Local LNG ventures ignore reality of US exports

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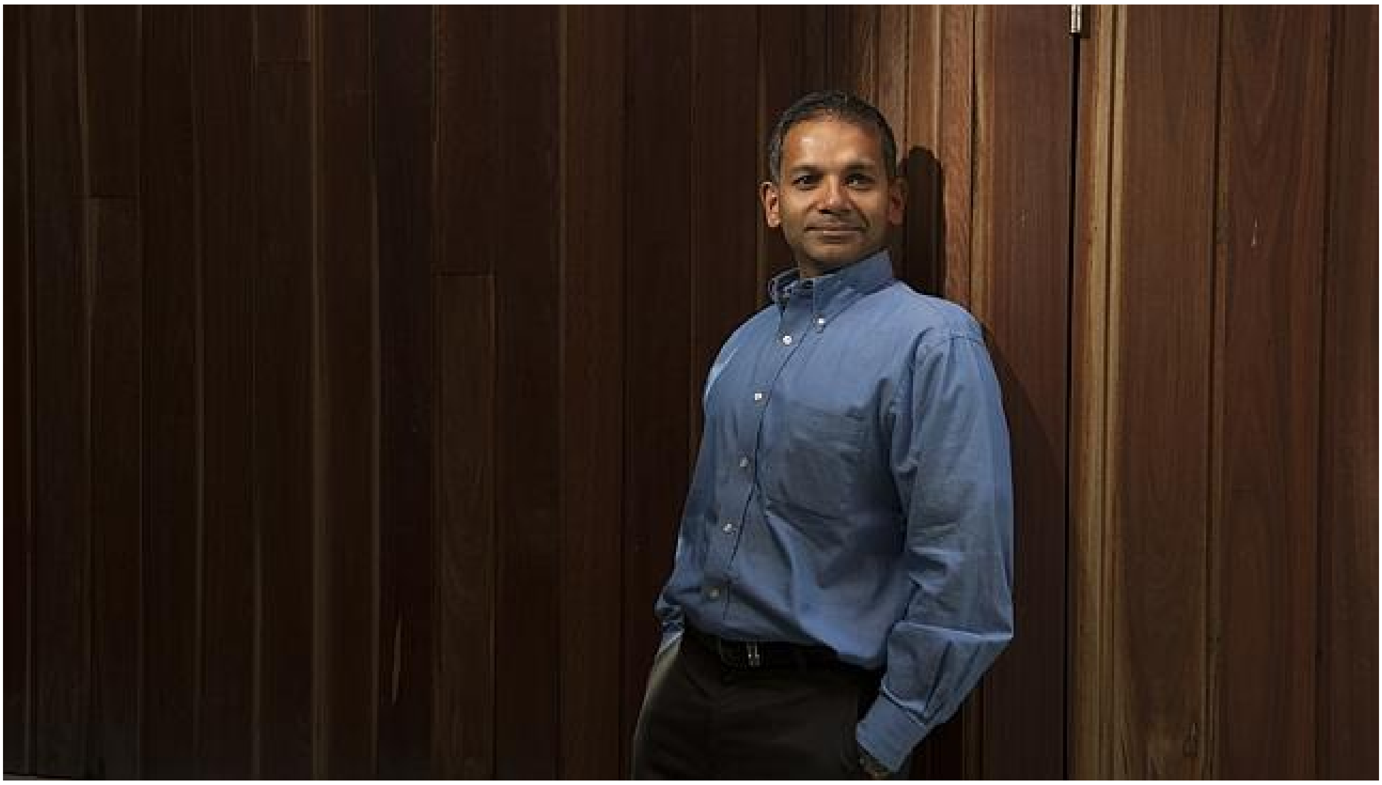
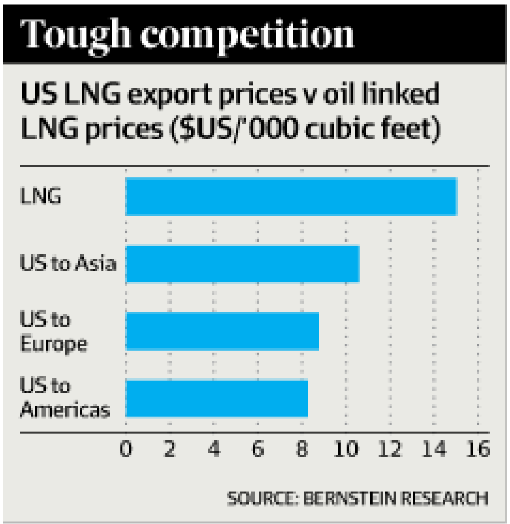


Texas LNG chief Vivek Chandra said Australian ventures could not ignore the damage that would be done to customer relationships if they don't allow some adjustment for the massive changes in the LNG market
Photo: Jesse Marlow

Angela Macdonald-Smith

Australia's new liquefied natural gas ventures are ignoring the far-reaching impact that US exports will have in their key Asian markets, with some likely to struggle to make returns from their ultra-expensive investments, the Melbourne-based head of the US's latest LNG export venture has warned.



