Natural Gas Daily Asia Pacific

Exploration & Production

Woodside eyes solution to Greater Sunrise deadlock

The Australian company may invest only in the project's upstream, leaving East Timor to finance the building of the onshore liquefaction plant and pipelines

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29 October 2018

Operations at the Bayu-Undan field. (ConocoPhillips)

Woodside Petroleum may have found a commercially viable solution to develop the Greater Sunrise fields that could resolve a deadlock with the government of East Timor.

Peter Coleman, the Australian company's *(http://www.woodside.com.au/Pages/home.aspx)* chief executive, has suggested that Woodside, which operates the fields, could invest in the upstream part of the project only. It would then leave investment in the riskier onshore East Timor LNG plant – which the Timorese government is insisting upon – to others.

Building a pipeline from Greater Sunrise to an onshore LNG plant in East Timor would be technically feasible, but Woodside believes it would not make economic sense to invest in such a project as it would not provide acceptable returns, Coleman told reporters following the company's quarterly results announcement on 18 October.

However, Coleman said a disaggregated development pathway – where the ownership of the onshore LNG plant and pipelines would be separate from the upstream component – is a possibility. Such arrangements are widely used in Indonesia and Malaysia.

Coleman said East Timor is contemplating a disaggregated model and that Woodside would seriously consider this option. This means East Timor would effectively have to build the pipelines and LNG export facility itself, thereby taking on all the downstream risk.

It is unclear what the economics of the onshore plant might look like, but the fact that Woodside is reluctant to participate suggests the numbers do not justify the risk in the eyes of such an experienced LNG player.

However, a disaggregated model could enable Woodside and its joint venture partners, which include Shell and Osaka Gas, to start up a project fairly quickly to extract the valuable condensate liquids and then reinject the dry gas into the reservoir until East Timor is able to buy it and process it onshore.

Alternatively, the dry gas could eventually be piped to an existing export plant, such as Ichthys or Darwin LNG, in northern Australia. The costs for the Sunrise partners of laying a shallow-water pipeline to Australia are estimated at less than $250 million.

Coleman's suggestion would mean the Sunrise JV would invest in an offshore setup consisting of wells, platforms and an FPSO – all of which would cost under $2 billion – according to calculations by Jeffrey Feynman, an independent oil and gas consultant. This would enable the JV to start producing the estimated 226 million barrels of liquids – which, based on September's market prices, are worth around $18 billion – relatively quickly.

This phase of the project would have an expected lifetime of 10 years and operations would cost an estimated $1-2 billion. The total cost, excluding financing, should be under $4 billion – making this phase by far the most profitable, Feynman told *Interfax Natural Gas Daily*.

Tolling structure

Any LNG export plant in East Timor would most likely operate using a tolling structure like those used in similar projects in the United States. The arrangement would see companies sending feed gas to the plant that would be liquefied for export under a pre-established tolling charge.

Nevertheless, East Timor would need to invest in and/or subsidise any pipelines in the country and the export plant. The Timorese would also need to raise cheap finance from Asian development banks to get the downstream portion of the project moving as it would not meet typical industry investment criteria.

Investment costs for the gas portion of the project, which would include the pipelines and LNG processing scheme, would reach at least $10 billion and possibly as much as $20 billion. Billions more would need to be spent on operations over the plant's estimated 30-year lifespan.

In the meantime, East Timor is planning to buy ConocoPhillips' 30% stake in the Sunrise JV following a $350-million deal struck last month.

If Sunrise started producing liquids right away, the project would return total profits of at least $3 billion and possibly as much as $14 billion, estimated Feynman, who has consulted on various projects in the region. Conoco's share would therefore earn roughly $1-4 billion for East Timor over the life of the project. But the Timorese would have to come up with around $750 million in cash upfront to pay for capital expenditure on top of the $350 million for the US major's stake.

Nevertheless, the additional income would be welcome as revenues from Bayu-Undan – East Timor's only producing field, which is nearing the end of its productive life – have all but dried up.