Greater Sunrise Is Crucial For Timor Sea Development

Lauren Barrett, Hart Energy Thursday, February 19, 2015 - 12:40pm

Hydrocarbon discoveries in the Timor Sea are plentiful, but there is much conjecture as to whether brownfield or greenfield development is the best way to go for commercializing the finds.

In the meantime, the region's biggest sleeping giant is at a standstill.

Synonymous with one of the worst oil spills to ever occur in Australian waters, the Timor Sea in the eastern Indian Ocean has been a source of the country's oil production since the mid-1980s. Subsequently, it has been the center of the charge to open up Northern Territory's gas export industry. The region boasts more than 425 Bcm (15 Tcf) of discovered gas that remains to be developed.

The most advanced sleeping giant of the Timor Sea is undoubtedly the Greater Sunrise fields. With contingent resources totalling 48 Bcm (1,717 Bcf) of dry gas and 75.6 MMbbl of condensate, the Sunrise and Troubadour discoveries making up the broader field remain key to unlocking the full hydrocarbon potential of the Timor Sea.
Despite the hype and commentary surrounding the prospects of Greater Sunrise, commercial development of the gas and condensate fields remains a dream.

Political wrangling and territorial discord have effectively kept the fields dormant since discovery in 1974, despite operator Woodside Petroleum's continuously flagging its commitment to economically realizing the fields' potential. It is estimated that there is potentially more than $30 billion of petroleum revenue in the fields.

The Sunrise partners: Woodside (33.4%), along with ConocoPhillips (30%), Shell (26.6%) and Osaka Gas (10%), have previously indicated FLNG is the best way forward for the 141.5 Bcm (5 Tcf)-hosting development, but East Timor's national ambitions have always advocated an onshore processing plant. This was an option which Woodside disclosed back in 2010, saying it would cost $5 billion more than FLNG and also posed "significant technical risks."

Studies on implementing FLNG for Sunrise in 2010 showed the facility was capable of producing about 4 mtpa of LNG and 10.3 MMbbl per annum of condensate over 30 years.

But Woodside never managed to win East Timor's support for the FLNG proposal and while current boss Peter Coleman has kept up dialogue with Australia's neighbour, progress has stalled due to arbitration between Australia and Timor-Leste regarding sea bed boundaries.

The Sunrise and Troubadour discoveries sit about 450 km (280 miles) northwest of Darwin and only about 150 km (93 miles) southeast of the fledgling nation of East Timor. Greater Sunrise straddles both the Australian territory and the JPDA, in which Bayu-Undan is also located. Under an international Unitization Agreement and Certain Maritime Arrangements in the Timor Sea (CMATS) treaty signed in 2007, 79.9% of the Greater Sunrise oil and gas resource is apportioned to Australia and 20.1% to the JPDA. While the biggest sticking point holding back Greater Sunrise in the past had been development options, the project has now stalled entirely.

Advancements that were made on the project by the JV were effectively wiped out in early 2013 when the CMATS treaty expired in line with a six-year clause which required the project to be developed within that timeframe. A few months later Timor-Leste called for arbitration after questioning the validity of the CMATS treaty, alleging Australia did not conduct the CMATS negotiations back in 2004 in good faith by engaging in espionage.

At present, the Timor-Leste and Australian governments are locked in direct negotiations to resolve the ongoing issues after agreeing to a six-month adjournment to the dispute. Until a government-to-government agreement is reached, a timetable for the development of Greater Sunrise is unknown, with the JV partners having indicated they would like the dispute to be resolved before the project can move ahead. Those in the know say an imminent development of Greater Sunrise is highly unlikely, with a multitude of factors outside of the dispute between East Timor and Australia now coming into play.

According to Chris Flynn, a partner at Gilbert & Tobin, the 30% decline in the oil price since mid-2014 makes the projects economics less desirable and a vastly different proposition to that of a few years ago.
“The falling oil price would put some pressure on the imminent development of the field,” he said. “Not only would that affect the value of the reserves in the ground but [it would] also make a commercial development of offshore fields somewhat more difficult.”

Fat Prophets resource analyst David Lennox estimated the in-ground value of Greater Sunrise to be between $20 billion to $25 billion at today’s oil prices, but admits six months ago the value would have been higher.

Furthermore, Lennox puts the cost of developing Greater Sunrise as a land-based project at $12 billion. This compares to the $7 billion to $8 billion estimate forecast for an FLNG plant.

While Lennox admits anything can happen in politics, all the figures point to an FLNG-only solution for Greater Sunrise. And with Woodside experiencing price escalations on some of its previous LNG projects, such as Pluto, Lennox says it’s understandable for the company to be taking an extremely cautious approach at the moment.

Flynn believes Woodside would have to seriously consider an onshore plant for the project if East Timor decides to terminate CMATS.

“If East Timor feels that it’s getting a raw deal and it feels that it’s getting pushed up against a wall I wonder whether East Timor feels that it can argue that it could terminate CMATS and throw everything up in the air,” Flynn suggested. “Just the idea that there is a new arrangement to negotiate might create a little more risk, a little more uncertainty and that uncertainty and risk might slow down the imminent development of Sunrise.”

Given the ongoing political standoff between East Timor and Australia, Flynn believes Woodside is taking a wait-and-see approach to Greater Sunrise. He predicts any outcome that is negotiated would most likely provide East Timor with more economic comfort.

“If they do so, perhaps part of that may include onshore processing of Sunrise,” he said.

Whichever way you look at it, the future for Greater Sunrise is perhaps more unknown now than it has ever been.

Lennox says the JV will need to find more resources to warrant an onshore processing solution otherwise it will have to stick with FLNG.

“Unless they [Woodside] find resources to grow the field to make it bigger than five trillion and can get another train in there then I suspect it will lament for a lot longer.”

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