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Shell Races Apache to Export LNG From Kitimat to Asia: Energy
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By Jeremy van Loon and Edward Klump

June 12 (Bloomberg) -- Royal Dutch Shell Plc is pushing ahead of competitors in the race to be the first exporter of Canadian liquefied natural gas to Asia.

Europe's largest oil company last week selected Calgary- based TransCanada Corp. to build a $4 billion pipeline to carry gas from northeast British Columbia to the Pacific coast.
Shell's partners in the project are Mitsubishi Corp., Korea Gas Corp. and PetroChina Co., which are based in the world's three largest LNG importing markets.

Companies in Canada, the third-largest gas producer, are seeking new markets as North American output climbs and prices trade near 10-year lows. About 62 percent of Canadian gas was exported to the U.S. in 2010, according to the Canadian Association of Petroleum Producers, an industry group.
Shell is proposing one of at least four facilities that would liquefy gas for shipment overseas by tanker.

The TransCanada tie-up makes The Hague-based Shell the likely front-runner among the four, said Bob Schulz, a business professor at the University of Calgary who specializes in the Canadian oil and gas industry.

"Shell's proposal is much stronger now with the pipeline," Schulz said last week in a telephone interview.
"What we'll see is that Shell gets this up and running fast.
The first-mover advantage is really important."

Four Groups

Joining Shell in the Canadian LNG race are groups including those led by Houston-based Apache Corp., the U.K.'s BG Group Plc and Haisla Nation, an aboriginal group centered in Kitimat, British Columbia, the coastal base for many of the proposed LNG terminals.

If three of the proposed LNG facilities were built in Canada, they would use about 1.3 trillion cubic feet a year of gas at full capacity, the U.S. Energy Information Administration estimated in September. At yesterday's closing gas price in New York, the output would be valued at about $2.96 billion, according to a Bloomberg calculation.

At stake is early access to the Asian markets, where the International Energy Agency projects gas demand will surge 50 percent in the next five years, driven by China's expanding economy.

Chinese consumption of the fuel has increased an average of about 16 percent annually from 2000 to 2010 and will continue expanding as much as 12 percent a year through 2020, according to Bloomberg New Energy Finance estimates. Japan is looking to import more gas after idling its nuclear power plants following the March 2011 earthquake and meltdown at the Fukushima Dai-Ichi nuclear power plant.

Australia Rising

"You've got a situation of low gas prices and sluggish demand in North America," John Stephenson, who helps manage
C$2.7 billion ($2.6 billion) at First Asset Investment Management Inc. in Toronto, said by telephone.
"It begs the question why we aren't doing more to get it out the door."

As the Canadian LNG projects inch forward, competition is expanding abroad. Asian demand underpins $180 billion of Australian ventures led by companies such as Chevron Corp. and Woodside Petroleum Ltd., putting Australia on course to overtake Qatar as the largest LNG exporter by the end of the decade.

The U.S., meanwhile, is considering how much of its gas it will allow to be exported. Companies may ship about 40 million tons of LNG from the U.S. by 2022 as low-cost gas supplies from shale deposits encourage sales to Asia, Jen Snyder, a Boston- based analyst at consultant Wood Mackenzie Ltd. said May 22.

'Deeper Pockets'

Canadian LNG projects have four to six years to begin construction or they will lose out to global competitors, said Shell Chief Executive Officer Peter Voser.

"If Canada wants to compete against those projects then you have a certain time window," Voser said in Calgary last month. "It needs to get done this decade." He said Shell already controls almost a third of the global market for LNG, which is produced by cooling gas to reduce its volume and make it easier to transport by ship.

There may be room for two or three LNG projects in western Canada, given Japan's changing views on nuclear power and volatile oil prices, said Fadel Gheit, an oil and gas analyst at Oppenheimer & Co. in New York. Shell has "much deeper pockets" than some competitors and is "willing to spend billions of dollars on LNG," he said.

Emily Oberton, a Houston-based Shell spokeswoman, declined to estimate how much its Canadian project will cost to build.
Start up is anticipated near the end of the decade, depending on regulatory approvals and its partners' final investment decisions, she said yesterday in an e-mail.

'Early Stages'

Regulators already have granted licenses for two Canadian projects: the Apache-led Kitimat LNG, a $15 billion venture with Encana Corp. and EOG Resources Inc.; and BC LNG, Haisla's venture with closely held Houston-based LNG Partners LLC.

Plans for the BG project are in the "early stages," said David Byford, a Houston-based company spokesman.

BG is "evaluating and assessing the potential for an LNG export facility" in British Columbia, Byford said yesterday in a telephone interview.

A spokesman for Haisla didn't respond to an e-mail seeking comment yesterday.

The difficulty for the Canadian projects is finding Asian buyers willing to sign long-term contracts and then wait years for the multibillion-dollar infrastructure to get built, said Mary Barcella, a director of North American natural gas at IHS Inc., which provides business advice and analysis to energy companies.

Stake Sale

"The early movers will definitely have an advantage," Barcella said in a phone interview last week. "As you build up capacity, you start to get prices softening."

To entice buyers, Encana said it and its partners are considering selling a stake of as much as 20 percent of their Kitimat project. Apache currently has a 40 percent stake, while Calgary-based Encana and Houston-based EOG each have 30 percent.

John Roper, an Apache spokesman, declined to comment on possible stake sales or contracts, and said it's too soon to say how the company will proceed with its Canadian project.

“We’ll make a decision when we have all our i’s dotted and t’s crossed,” Roper said yesterday in a telephone interview.

Apache and its partners have said they want Asian buyers to pay oil-linked prices, which averaged $16.66 per million British thermal units of gas in the first quarter. Gas futures in New York, which touched a 10-year low of $1.902 per million Btu in April, averaged $2.50 per million Btu in the first quarter and settled at $2.218 yesterday.

‘Real Challenge’

“Pricing is the real challenge signing into these 20-year contracts,” Greg Stringham, a vice president for CAPP, the Canadian producers organization, said in a telephone interview.

Shell’s project has a “big” advantage over Apache’s because its partners are also LNG buyers, Brian Youngberg, a St.
Louis-based analyst at Edward Jones, said yesterday in an e- mailed response to questions.

Youngberg said Shell also has an edge because of its “history of being the global leader in LNG.”

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