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Woodside eyes Browse and East Timor's Sunrise gas as war in Europe tightens energy markets

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By Damon Evans & Bloomberg



An LNG tanker moored next to a bunker vessel

Liquefied natural gas (LNG) developer Woodside (ASX:WPL) is considering new investment opportunities, including the Browse and Greater Sunrise fields, on expectations that new supply will be needed to alleviate global energy market tightness.

The lead contender is the Browse development, Meg O'Neill, chief executive officer of Perth-based Woodside, told Bloomberg. The multibillion-dollar collaboration with majors including BP (LON:BP) and Shell (LON:SHEL) had struggled to make progress with a previous plan to develop it into a floating LNG (FLNG) project abandoned in 2016 due to poor economics.

However, the war in Ukraine, which has led to nations avoiding purchases from top exporter Russia, the energy transition, as well as surging demand, are creating a period of upheaval that has seen an unprecedented tightening of global natural gas supply. Woodside and other Australian producers are joining their peers from the US to Qatar in exploring ways to boost exports and bridge the worsening deficit.

“The industry has under-invested for the last few years,” O'Neill said. “We are seeing the market being structurally tight — to be able to address that, more investment is required.”

“The implications of Russia's invasion of Ukraine have reverberated globally, exacerbating already tight energy markets, particularly for LNG. This has resulted in unprecedented volatility and price spikes to levels not seen since the early part of last decade,” O'Neill said in the company's quarterly financial results released yesterday.

Woodside approved the \$12 billion Scarborough LNG export scheme last year but is also looking at new candidates for development, including the Greater Sunrise fields, as global energy market dynamics shift.

Greater Sunrise

The development of Woodside-operated Greater Sunrise, which straddles Australian and East Timorese seabeds, has stalled over the past decade as East Timor's government insisted the gas be processed at a yet-to-be built LNG export facility on its southern shores.

This development option was considered commercially unviable by Woodside and its joint venture partners. As a result, investors considered Greater Sunrise to be politically stranded and of negligible value, which saw ConocoPhillips and Shell eagerly sell their project equity to East Timor, also known as Timor Leste, in 2019. Significantly, in 2020, Woodside wrote down the carrying value of Sunrise to zero dollars.

However, O'Neill told the Australian Financial Review last week that “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 production-sharing contract (PSC) terms need to get sorted out first.”

“The field is closer to existing LNG infrastructure (in Australia), 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.”

Negotiations between the Woodside-led Sunrise Joint Venture, which includes Osaka Gas, as well as Timorese national oil company TimorGAP, and the governments of Australia and East Timor on the new Greater Sunrise PSC commenced in November 2018. A source close to the project told Energy Voice that the JV have no insight as to when the negotiations might be concluded.

Readul Islam, an Asia Pacific upstream specialist at Rystad Energy told Energy Voice, that negotiations around PSC terms between governments typically “move at a glacial pace even at the best of times, and Covid certainly hasn’t helped.”

“Now, after face-to-face meetings between the two sides earlier this year, my understanding is that the latest terms have been forwarded to the Sunrise Joint Venture for its reaction,” he added.

“While the situation in Europe has lit the fire under global unsanctioned gas projects, it’s difficult to see it translating into meaningful action at Sunrise. The bare fact is Timor Leste needs this project much more than Woodside does,” cautioned Islam.

Moreover, the looming Woodside-BHP Petroleum merger will inject new projects into Woodside’s portfolio, and “Sunrise will fade even further into the wallpaper at Woodside,” he added.

“Once the PSC terms have been worked out, I feel the only circumstance that might lift Woodside’s interest in the project is if it transitions to a liquids-stripping project. Timor Leste could also benefit by getting some early cashflow before having to tackle the massive investments required to monetise Sunrise gas,” noted Islam.

A liquids-stripping project would see Woodside extract the oil from Greater Sunrise and export it to market by ship directly from the field, while leaving the gas in the ground to be developed later.

Woodside has insisted it will not invest in any LNG export infrastructure onshore East Timor as it is considered commercially unviable. The Australian operator has previously said it may invest in the project’s upstream section only, leaving East Timor to finance the onshore export plant and pipelines, expected to cost at least \$14 billion. Credit ratings agency Fitch Solutions has previously warned of the risks associated with the proposed Greater Sunrise onshore development.

Indeed, when East Timor's current government came to power in 2020 it began reassessing the country's ambitious petroleum development plans, which include the Woodside-operated Greater Sunrise project, after discovering the economic analysis behind its proposed schemes was inaccurate.

However, Jose Ramos-Horta's victory in East Timor's presidential runoff election against incumbent President Francisco "Lu-Olo" Guterres earlier this month could see the country's plans revived for the onshore greenfield LNG project.

Horta is backed by Xanana Gusmao, the country's de facto power broker. The Sunrise project was the centrepiece of East Timor's strategic development plan formulated in 2011 by Gusmao and his political party National Congress for Timorese Reconstruction (CNRT).

Gusmao, a towering figure of Timorese politics who has served as president and prime minister in the past, has raised unrealistic expectations of employment opportunities and economic benefits from piping Sunrise gas to East Timor for processing.

Develop Greater Sunrise's Oil First?

Woodside has indicated that it could first develop the field's large liquids resources after 2027, leaving the gas to be produced through an onshore LNG export facility at a later date. Crucially, a new PSC will need to be agreed before any progress on this option can be made.

Industry observers believe the most likely development option for Greater Sunrise gas will be as backfill for the Ichthys LNG plant or as supply for a second liquefaction train at Darwin LNG in northern Australia post 2030.

In April 2019, the government of East Timor completed its purchase of ConocoPhillips' 30% interest and Shell's 26.56% interest in the Greater Sunrise fields, giving Timor GAP, the national oil company of East Timor, a 56.56% interest in the fields. Woodside holds a 33.44% interest with Osaka Gas on 10%.