

Slugcatcher says it's time for Woodside to sell Sunrise

IF ExxonMobil couldn't find a commercial solution for the Scarborough gas field after 40 years of trying when, wonders Slugcatcher, will Woodside Petroleum arrive at the same conclusion after 44 years of failing to find a commercial solution for the Greater Sunrise project?

[Slugcatcher](#)

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There's a lot in those opening comments about two fields and two oil companies which have been facing, until recently, a similar set of circumstances.

ExxonMobil sat on Scarborough off the coast of Western Australia because the gas was remote, low in liquids, and it lacked an onshore gas processing facility.

Woodside has been sitting on the part-owned Sunrise project off the coast of East Timor because of political interference in the development process which has thwarted every commercial proposal.

Over the past month, perhaps without anyone devising a master plan, the game has changed with some quite remarkable possibilities emerging which could lead to multiple "winners", and one likely loser.

What links Scarborough and Sunrise is a combination of new financial conditions in the oil industry, improved technology and a growing sense of urgency at Woodside that it's time to make a decision on the company's next project, or risk shrinking.

ExxonMobil's decision to sell a 50% stake in Scarborough to Woodside in a \$US444 million deal is the catalyst to what happens next.

Suddenly, Woodside has a dominant 75% stake in a big gas field that is literally in its backyard, and while the gas remains dry, deep and distant, it should be easy to develop, provide feedstock for the Pluto gas plant, which Woodside controls, and potentially create a climate for other orphaned gas fields to be developed.

ExxonMobil, after 40 frustrating years, is also happy to be leaving Scarborough because it has bigger fish to fry at other projects, such as a major oil field off the coast of Guyana at the top end of South America, with more oil expected to be discovered in the region.

But, the real question that should interest shareholders in Woodside is what to do with Sunrise, where it is operator, now that Scarborough has become a viable source of gas for the expansion of the Pluto gas hub.

Sell Sunrise is the obvious answer to Woodside's dilemma, just as ExxonMobil has sold Scarborough in order to move on to more profitable ventures.

Interestingly, the ownership shuffle at Scarborough is just one of the keys to a fluid situation.

A second event adds to the sense of something big bubbling in the background and that's a deal which rewrites the rules covering Sunrise with Australia, East Timor, and international arbitrators, agreeing on a process which clears the way for the gas field to be developed.

But, and this is critical point for Woodside, the new political and diplomatic deal provides for only two possible gas processing locations; onshore Timor or onshore Australia. Woodside wanted a floating option, but that has been barred.

At some point Woodside's senior management is going to be forced to make a decision on Sunrise because removing the political/diplomatic barriers means the gas field is cleared for development - if a commercially viable solution is available.

In other words, Woodside now faces exactly same set of circumstances that ExxonMobil faced: a gas field that didn't make financial sense because it lacked a processing solution while Woodside is the operator of a gas field which didn't make sense because politics inhibited a processing solution.

There is another thread connecting Scarborough and Sunrise and that's the issue of optionality - in other words, just as ExxonMobil had project development options elsewhere, so does Woodside, at the newly expanded interest in Scarborough and the Browse gas fields further up the WA coast.

Buying control of Scarborough means that Woodside now has three potential LNG projects (with Browse) on its development plate, situation which might be described as one too many.

Management at Woodside understand the decision-making processes at ExxonMobil because some of the most senior people at the small Australian company once worked for the US giant.

Those people will be looking at the rationale behind the decision to exit Scarborough and thinking it might be time to let go of Sunrise, especially as the preferred development option has been ruled out by government and international authorities.

What Woodside now needs to do is find a buyer for its 33.44% stake in Sunrise, starting with its partners, Shell with 30%, ConocoPhillips with 26.56% and Osaka Gas with 10%, and if they don't want more of Sunrise then other investors will need to be found.

It's in the hunt for a buyer that the real loser in all this might become apparent; East Timor.

By ruling out a floating option and insisting on onshore gas processing the international arbiters have simply re-started a never-ending debate.

East Timor will not accept onshore Australian gas processing and not many (if any) oil companies will accept the engineering challenge of getting the gas to East Timor, or the risk of being exposed to a poor country likely to change the tax rules as soon as an onshore gas plant is built.

For Woodside the "sell Sunrise" option must be looking awfully appealing now that ExxonMobil has shown it an exit strategy from a commercially difficult gas field, and Scarborough has emerged as a significant value-creating, long-term, development option.

<http://www.energynewsbulletin.net/slugcatcher/news/1316324/slugcatcher-says-it's-time-for-woodside-to-sell-sunrise>