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# Woodside's triple LNG trial

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With three LNG-export projects in the pipeline, Australia's Woodside faces some tough decisions as costs and complications escalate, reports Damon Evans

IT'S CRUNCH time for a string of liquefied natural gas (LNG) developments in Australia, as local firm Woodside seeks solutions for its overflowing project book. The Perth-based company faces three LNG conundrums: new chief executive Peter Coleman must solve how to expand the delayed Pluto project; develop the proposed Browse LNG scheme; and advance the stalled Greater Sunrise development.

Woodside has hinted that expanding the 4.3 million tonnes a year (t/y) Pluto development will be tricky without sourcing third-party gas supply. Pluto remains in orbit, with the focus on building the first stage and shipping the first cargo before evaluating what gas is available to double the project's production capacity, either with Woodside's own gas, or, more likely, supplies sourced from elsewhere – possibly involving an equity sell-down in exchange for reliable gas supplies.

More recently, the firm has forged ahead with its proposal to sell down part of its stake in the 12 million t/y Browse LNG venture, as predicted by Coleman and his predecessor, Don Voelte.

But, without a doubt, the most difficult of the three challenges Woodside must tackle concerns its controversial 4 million t/y Greater Sunrise project, which remains in limbo. This has prompted some analysts to speculate that Woodside will put its holding in the troublesome project up for sale.

#### Browsing for buyers

First, there's Browse: with a price tag of A\$40 billion (\$42.6 billion), but widely expected to reach A\$50 billion, Woodside was never going to have the balance-sheet strength to remain the dominant shareholder in the project. Consequently, it is carrying out a limited process to assess the potential sale of a minority stake in its 46% equity, but it plans to retain operatorship of the venture, in which BHP Billiton, BP, Chevron and Shell also hold stakes.

Coleman has made it clear he wants any deal to bring strategic value to Woodside, rather than just reducing its exposure to what will be one of Australia's most expensive LNG developments. But investors are increasingly concerned by Woodside's hefty exposure to Browse and the financial strain it puts on the company, particularly given the delayed start-up of its A\$14.9 billion Pluto development.

Perth-based independent market analyst Peter Strachan says Woodside will be keen to spend about the same amount on Browse that it invested in Pluto, but certainly not A\$20-25 billion. Strachan sees a large Asian utility as a potential partner, which can act as a cornerstone investor and off-take partner for the gas.

#### **Chinese suitors**

But despite the uncertainty clouding Browse's future, Chinese national oil companies are queuing up to make a A\$10 billion commitment to the project. Western Australian premier Colin Barnett said the Chinese have made it clear they want an equity stake in the project, with a shareholding of up to 25%. And there could be scope for Japanese, Indian and other parties, too.

Chinese firms have trailed their Japanese counterparts in acquiring Australian LNG-project stakes, but recently have boosted their presence. Sinopec has just firmed up a A\$1.1 billion deal to increase its stake in Origin Energy's Australia Pacific LNG venture, while CNOOC has partnered BG at its Gladstone project and PetroChina has teamed up with Shell for the Arrow LNG development – all three are coal-bed methane to LNG projects.

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Meanwhile, Japanese buyers, which have traditionally taken most of Australia's LNG exports, remain reluctant to sign up for Browse, because of concerns over the planned, controversial, James Price Point site where the gas would be processed. The proposed hub has been hampered by land and environmental issues and appears vulnerable to a lack of shareholder alignment. But the Western Australian government is throwing its weight behind the James Price Point location.

### The price is right

It's an appropriate time for Woodside to explore reducing its Browse stake, despite some naysayers claiming the sell-down is proof that the project has the potential to break the company. With engineering, as well as costing work nearing completion and a final investment decision scheduled for the first half of next year, it's the optimal time to strike a deal.

Analysts claim the firm could secure up to A\$1.6 billion from the sale – with interest in Australian gas assets expected to remain strong, despite rising costs and increasing international sales competition. According to investment bank estimates, Woodside could sell 23% of its Browse equity for about A\$1.5 billion, says UBS; while Citi put the price at US\$1.6 billion for a 16% sale. So, Woodside's 46% interest in the Browse resource is extremely valuable, despite the project's challenges, said Citi analyst Mark Greenwood.

But uncertainty about the Browse development is growing, with global ratings agency Fitch warning in January that Australian LNG projects face increasing delays, cost overruns and rising competition for construction labour.

After the recent approval of Northern Territory's \$34 billion Ichthys project, analysts warned that the recent wave of Australian LNG-project approvals was unsustainable and that the 8.4 million t/y, Inpex-led development could be the last greenfield project sanctioned.

But Greenwood said that, despite the headwinds and competition from US and Russian exports, there is still strong interest in Australian gas assets, given open access to resource, the stable political regime and the nation's proximity to high-growth Asian markets.

#### **Sunset for Sunrise?**

For now, Woodside looks set to focus on Pluto, while waiting for proposals from potential Browse investors. But some industry watchers suggest the company is also hoping to receive an offer for its equity stake in Greater Sunrise, in the Timor Sea.

That the company seems happy to offload some of the more prospective Browse gas, you'd think it wouldn't be too sad to see the more troublesome Greater Sunrise project go, one source said. But the problem for Woodside is it would struggle to settle an acceptable price – for now, the fields' resources are effectively stranded.

