**Karoon Gas eyes $3bn Echidna windfall**

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Karoon Gas Australia managing director Bob Hosking is taking a Brazilian approach to what could end up a $3 billion development in that country's offshore Santos Basin, hatching plans for a smaller first-stage development of the company's Echidna field to be sanctioned by the end of next year.

With a cash balance about $100 million greater than its $455m market value, Karoon is well placed to embark on the shallow-water Echidna project at a time it should be able to lock in downturn prices on contractors and equipment, then hopefully capture better oil prices by the time production starts a few years later.

"We're trying to do a Petrobras template, where they go in, do an early production system, make sure everything works properly and then expand it," Mr Hosking told The Australian.

To get this right in the Santos Basin, Karoon has brought in the state-backed oil giant's former upstream director, Jose Formigli, to advise on the project development. It has also employed another former Petrobras executive, Ricardo Abi-Ramia, to manage the project.

Melbourne-based Karoon owns 65 per cent of Echidna and the neighbouring Kangaroo field, with the rest held by Canada's ¬Pacific Exploration & Production (formerly Pacific Rubiales).

Echidna has contingent resources of 75 million barrels of oil and Kangaroo has 54 million barrels. Subject to the success of two appraisal wells in the middle of 2016, which have about a 75 to 80 per cent chance of success, Karoon plans to embark on a $US500m ($694m) first-stage project that would produce about 20,000 barrels of oil a day from two horizontal wells and a floating production, storage and offloading (FPSO) vessel. "You basically get your money back in two to three years (at prices of $US70 to $US80 a barrel), then you go into full-field development and the same thing applies again," Mr Hosking said. "So you don't have these big billion-dollar exposures that are the killer today."

After 12 to 18 months, if everything is going well, the operation would be gradually expanded by drilling between more wells, depending on whether Kangaroo is developed.

Mr Hosking says production would ramp up to 50,000 to 70,000 barrels of oil a day using the same FPSO, with the development having break-even costs of $US45 to $U55 a barrel.

The downturn in prices has improved the potential development costs, with FPSOs now being leased at about half the price they were two years ago.

Citi estimates full-field development of Echidna with five horizontal wells would cost $US1.1bn while a combined development with Kangaroo and another five wells would cost $US2.6bn.

Karoon is trying to minimise the amount of cash it uses for the early-stage development, planning to open a data room early next year and find a farm-in partner to help pay the costs of the first stage, which includes the appraisal drilling.

The company is cashed-up after the timely sale of its interests in the Poseidon field in WA to -Origin Energy for up to $US800m in the middle of last year, when there were few signs oil prices would halve in the next 12 months.

Like other players with strong balance sheets, Karoon is looking hard at opportunities for acquisitions in the depressed market, although Mr Hosking will not say what he is chasing. “We’re looking, but 90 per cent of what we look at ends up in the bin because good assets are hard to find,” he said. “We only get one chance to find something and have a go at it, and if it’s not too good you pay forever.”