Exclusive

Leaked report backs East Timor for Woodside's Sunrise gas project

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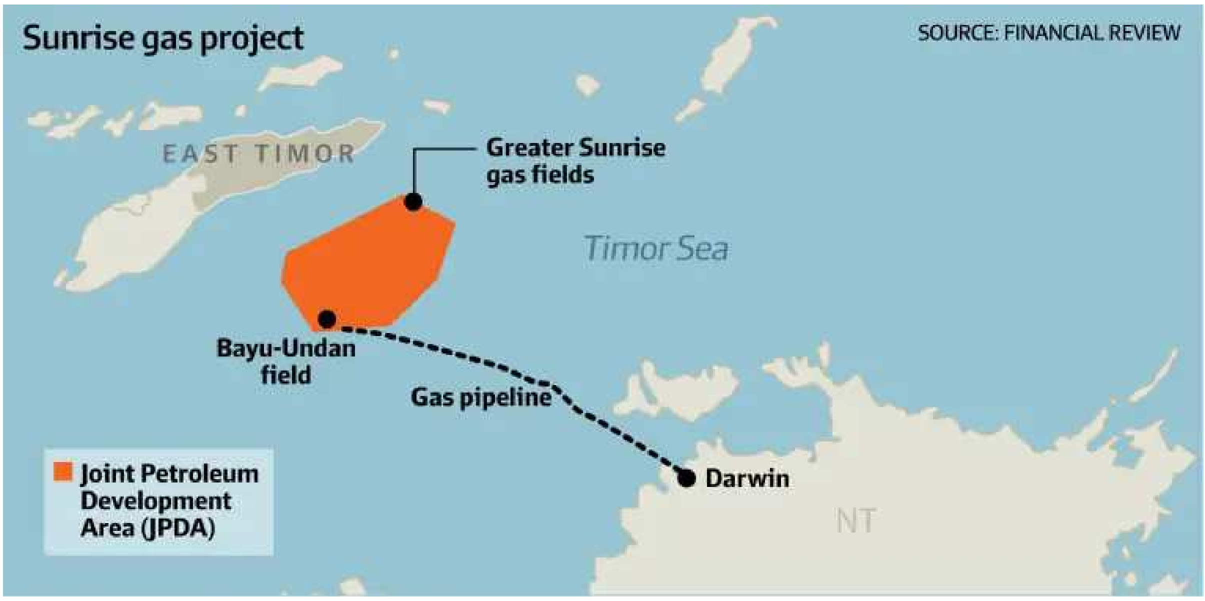
A confidential report prepared for East Timor's government advises that the stalled Greater Sunrise gas project to be operated by Woodside Petroleum in waters north of Australia can be built and run at a similar cost in East Timor, instead of Darwin.

The updated costing in a secret global energy consultant report, seen exclusively by *The Australian Financial Review*, contrasts to Australian-listed Woodside's insistence that piping the gas to and building the liquefied natural gas (LNG) processing plant in Darwin is the only commercially viable option.

Energy industry experts believe the Sunrise gas could be used as backfill for the existing Ichthys LNG plant off the coast of Western Australia or supply a second liquefaction train at Darwin LNG in northern Australia after 2030. **Shaana McNaught**

Leaked details of the ERCE consultancy report, commissioned by East Timor government-owned energy company Timor Gap, come amid tense negotiations between Woodside, the Albanese government and East Timor about production sharing and royalty agreements that are expected to be signed this year.



There is energy industry speculation that East Timor could consider dumping Woodside as the joint venture partner and operator of the delayed project if the Australian energy giant continues to insist the LNG plant can only be built in Darwin.
The report's findings clash with a previous published estimate suggesting that the LNG project construction cost would be twice as expensive, or more than $US10 billion ($14.3 billion) extra, to pipe the gas from the Timor Sea to East Timor and build the processing plant on its southern coastline.

In addition to the similar upfront capital expenditure costs, the new 130-plus page report estimates the ongoing multi-decade operating expenses for labour and other expenses would be cheaper in East Timor.

The proposed Sunrise project in the Timor Sea is operated by Woodside but 57 per cent owned by the East Timor government, after it bought out Shell and ConocoPhillips in 2018.

The election in May this year of President José Ramos-Horta is expected to revive the project and add to pressure from East Timor on Woodside and the Albanese government for a re-examination of locating the proposed LNG plant in East Timor to generate jobs and economic activity for the impoverished island nation.

Negotiations between the Australian and East Timor governments on a production-sharing contract for Sunrise, about 70 per cent of which lies in East Timor waters under a 2018 maritime boundary deal, have been dragging on for almost four years.