Despite positive noises from both Woodside and Timor-Leste's leadership in recent months, an imminent solution to the Greater Sunrise impasse seems far from certain.

A bitter battle between Timor-Leste and the Woodside-operated Sunrise joint-venture partners over development options has halted the project. The Timor-Leste government opposes Woodside's preferred floating LNG option, instead advocating an onshore export plant for the fledgling nation. Both parties hold opposing views on the most commercially viable development route, as well as rights to downstream processing – worth billions of dollars in revenues.

The two sides have essentially been playing a high-stakes game of poker for a couple of years. But, ultimately, if a development plan for Greater Sunrise is not approved by February 2013, the project's governing treaty can be terminated, most likely setting the project back decades. And the failure of the treaty – which put a moratorium on maritime boundary claims for both sides – would allow Timor-Leste to open up its claim again for all of the Greater Sunrise fields.

Although neither side has said it wants to tear up the treaty, on 16 January, Timor-Leste President Jose Ramos-Horta launched an opening salvo when he hinted at re-opening the taboo boundary discussion. He asked 1,000 geologists and geology students, gathered for a scientific conference in the capital, Dili, to use their expertise to prove that Timor-Leste and Australia are on the same continental shelf – undercutting Australia's historical argument against a median line boundary, which could put all of the Greater Sunrise resources within Timor-Leste's jurisdiction.

## No holds barred

Sources say Coleman is genuinely interested in a "no holds barred conversation" and, unlike his predecessor, has

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said publicly that he has not ruled out the onshore option. But sources added that neither Timor-Leste nor the Greater Sunrise partners have held real discussions on what the various development options can deliver in terms of economic cost and opportunity cost.

It seems the Greater Sunrise venture's progress, if any, will be limited until after Timor-Leste's parliamentary elections in June. The new government is expected to take power in August.

Strachan said that, if the country's potential new government has "a better understanding of geology and economics, compared with the present one", there might be a chance for Greater Sunrise to succeed. But he added: "Who would risk billions of dollars of shareholders cash [in an onshore facility] in Timor-Leste? Except, perhaps, the Chinese, who could defend the plant with their military, if need be."

Although some political parties seem to have a sound grasp of the issues, the political reality is that no Timorese politician can openly say anything other than that they want to bring Greater Sunrise gas to Timor-Leste's shores. Nearly all the country's voters equate landing gas onshore with the national interest, Timor-Leste-based sources said. But what a new government does after the election could be different – as anywhere.

One unconfirmed explanation for Timor-Leste's stance on Greater Sunrise is that the government wants Woodside to sell its stake in the project to a party that would be willing to invest in their desired onshore-liquefaction option. Sources close to the government said that if Woodside was planning to sell some – or all – of its stake, it was willing to step in. "We have very close friends with know-how and very deep pockets," the source added.

And the administration is still pursuing the onshore option. In December, Malaysian media reported that local Petro-Mekong, together with Germany's Europipe, was close to winning a contract to build a pipeline to connect the Greater Sunrise gasfields to Timor-Leste – although Woodside says it is not involved in this process.

Prime minister Xanana Gusmão and energy and resources minister Alfredo Pires recently visited Europipe's factory in Germany to view the manufacturing process. They also visited Qatar, sealing a petroleum co-operation agreement. Significantly, Pires said Qatar has "signaled its readiness to support Timor-Leste".

Meanwhile, at a January meeting of ministers, Timor-Leste said it had decided to award the design and construction contract – presumably for feasibility studies – for an offshore pipeline, as well as a detailed marine survey of the Greater Sunrise fields, to engineering company JP Kenny's Indonesian subsidiary.

The onshore LNG-plant remains part of the government's wider vision for the Tasi Mane petroleum industry corridor in south-western Timor-Leste. And Timor-Leste's leaders are spending to make their vision become a reality. In 2011, \$7.6 million was spent on planning for the Tasi Mane project, while \$163.8 million has been budgeted for 2012 for the analysis, design, construction and supervision of infrastructure development for the petroleum industry on the south coast, including an oil refinery, LNG Plant, supply base, highway and two airports, according to Dili-based non-government organisation La'o Hamutuk." Future expenditures will be much higher.\*

#### Gorgon gets bigger

Elsewhere, as Woodside battles to lift the Pluto expansion off the ground, Chevron plans to enter front-end engineering and design studies for a fourth LNG train at its \$37 billion Gorgon project – due on line in 2014.

But while the supermajor has confirmed plans for a fourth train – which would take the project to a 20 million t/y complex – plans for a fifth train may not materialise. Chief executive John Watson said additional trains at the 9 million t/y Wheatstone hub – expected online in 2016 – are more likely to follow the fourth train at Gorgon.

He noted that expansions at Wheatstone would be supplied from existing resources – Chevron has made 13 gas discoveries offshore Australia since mid-2009 and is primed to become one of the country's largest LNG producers.

So, an expanded Pluto will not move forward anytime soon and while Browse needs partners with deep pockets, the fate of the Greater Sunrise remains uncertain, until the end of this year at the earliest.

But, despite the hiccups in Woodside's LNG project pipeline, Chevron is pushing ahead with its Australian plans, with all guns blazing, and the recent approval for the Inpex-led Ichthys project keeps the country on track to nudge Qatar off its perch as the top global LNG exporter by 2018.

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<sup>\*</sup> This paragraph was different when Petroleum Economist first published the article on-line; the text above was taken from their website on 6 February.