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HD **Bigger Western Australia share welcome in Browse project: Coleman**

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Woodside Petroleum CEO Peter Coleman has sounded a positive note on news that the Western Australian state government will be entitled to more of the gas resource underpinning its key Browse LNG project.

A new geological survey has identified three previously unrecorded rocky outcrops off the coast, meaning more of the Torosa gas field falls within the jurisdiction of the Western Australian state government, rather than the Commonwealth. The redrawing is expected to boost Western Australia's share of the field to more than 50% from about 30%.

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The Western Australian state government requires that 15% of all gas developed for export LNG markets be reserved for use in the domestic market, and Coleman said the issue would need to be discussed.

The Woodside-led Browse joint venture plans to develop the gas held in its Brecknock, Calliance and Torosa fields using three floating liquefaction plants, each with production capacity of about 3.9 **million** mt/year of LNG (182.13 Bcf/yr or 5.16 Bcm/yr of gas) and 22,000 **b**/d of condensate.

A decision to move the project into front-end engineering and design is expected later this year, with a final investment decision targeted for the second half of 2015 and first gas five to six years later.

Timetable unaffected

Woodside has not yet been informed of the details of the boundary change, but it would have no impact on the timetable for developing the Browse floating LNG project, Coleman told an investor briefing Thursday in Sydney.

"We don't know what that means yet," he said. "We haven't had access to the data to see how much of Torosa we think is in those blocks. The development plan has Brecknock and Calliance being developed first, so we've got time to work through any of these issues with the state."

The JV is now likely to be more aligned, since the state would "have more skin in the game," he said.

The state government of Western Australia has previously criticized the JV's decision to switch the Browse project to an offshore development, after it determined that an onshore plant would cost as much as $80 **billion**.

"The state was potentially a small player previously, but this says they're potentially a larger player," he added. "There will now be a natural alignment with the state around development."

Browse would go ahead but the project is unlikely to start up before 2020, said **Hong Kong**-based analysts with Bernstein Research said.

"Browse FLNG remains the most compelling option for near-term growth [for Woodside] although costs remain an uncertainty," they said in a note. "We expect a cost of around $3,000/mt, which would make it 30% cheaper than a greenfield onshore LNG project in Australia and closer to emerging new LNG hubs in East Africa and Canada."

At a cost of $3,000/mt of annual production capacity, each 3.9 **million** mt/yr train would cost $11.7 **billion** for a total cost of 35.1 **billion** for all three trains.

Exits Leviathan due to pipeline, tax terms

Browse is now Woodside's most important organic growth option after it withdrew Wednesday from talks to take a 25% **stake** in Israel's massive Leviathan gas field for up to $2.7 **billion**.

The major stumbling blocks to the deal were the commercial terms of some of Leviathan's planned pipeline sales and Israel's new taxation formula for LNG exports, which was only communicated to the **company** on March 27, Coleman said.

Woodside exited the negotiations on the memorandum of understanding it signed with the Leviathan partners in February, but "didn't close the door shut," Coleman told journalists outside the briefing.

"The resource is still a world-class resource," he said. "What's become more complex are the issues about the development. When you put the cost of entry with some of the new taxation changes and then you look at the potential pipeline sales with limited price upside, then put some buyer risk in, it doesn't deliver the sorts of returns we need."

Coleman downplayed the potential impact on Australian LNG producers from Wednesday's $400-**billion** gas supply deal between Russia and **China**.

"We have relationships with **China** but we don't rely on **China**," he said. "The **Chinese** market always was one that had gas-to-gas competition through pipelines.

'Just another supply source'

"This is just another supply source," he said. "The **Chinese** have been very good over time at managing security of supply, so I don't believe they are going to overcommit to any one particular source of gas."

China is important but not the whole story, particularly given the rapid development of regasification terminals in the Asia-Pacific region in new markets such as Vietnam and the Philippines, and as some traditional exporters become consumers of LNG, Coleman said.

In a separate note, Bernstein said both CNPC and Gazprom had declined to comment on pricing for the Russia-**China** deal, but that the reported contract value of $400 **billion** suggested a $10/Mcf border price.

"This price sits at the lower end of the previously reported price range of $10-12, likely due to lack of upstream participation from the **China** side," the analysts said.

"The Russians weren't in the best negotiating position" with regard to the deal, Coleman said.

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