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## SLUGCATCHER:

## **Sun setting on Sunrise?**

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IT'S a question *Slugcatcher* has been pondering for some time. While this scenario seemed unlikely a few months ago, the increasingly cost-conscious oil world might soon consign the Sunrise gas project to a state of permanent paralysis called too hot to handle.



The most obvious impediment to the development of Sunrise, which lies between Australia and Timor, is the inflexible attitude of the East Timor government.

The government position is that Sunrise can only be developed as a local job-creating onshore LNG project. That position is at odds with the preferred floating LNG option of the companies that own most of the gas field, Woodside, ConocoPhillips and Shell.

Engineering obstacles are often cited as the primary reason for the onshore alternative being dismissed as impractical. In particular is the challenge of installing a pipeline over, or around, a deep submarine canyon in a part of the world with a well-known history of seismic activity.

The East Timorese have refused to acknowledge the engineering challenge, while also dismissing as irrelevant the more obvious fact it would be Shell, Woodside and other investors carrying the cost and risk of building an onshore gas-processing centre.

As high as the engineering hurdle might be, two other issues could lead Sunrise to sink further down the list of the world's preferred LNG projects.

One is the question of a claim from the East Timorese government for back taxes allegedly owed by the oil companies that operate the Bayu Undan oil and gas project – a group led by ConocoPhillips.

Another is the rising tide of shale gas production around the world, particularly in the US. Other countries are starting to join the stampede, including Australia, where an interesting horizontal test well in the Cooper Basin is about to start drilling.

Tax, however, is often the hidden issue when it comes to companies making investment decisions . . . or not making them, which could be the case with Sunrise.

From what has been reported so far, the East Timorese government has whacked ConocoPhillips and other Bayu Undan partners with a back-tax assessment totalling about \$US3 billion.

ConocoPhillips rejects the claim, saying it has already paid more than its legal obligation.

If the Bayu-Undan tax dispute was the only one involving East Timor and oil companies, then it might be dismissed as a standard argument between oil players and a nation's revenue-gatherers.

It is not. East Timor has a bad habit of creating tax disputes, including a long-running one with Woodside over the 2007 sale of assets to the Italian oil company, ENI.

Woodside, which had invested \$52 million in a business called Woodside Petroleum (Timor Sea) Pty Ltd, was paid \$26 million by ENI. That transaction triggered a book loss of \$26 million.

Unimpressed, the East Timor Revenue Service slapped a \$25 million tax assessment on Woodside, which, to *The Slug's* amazement, it paid – while reserving the right to recover the money via the country's legal system.

If you connect the dots in the case of East Timor and its relations with oil companies, you draw a very ugly picture of a country that is not only determined to treat the industry as a milking cow, but fails to understand the question of risk.

In the case of Sunrise, the tax issue has raised the risk profile to a level that will be impossible to overcome because:

- Engineering issues already make onshore LNG processing expensive and difficult, if not insurmountable;
- All of the owners of Sunrise have other LNG development options;
- 7.11 of the owners of Sumise have other live development options
- ConocoPhillips, the target of the East Timor tax attack, is a 30% shareholder in Sunrise and is highly unlikely to invest in a country with a record of questionable tax assessments;
- East Timorese government advisors consistently fail to recognise that it is the companies behind Sunrise that will make the multi-billion dollar investment, not the Australian, or any other, foreign government;
- Companies do not take unnecessary risks with shareholder funds;
- Gas prices are flat or falling, not rising;
- Floating LNG production systems are highly cost-efficient compared with onshore plants.

Until now, engineering was the highest hurdle confronting Sunrise. Today, it is money, both in terms of capital cost and genuine concern that East Timor could change the tax rules on potential investors once an onshore project is developed.

Sunrise or Sunset?