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Rising production costs threaten future LNG projects

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Australia's next wave of liquefied natural gas projects could be under threat from international competition including United States exports unless rising costs are brought under control, according to the peak oil and gas body.

While the big LNG exporters based in Gladstone say long-term contracts with Asian customers will insulate them from the US entry onto the market from 2015, Australian Petroleum Production and Exploration Association chief executive David Byers said he was concerned about rising costs for the development of new projects.

He said there was currently \$200 billion worth of LNG projects under construction, with \$180 billion on the drawing board, which will create thousands of jobs if they get off the ground. "It's no secret that Australia's large scale export gas projects face a range of cost and production challenges that are not shared by competitor nations," he said

"If Australia is to take full advantage of the opportunities afforded it, then every policy and regulatory reform capable of addressing the high-cost local environment is critical."

The three LNG projects at Gladstone have been beset by cost blow-outs and have collaborated to bring down costs.

Texas LNG chief executive Vivek Chandra told *The Australian Financial Review* on Thursday Australian-based LNG producers had ignored the threat of US exports which they hoped would break the link between Asian LNG contract prices and crude oil.

Mr Chandra said the US export revolution could put extra pressure on Australian LNG projects from their customers for lower prices, affecting even those that have long-term contracts.

LNG exports from the US Gulf Coast are set to start next year with US regulators already granting licences for about 50 million tonnes a year.

But others believe there is enough Asian demand for LNG exports from both Australia and the US. At a Santos investor briefing late last year, vice-president of strategy and corporate development Peter Cleary predicted compound annual growth of about 5 per cent up to 2025. The end result was a shortfall of about 160 million tonnes more LNG than is being produced by existing, or under construction, projects. "If you put that in perspective that means you'd need to build a whole of an Australian supply plus a whole Qatari supply to fill that gap. It's an enormous gap and it's only 12 years away," Mr Cleary told investors.

He said the rise of the US LNG export market would complement the burgeoning Australian industry, adding there was still a lot of uncertainty about US production. Santos, which is opening coal seam gas reserves in central NSW, also rejected claims the NSW gas supply crisis was being over-played.

Gas distribution company Envestra chief executive Ian Little said on Thursday there were ample reserves to deal with the projected gas shortage in NSW.

But a Santos spokesman said while additional supplies of gas from Victoria were important, they would not address NSW's demand shortfall.

"There is no doubt that gas prices are increasing and that this is being exacerbated by constraints on the development of new gas supplies," he said.

"The best way to put downward pressure on gas prices is to develop NSW's gas resources."

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