THE AUSTRALIAN
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Oil revision belts Woodside shares

Nigel Wilson, Energy writer | *November 16, 2007*

WOODSIDE's share price dropped more than 7 per cent yesterday after the company revised next year's production forecast from 100 million barrels of oil equivalent to 80-86 mmboe.

The market was not mollified by the company's "aspirational" plan to become the world's biggest producer of LNG before the end of the next decade, which will involve building a new LNG production train every two years.

Woodside shares closed at $48.33, up from the day's low of $48.02, but still ended more than $2 lower than the opening quote.

Output from the oil and gas producer will remain flat until 2010 and the commissioning of the $12 billion Pluto LNG project on the Burrup Peninsula.

Chief executive Don Voelte yesterday said the company had decided to review the methodology of its production forecasting after missing its targets in the past two years, conceding the forecasts had been too optimistic.

The revised figure was still 14-22 per cent higher than the record production level of about 70 mmboe expected by the end of this year, he said. A key contributor to the revised 2008 figure was the sale of the Chinguetti oil field in Mauritania to Malaysia's Petronas and the sale of Woodside's interest in the Legendre field off the northwest coast of WA.

The sale of Chinguetti, which was Woodside's first major offshore venture, will crystallise a book loss of $US150-$US200 million for Woodside. Minor delays in the planned startup of the Neptune project in the Gulf of Mexico and the Vincent oil field on the North West Shelf would have a small impact on production expectations. On the upside, 2008 production will gain from the first full year of output from the Otway gas development and the new Stybarrow oil field, which is only days from commissioning, while Woodside claims to have solved the problems that afflicted the Enfield oil venture last year.

Woodside also revealed to an investor briefing in Sydney that replacing the riser on the Northern Endeavour floating production storage and offtake vessel could cost up to $80 million and take months to arrange, meaning that it will be late next year before production restarts at the Corallina and Laminaria fields in the Timor Sea.

Exploration spending next year is forecast at about $260 million (but could rise to about $300 million when the exploration program is finalised next month) on eight to 12 wells worldwide, compared with about $465 million committed to 20 exploration wells this year.

The thrust of the presentation was that the global LNG market had changed in the past two years, and the change was sufficient for Woodside to reverse its previous strategy of diversification from producing LNG in Australia.

Mr Voelte restated that all the company's assets in Africa could be sold, confirming the breakthrough move into Libya at the time international sanctions were lifted had been disappointing, with no finds offshore and no onshore discovery big enough to justify a foundation development.

Even in the Gulf of Mexico, the area that Mr Voelte has previously suggested could be a major business for Woodside considering the huge US market and low US taxation regime, the "jury is still out", he said.

A decision on whether to continue will await the completion of 10 more exploration wells in the next two to three years.