Vivek Chandra, chief executive of Houston-based Texas LNG, which has unveiled plans for a 2 million tonnes a year export project near the Mexican border, said projects such as his would help break the link between Asian LNG contract prices and crude oil.

The result will be extra pressure on Australian LNG projects from their customers for lower prices, affecting even those that have long-term contracts, said Mr Chandra, a former executive of Arco and Nexus Energy.

"There is no rational reason why we should link these two commodities [gas and oil] together. The US now offers the Asians a strong bargaining chip to break that link," Mr Chandra said in an interview.

"I'd hate to be in the shoes of any of the Australian LNG projects right now because all they can do is see their costs go up. They are in an environment where they have no control over what their final cost of supply will be."

LNG exports from the US Gulf Coast are set to start next year from the most advanced project, Cheniere Energy's large Sabine Pass venture in Texas.

Estimates of how much US LNG will reach global markets vary widely, but US regulators have already granted licences for about 50 million tonnes a year of exports. about a fifth of the existing global market. Key variables that will determine the price advantage of US LNG over supplies from elsewhere are yet to be determined, including charges for accessing the expanded Panama Canal, which is critical for LNG ships to reach Asia from the Gulf Coast.

JPMorgan energy analyst Benjamin Wilson noted last week the massive canal expansion project has suffered cost overruns, with the original $US5 billion budget reportedly blowing out by about $US1.6 billion.

Meanwhile, winter chill in the US has driven up US gas prices, topping $US4.50 per million British thermal units just before Christmas, the highest since mid-2011 and 33 per cent up from their November lows.

While the price spike is likely to prove temporary, "any indications of materially increasing US domestic gas pricing will doubtless give regulators pause for thought as they consider further non-FTA export licences this year," Mr Wilson said.

But Mr Chandra said the price of US LNG was not as important as the impact it would have in breaking the link in Asia between oil prices and LNG contract prices. He said expensive Australian LNG projects were relying on that link remaining to cover their escalating costs.

Project prices rising

Chevron last month raised its cost estimate for its huge Gorgon LNG project in Western Australia for a second time to $US54 billion, $US17 billion above its initial estimate. The three coal seam gas-based LNG projects in Queensland have meanwhile suffered a total blowout of almost $10 billion.

The project proponents say their ventures are still economically attractive because of their decades-long sales contracts with customers in Asia which are indexed on crude oil prices that are expected to remain robust.

But Mr Chandra said Australian ventures could not ignore the damage that would be done to customer relationships if they don't allow some adjustment for the massive changes in the LNG market from the emergence of suppliers in the US offering ultra-flexible supply terms based on real gas market fundamentals.

"If all you really have to hold your counter-party married to you is a contract, then it's not going to be a marriage that works," he said.

He said it was unsurprising that Indian and Chinese LNG buyers had become "very squeamish" about signing up to LNG purchase contracts with Australian producers, or that Mitsui and Mitsubishi last week ditched a multi-billion dollar accord to buy LNG from Woodside Petroleum's Browse LNG venture. Texas LNG has yet to find backers for its proposed $US1 billion project, which is one of many that have been announced. Some analysts expect only 25 per cent of the proposed US export projects will actually go ahead.

But Mr Chandra said talks with investor consortiums in South Korea, Japan and China would pick up pace now Texas LNG has formally kicked off the permitting process for its project.

Texas LNG this week filed an application to the US Department of Energy seeking authorisation for LNG exports. It is targeting 2018 to start shipments.

It signed an exclusive lease option last month with the Port of Brownsville for a site on the deepwater ship channel, close to massive shale gas resources in the Eagle Ford region.

The project involves a barge to be made in an Asian shipyard and transported to Brownsville which will host the liquefaction plant.

The venture will be paid a fee by the LNG buyer to convert gas into LNG and avoids taking any risk to gas prices.

The business model for Texas LNG is similar to that of ASX-listed Liquefied Natural Gas Ltd for its $US2.2 billion Magnolia export project in Louisiana.

That venture is more advanced, having secured DoE approval for exports and having locked in US private equity player Stonepeak Partners for $US660 million of funding.

Magnolia LNG has also secured export contracts, with trader Gunvor and Gas Natural Fenosa. Australian interests, including Hastings Funds Management, are also behind Freeport LNG, one of four US ventures to have secured approval to export gas to non-Free Trade Agreement countries.

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