US export hopes rise

Damon Evans
SINGAPORE

Looking ahead: Sabine Pass LNG facility is seeing expansion

US LIQUEFIED natural gas (LNG) exports are likely to weather the oscillating oil price environment much better than other competing exporters.

Thanks to rising gas production and low domestic prices, the US could become the world's third-largest LNG exporter, hot on the heels of Australia and Qatar, by the of this decade, Leslie Palti-Guzman, a New York-based energy specialist at Eurasia Group, told *Petroleum Economist*. The consultancy expects US exports of the super-cooled gas to hit nearly 60 million tonnes a year (t/y) by 2019.

The lower oil price environment will reinforce the dominance of emerging US Gulf coast LNG projects, which are considered the cheapest and most flexible suppliers, especially the brownfield schemes, said Palti-Guzman.

However, she expects risks stemming from falling oil prices to weigh on proposed projects in Canada, Australia, East Africa, as well as the second wave of non-integrated US Gulf Coast LNG developments.

US LNG sales contracts are tied to domestic gas spot prices, while elsewhere most proposed projects link their off-take deals to oil prices, or a combination of oil and gas indexes.

Construction

By the middle of next year Palti-Guzman expects the initial processing trains will be being built on at least five of the large US projects: Sabine Pass, Cameron, Cove Point, Freeport and Corpus Christi.

Cheniere Energy's Sabine Pass LNG export terminal is the most advanced. It is on track to become the first major US LNG exporter by early 2016.

To accelerate US LNG exports, the government is likely to approve legislation aimed at streamlining federal processing of LNG export permits in the first half of 2015, which will offer applicants better clarity and help inform investment decisions, added Palti-Guzman.

Still demand for LNG remains uncertain in the legacy Asian markets. But there is possibly some upside growth in China, as well as niche markets, such as southeast Asia, Palti-Guzman said. US West Coast projects are also trying to win over Asian buyers. The economic case for the Oregon LNG and Jordan Cove LNG projects, which plan to source gas from neighbouring Canada, got a boost from a recent International Energy Agency (IEA) report that found US West Coast projects could deliver gas to Asia about 25% cheaper than exports from the Gulf Coast. Assuming Henry Hub gas prices of \$4.50, US West Coast projects could deliver gas to Japan and South Korea for about \$10 per million British thermal units (Btu), compared to around \$12.50/million Btu for Gulf Coast projects.

The IEA figures also indicate that the West Coast projects, which have so far not received nearly as much attention from Asian buyers, could be more attractive, especially as oil prices drop. While Gulf Coast projects start to lose their cost competitiveness at oil prices of around \$80 a barrel, the West Coast projects hold their price advantage over oil-linked contracts until the oil price falls to \$60/b.

But low North American gas prices, typically around \$4/million Btu, that make US LNG projects extremely competitive, will not last forever, former BG Group chief executive Martin Houston said.

Houston has recently launched Parallax Energy, a US-based company that will focus on mid-scale LNG schemes, as well as trading and marketing, to take advantage of this growing volatility.

The big liquefaction projects, which will start up on the Gulf Coast in the coming years, will trigger an enormous shift in demand in one geographical locale in a very short space of time. Houston believes this will disrupt the markets, but he added it was still "a good place to be".

Economics

Of course, if pure gas plays, like the Haynesville Shale, can make money with gas prices under \$4/million Btu, then project economics should look a lot better at \$6 or \$7/million Btu, assuming the demand for LNG is still there towards the end of the decade. Globally, analysts are predicting a 120 million t/y LNG supply gap by 2025.

Parallax is eyeing smaller LNG export schemes, typically 1.5 million to 2 million t/y, based on very low costs.

"It really is small liquefaction trains where we are taking out the things that are just not necessary in LNG plants and bringing it back to some of the basics," he said.

"Customers want to buy LNG in smaller tranches at the moment. That's evidenced by the deals you're seeing announced in various places, tolling deals and volume deals." ●