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HD **Woodside agrees to 25% stake in Leviathan**

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Australia's Woodside Petroleum has agreed to pay at least $1.2 billion to buy a 25% stake in Israel's giant Leviathan offshore gas field, the company confirmed Friday.

Woodside has settled on a new deal with the Leviathan partners, after first agreeing in December 2012 to pay $1.25 billion for a 30% stake in the field. The new agreement contemplates supplying gas from Leviathan to Israel's domestic market, LNG exports and pipeline gas supply to neighboring countries.

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The other participants in Leviathan are Noble Energy, Delek Drilling, Avner Oil Exploration and Ratio Oil Exploration.

The companies have now agreed to convert the previous in-principle agreement into a non-binding memorandum of understanding. They plan to negotiate a fully termed agreement by March 27, Woodside said.

Under the new deal, Woodside would still operate any LNG development at Leviathan. Noble would remain as upstream operator.

Noble has estimated that Leviathan contains 18.9 trillion cf (368.16 billion cubic meters) of gas and 34.1 million barrels of condensate.

The original agreement had been based on an estimated resource of 17 Tcf for the field, Woodside said.

The terms of the agreement provide for a payment of $850 million on completion of the transaction, and a payment of $350 million if a final investment decision is made for an LNG development or payments of up to $350 million on pre-determined export project milestones. Woodside would also pay 5.75% of its wellhead export gas revenue, starting after at least 2 Tcf have been exported from the field, but capped at $1.3 billion.

There would also be a one-off payment of $50 million if, after 4 Tcf of gas has been produced, the total resource is estimated to be at least 20 Tcf. In addition, a royalty of 2.5% would be payable on commercial oil production from a deep Mesozoic prospect in the Mesozoic.

"The acquisition price at $0.25/Mcf ($1.50/barrel of oil equivalent) appears attractive compared with recent similar LNG-related transactions, although it is slightly higher than the initial price of $0.24/Mcf set by the previous in-principle agreement," Hong Kong-based analysts with Bernstein Research said in a note.

"Leviathan will be initially developed as a domestic gas project with gross production of 800,000 Mcf/d and first gas expected in 2017," the analysts added. "We expect the domestic phase of the Leviathan field will be sanctioned by the end of 2014."

Bernstein estimated the cost of the domestic gas development at $2.9 **billion** for 5 Tcf of reserves. The implied development cost of $0.58/Mcf "looks attractive" compared with the analysts' expectations of domestic gas prices of between $5 and $8.5/Mcf.

"In addition to domestic gas, there will be up to 9 Tcf of gas exports," Bernstein said. "Although it remains uncertain whether gas exports will be as LNG or pipeline, Woodside's involvement increases the probability of an FLNG (floating LNG) scheme. Leviathan's export quota of 9.5 Tcf is in theory capable of supporting two LNG trains.

"We believe the partners will focus initially on a 4-**million**-mt/year FLNG project with potential FID in 2016 and first gas in 2020," Bernstein said. "Alternatively, there are regional pipeline options to Turkey, Cyprus and Egypt, although these have higher geopolitical risks."

The MOU provides a potential commercial outcome with "compelling value," Woodside CEO Peter Coleman said.

Noble **Energy** Chairman and CEO Charles Davidson said he welcomed the deal with Woodside, which is an experienced LNG project operator.

"Their addition to the project will result in substantial added value while also bringing us much closer to when we will be able to sanction Leviathan for development," he said.

After the transaction is completed, working interests in the Leviathan project will be Noble (30%), Delek (16.94%), Avner (16.94%), Woodside (25%), and Ratio **Oil** (11.12%).

Christine Forster

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