

Natural Gas Daily Asia Pacific

Exploration & Production

Back to the drawing board for Greater Sunrise

The window of opportunity for ConocoPhillips to backfill Darwin LNG from the Greater Sunrise development by the early 2020s appears to have closed

By Damon Evans
30 July 2018



ConocoPhillips' Darwin LNG plant. (ConocoPhillips)

ConocoPhillips' hopes to backfill its Darwin LNG plant with gas from the Greater Sunrise fields, which straddle the Australian and East Timorese maritime borders, appear to have been dashed.

The United States-based major needs to take an FID on where it will source backfill supplies for the northern Australian plant by the end of 2019. But Woodside Petroleum, which leads the Greater Sunrise joint venture in which Conoco is a member, is in less of a hurry to develop the fields as it has no stake in Darwin LNG.

Woodside is busy progressing its Scarborough and Browse LNG projects and does not expect any development from Greater Sunrise before 2027. Peter Coleman, the Perth-based company's

chief executive, said on 19 July that inter-governmental negotiations between Australia and East Timor on new fiscal terms for the production-sharing contracts are imminent. Once the terms are agreed, the venture would start “completely afresh” on plans to proceed, putting aside all past negotiations, he said.

Therefore it appears the window of opportunity to backfill Darwin LNG and ensure Greater Sunrise’s development by the early 2020s has closed.

Conoco had been betting that East Timor’s leaders would soften their opposition to developing Greater Sunrise as backfill for Darwin LNG. But the Greater Sunrise JV’s negotiators considerably underestimated the political significance of the fields to the Timorese, particularly their chief negotiator, Xanana Gusmão.

As part of discussions earlier this year, that were overseen by a UN Conciliation Commission, the JV offered the Timorese a lucrative economic deal and incentive package to sway them towards the Darwin development option. East Timor has long insisted that Greater Sunrise should be developed as a greenfield project on its shores, which independent experts and the JV have said is commercially unviable.

Nevertheless, East Timor has grandiose plans for a petroleum corridor, known as Tasi Mane. This would include a port, fabrication yards, LNG plant, oil refinery and offshore supply base, all of which predicated on processing petroleum from Greater Sunrise off its southern coast.

Alternative proposal

As a counter offer, the Greater Sunrise JV, driven by Conoco, designed a proposal for the Timorese that it said would replicate the economic and social benefits of Tasi Mane while developing the fields as backfill for Darwin LNG.

But Gusmão, a former militant and East Timor’s de facto power broker, shocked Conoco in February by rejecting the deal despite its compelling economics. Crucially, the US oil company had failed to recognise that the Greater Sunrise fields are of particular significance to the East Timorese following the country’s occupation by Indonesia, which lasted from 1975 to 1999. They view the occupation as having been a grab for East Timor’s oil and gas spoils, in collusion with Australia.

Bringing Greater Sunrise gas to East Timor would represent an ideological victory for Gusmão and mark the culmination of his fight for the former Portuguese colony’s independence.

Despite flirting with the JV’s negotiating team, Gusmão was never prepared to abandon his insistence that the field be developed in East Timor, which his entourage is doggedly pursuing.

The JV's backfill proposal included offering a 2.7% share in Darwin LNG (0.9% at no cost or free carry) and 9.0% equity in the Greater Sunrise JV (3% at no cost or free carry), as well as employment, supply sourcing and other local content commitments.

In addition, as part of the UN conciliation process, the governments of East Timor and Australia in March officially agreed new revenue-sharing arrangements. Government royalties from Greater Sunrise, which holds an estimated 142 billion cubic metres of gas, would be shared 70/30 in East Timor's favour if output is sent by pipeline for development in East Timor, or 80/20 in East Timor's favour if the output is piped to Darwin. The extra 10% share would compensate for the broader economic benefits of processing the gas in northern Australia. The UN commission estimates that the 10% share would be worth \$3.1-3.5 billion – matching the total estimated capital investment for Tasi Mane, excluding the LNG plant – over the life of the project.

UN analysis

Analysis from the UN commission concluded that the Timorese proposal for a Timor LNG project could only be commercially viable with a direct subsidy of \$5.6 billion from the government or another funder. That is nearly one-third of East Timor's sovereign wealth fund, which cannot be tapped. The Timorese are now sounding out potential sponsors in Beijing and Seoul. But their chances of securing finance for what is widely seen as a white elephant look slim at best.

Consequently, unless Conoco can publicly discredit Gusmão's development strategy with a transparent fact-based analysis, it seems almost certain the US major will need to backfill Darwin LNG from the technically challenging and commercially less attractive Caldita-Barossa fields off northern Australia.

It seems the saga surrounding the Greater Sunrise fields, which were discovered in 1974 just before the Indonesian invasion of East Timor, looks set for yet another chapter.

<http://interfaxenergy.com/gasdaily/article/31934/back-to-the-drawing-board-for-greater-sunrise>