

**HD Outlook for LNG Dims As Price of Oil Plunges**

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SYDNEY -- Investors in giant gas-export terminals from Australia to Canada are facing the prospect of losing **billions** of dollars plowed into the projects as plunging **oil** prices darken the outlook for the industry.

Unless prices recover, the decline could wipe out returns for companies such as Chevron Corp. and Royal Dutch Shell PLC, which have committed nearly \$250 **billion** combined to liquefied-natural-gas projects over the past seven years to meet rising Asian demand for the cleaner-burning fuel.

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LNG is natural gas compressed into liquid form inside huge refrigeration units, making it possible to ship it on tankers to places unconnected by pipelines.

To fund their plans, the companies have typically agreed to sell most of the gas up front, ahead of the completion of their projects, at rates linked to **oil** prices. The **oil**-linked pricing means LNG producers stand to get much less revenue when they deliver their first shipments than if crude had remained nearer its peak of \$116 some six months ago. On Thursday, Brent crude, the global **oil**-price benchmark, was near \$64 a barrel in European trading.

Already, the decline has claimed a casualty in Canada. Last week, developers led by Malaysia's Petrolim Nasional Bhd., or Petronas, indefinitely delayed starting construction of a \$32 **billion** LNG plant on the Pacific coast.

Crude futures have been weakening for months, but declines accelerated last month following a decision by the Organization of the Petroleum Exporting Countries to maintain its production limits, despite concern over a glut of **oil**.

LNG prices in Asia have sunk below \$10 per **million** British thermal units, meaning many of the projects may struggle to turn a profit. "OPEC's come along and burst the bubble," said Mark Samter, a Sydney-based analyst at Credit Suisse. "Project returns are awful at these prices."

To break even, most Australian LNG projects would need to sell the commodity for at least \$12-to-\$14 per **million** British thermal units, according to estimates from Credit Suisse and Wood Mackenzie, a resource-industry consultancy. The price would need to be even higher for some of the more-expensive developments.

To be sure, most experts believe demand for LNG will soar over the coming decades as countries such as **China** attempt to drive their modernization using fuel that burns more cleanly than **coal**. Demand for LNG will also likely remain high in economies such as South Korea and Japan, which lack fossil-fuel reserves. Japan has been using more LNG since the 2011 Fukushima disaster prompted it to close its nuclear reactors.

Typically, LNG is sold through contracts spanning up to 30 years. A swift recovery in the **oil** price could allow projects to make money eventually, if their owners can withstand the financial pressure long enough. Santos Ltd., a big investor in Australian LNG, has been forced to cut spending across its business after the fall in **oil** prices prompted it to defer raising cash through a **sale** of so-called hybrid securities.

Even as companies struggle with lower prices, Australian LNG projects have suffered from cost overruns caused by everything from unfavorable currency swings to labor shortages. The challenges are different for producers in Middle Eastern countries such as Qatar, where labor costs are lower.

On the east coast of Australia, U.K. oil-and-gas company BG Group PLC is running last-minute checks before starting up a vast facility that cost more than \$20 billion to build, having overcome budget overruns of more than a third of the original price tag. The project -- clustered on an island with two giant plants owned by rivals including Santos, Total SA and ConocoPhillips -- is due to ship its first LNG cargoes to Asia this month.

BG said it remained optimistic about the prospects for its Queensland Curtis LNG project, which counts China's Cnooc Ltd. as a minority investor and a key customer. "The economics for QCLNG are sound and competitive across a wide range of oil prices," a BBG spokesman said.

The company bolstered its balance sheet this week by selling the project's main pipeline to Australia's APA Group Ltd. for \$5 billion.

On the country's west coast, the cost of building the Gorgon LNG project, operated by Chevron with backing from Shell and Exxon Mobil Corp., has already swelled by around 45% to \$54 billion since building started in 2009. The work is expected to be completed sometime next year, when the project is also supposed to come online. A spokesman for Chevron declined to comment on the weakening oil price, but Chief Financial Officer Pat Yarrington said in October that four major projects it is building, including Gorgon, would rapidly turn from being "cash consumers" to "cash generators."

"Clearly, many Australian projects are at risk of delivering inadequate returns," said Ian Ashcroft, a U.K.-based gas analyst at Wood Mackenzie. "Some are already suffering due to cost overruns, but the impact of the oil price on early cash flow is also critical to project economics."

Elsewhere, companies that haven't started building dozens more planned LNG terminals in Canada and East African countries such as Tanzania and Mozambique will likely be questioning the timing of hundreds of billions of dollars in proposed new investments.

U.S. shale-gas producers looking to export their product are affected less by the drop in oil prices because they typically signed contracts overseas linked to U.S. domestic-gas prices, which are low due to the boom in the local production of shale gas. But on the flip side, thanks to crude oil's fall, LNG producers offering oil-linked contracts will be able to compete better in the international market against their U.S. rivals.

Currently, two LNG terminals are under construction in the U.S. Several more have received the go-ahead from regulators. Construction of the Sabine Pass project in Louisiana, operated by Houston-based Cheniere Energy Inc., began two years ago and is expected to be completed late next year. Freeport LNG Development LP last month began a project in Texas; it expects to begin shipping gas in 2018.

Both projects involve converting LNG import terminals into export facilities. They are expected to be less expensive than the Australian ones because pipelines and storage tanks are already in place. Cheniere declined to comment, while a spokeswoman for Freeport said it had signed contracts that would absorb its plant's projected output for decades.

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