Updated project costings by independent energy consulting group ERCE estimate that the total capital expenditure for the LNG project construction would be $US11.8 billion in Darwin and $US14.1 billion in East Timor, according to the report finalised for the Timor Gap entity in July 2021.

The $US2.3 billion cost differential calculated last year for construction is a fraction of the original $US10.3 billion difference ($US20.5 billion in East Timor versus $US10.2 billion in Darwin) based on studies and engineering work completed in 2015.

ERCE estimates annual operating costs for upstream, midstream and downstream gas processing would be $US1.3 billion a year cheaper in East Timor at $US5 billion, versus $US6.3 billion in Darwin.

Underlining differing views between Woodside and East Timor, a footnote in the report says some of the operating costs are based on Timor Gap's "upstream and downstream cost estimates which differ from operator" Woodside.

Kick-starting stalled projects

A Woodside spokeswoman said on Sunday: "The current focus of the Sunrise joint venture is the finalisation of a new Greater Sunrise Production Sharing Contract (PSC), which is required under the 2019 Maritime Boundary Treaty (MBT) and is a precursor to future development activities being contemplated.

"The Sunrise joint venture continues to engage the Australian and Timor-Leste governments on the new PSC.

"The MBT clearly sets out the criteria against which any proposed development plan will be assessed, and we look forward to continuing to work with the Australian and Timor Leste governments on finalising the new PSC."

Woodside chief executive Meg O'Neill in April called [https://www.afr.com/companies/energy/woodside-s-meg-o-neill-seeks-revival-of-stalled-mega-gas-projects-20220418-p5ae9q] for "serious consideration" to be given to kick-starting stalled gas mega-projects, such as Sunrise in the Timor Sea and at Browse off the coast of Western Australia, as the world turns its back on Russian energy.

She said the energy crisis fuelled by Russia's invasion of Ukraine "may help pick up the pace in progressing those discussions" on the Sunrise scheme's production-sharing contract for the oil and gas fields in the East Timor Sea.

Still, any progress on the talks may still leave unresolved the major sticking point of where the Sunrise gas would be processed. Woodside is adamant that East Timor's stipulation that an LNG plant is built on its southern coast is not viable.

"Yeah, that is a key challenge," Ms O'Neill said in April.

"The economics of taking gas to Timor Leste and building new plants just are prohibitive – so that's something that needs to get cracked – but the PSC terms need to get sorted out first.

"The field is closer to existing LNG infrastructure. There's potentially some interesting opportunities there to use existing facilities. So just from an economics perspective, taking the gas to Timor-Leste and building a brand-new plant just doesn't make sense."

Energy industry experts believe the Sunrise gas could be used as backfill for the existing Ichthys LNG plant off the coast of Western Australia or supply a second liquefaction train at Darwin LNG in northern Australia after 2030.

The ERCE report was completed in July 2021.

Costs for decommissioning

Since then, the surge in energy prices and global inflation for construction and labour mean it is likely that the estimated costs would be more expensive in both Darwin and East Timor.

In addition to capex and operating costs, ERCE includes potential costs for decommissioning the project if it is abandoned later.

The “abex” cost for an East Timor project is higher at $US1.2 billion, compared to $US646 million for Darwin.

In April 2019, East Timor finalised its acquisition of ConocoPhillips’ 30 per cent interest and Shell’s 26.5 per cent share in Sunrise, giving national energy company Timor Gap a 56.6 per cent interest in the fields.

Woodside holds a 33.44 per cent share interest, and Japan’s Osaka Gas owns 10 per cent.

ConocoPhillips had preferred processing Sunrise gas at the Darwin LNG plant it operates, but said at the time its exit was based on East Timor’s preference to “develop the Sunrise fields through a new greenfield, Timor-Leste-based LNG facility”.

“While we differ on the proposed economic development option, we recognise the importance of Sunrise to the nation of Timor-Leste and hope the sale of our interest to the government allows them to progress their vision for the development of Sunrise,” ConocoPhillips’ executive Chris Wilson said in October 2018.

Meanwhile, the return to power in May of President Ramos-Horta cemented the kingmaker reputation of the country’s first president [https://www.afr.com/companies/energy/less-than-20-years-after-independence-timor-leste-is-running-on-fumes-20210429-p57nc7] and former resistance leader Xanana Gusmao.

In early 2020, Mr Gusmao pulled his National Congress for the Reconstruction of Timor Leste (CNRT) party out of the ruling coalition in early 2020, leading to ongoing political instability.

Should, as seasoned observers expect, Mr Gusmao emerge as the next prime minister, he is likely to resurrect his plans for the Sunrise oil and gas field, including the onshore processing development.

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