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The sun will rise over Woodside

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Woodside's decision to opt for an offshore solution to develop the Browse Basin gasfield off north-west of Australia threatens to delay further any prospective development of the huge Greater Sunrise field, which lies between Australia and East Timor.

The Timor government has been pushing for an onshore processing facility as part of a Sunrise development. But competition from new exporters in North America and east Africa over the next decade will probably force the partners in Greater Sunrise to opt for a low-cost development if it is to get off the ground.

Woodside holds a third interest in Greater Sunrise, which includes the Troubadour reserves. Development is awaiting finalisation of arbitration between Australia and East Timor over revenue sharing before partners resume talks for the project.

Earlier this week, Woodside confirmed it hopes to develop Browse using floating vessels to process the gas, rather than establish an onshore plant, since it will be significantly cheaper. Between two and four vessels are expected to be used, which will be owned by the joint venture. Shell, which developed the technology, will receive an upfront payment per vessel.

The first gas is expected to flow from Browse by the end of the decade, while any development of the Greater Sunrise project is unlikely to move forward for at least another year or two.

Before then, there is the possibility of the Leviathan project in Israel progressing, although its status will be unclear for at least the next few months, pending court decisions, and ongoing political wrangling over how much of the gas needs to be set aside for the domestic market.

As well, partners in this project have recently touted piping gas to Turkey, which may undercut Woodside's interest in taking part.

But the looming competition from new suppliers in the liquified gas market is forcing developers to rethink their approach.

''The lowest-cost supplier will get into the marketplace,'' Woodside chief executive Peter Coleman says. ''The floating LNG option for Browse allows us to change the cost structure. We think it has a 35 to 50 per cent cost advantage over a land-based development.

''That allows us to get down to a point where we are competitive with other sources of supply, so it takes a little bit of heat off the marketing side, since it gives you room to move.''

That flexibility will be increasingly important as north American and east African projects move forward, since both sets of supplier are targeting Asian sales.

And then there is Russia, the sleeper in the market. Sakhalin, north of Japan, already supplies about 10 per cent of Japan's gas needs and about 5 per cent of South Korea's. As well, Russia wants to supply gas from stranded fields in Siberia to China, although progress has been limited.

At some point, many of the sticking points will be resolved, which will provide an added source of competition for exporters to north Asia, at a time when north American exports are on the rise thanks to the US shale revolution.

''US supplies may be low priced, [but] they won't be cheap when you look at the value-add cost, transportation cost to get US supplies into Japan. At $US4 Henry Hub equivalent price [for the US domestic market], it is probably a $US13 landed price in Japan, or thereabouts,'' Coleman says.

''That's not cheap. That may be lower [than the present market price], but that's not cheap, by any means. Henry Hub [gas] has a lower heating value, so there's still questions in our mind as to how much the US can feed into Japanese markets.'' Even so, to blunt any competitive threat the focus is on using floating facilities to slash supply costs.

''FLNG [floating liquified natural gas] has advantages for remote resources that require establishment of significant onshore infrastructure,'' Coleman says.

''The days of the big onshore plant in remote sites are being challenged, unless it is for super mega fields, and we haven't had one of those for a long time. LNG technology has had really only one business solution for the better part of three decades - a large

onshore plant with large tankage facilities being supplied by an onshore or offshore resource. FLNG allows us to fundamentally change the business model. We've got more [options] now.''

This technological solution will be especially useful in ensuring

the long delayed Greater Sunrise project makes it to the starting block, from Woodside's perspective, at least.

''Floating [LNG] technology for Sunrise will be derisked'' once Browse is operational, Coleman says. ''Any project has its time, and Sunrise is not quite there, because there are matters that need to be resolved between governments.

''Once we can resolve those, then the right development concept can be discussed - and technology is moving on.''