

# Converting coal to gas, but not too fast

Underground coal gasification has a promising future, but not all companies might see it for the long haul, writes **Paul Garvey**.

Two of the executives at the top of Australia's emerging underground coal gasification sector have cautioned about the exuberance surrounding new arrivals in the sector.

The heads of Carbon Energy and Cougar Energy, both of which had rare price surges in 2008 when investor interest was first piqued, have questioned whether new rivals have the technical capacity to succeed.

Numerous companies in the past few months have announced intentions to move into underground coal gasification (UCG), with companies like WildHorse Energy, Regal Resources, International Resource Holdings and Liberty Resources all announcing their first UCG forays.

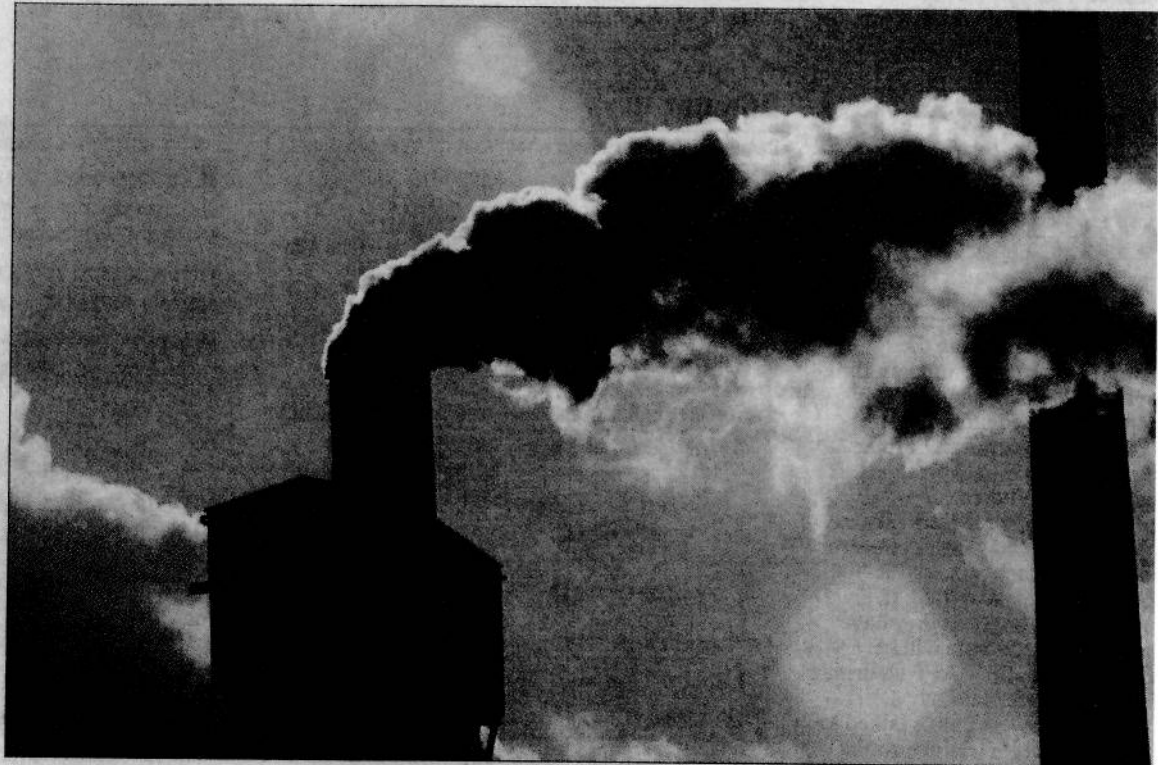
"The problem the marketplace is trying to sort out is who is genuine and who's not, and who can actually deliver something and who can't," Cougar chief executive Len Walker told *The Australian Financial Review*.

He said some companies were announcing things that are a little unrealistic, who are having what we might call the 'punters spike' of the pe that we had last year".

Some may have "questionable verification of their capabilities," he added.

Carbon Energy managing director Andrew Dash said the flood of new companies moving into UCG was typical of any emerging sector.

"The key to getting these projects off the ground is having a good technology and that people will have faith in over



Australian companies are at the forefront in developing underground coal gasification projects.

Photo: LOUIE DOU

the long term, and which will produce consistent quality gas. We think that sets us apart from pretty much every other player in the industry," he said.

"There are a number of companies who are effectively real-estating, putting their foot on resources and looking to do projects, but it's having rigorous scientific capability that sets us apart."

UCG works by igniting underground coal seams too deep to be mined conventionally, with the resultant gases extracted to the surface for a range of end uses.

Both Cougar and Carbon Energy are working to use the gas in power generation, although the gases have also been suggested for conversion to products such as fertilisers, diesel

and jet fuel. The UCG sector last year clashed heatedly with Queensland's coal seam gas sector after the competing industries were able to overlap their leases.

Government intervention eventually resulted in the UCG plays stripped of much of their positions, although they have been left with sufficient coal positions to pursue their existing plans.

UCG was targeted as a high-emissions technology during the fight, while it was also feared the technology could contaminate underground waterways and cause surface subsidence.

While the UCG stocks were hammered during the financial crisis and the battle with coal seam gas, both Cougar and Carbon Energy are recovering. Cougar last

week completed an \$8.3 million share placement, with its stock having lifted off its lows, while Carbon Energy, which raised \$32 million in May, last week hit a new 12-month high.

Linc Energy, which inspired last year's spike in UCG stocks, has traded largely flat since a proposed \$1.5 billion coal sale fell over.

There have also been market concerns about the progress of its UCG trial.

Cougar aims to have its first 5 megawatt power plant running by year's end. The \$8 million project is expected to generate \$2 million in revenue, but Carbon hopes the project will generate enough confidence in the process to clear the subsequent development of 20MW and 300MW power plants.