on August 29 cut its dividend and revealed that bottomline profits had dropped by 41 per cent to $59 million for 2016-17 as a large number of the Chinese entrepreneurs, buying up aggressively in Australia last year to sell online in China, had backed off.

Health & Happiness said market share of Swisse in the Australian vitamins sector for the 12 months ended June 30, 2017 was 15.8 per cent, compared with 15.9 per cent for the year ended March 31, 2017.