

CLM Top Stories
HD **Woodside Agrees to Buy LNG from Cheniere Energy**
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SYDNEY-- Woodside Petroleum Ltd.'s **purchase** of liquefied natural gas from a proposed U.S. export facility represents a push deeper into **energy** trading, as it retools its strategy in the wake of a series of abandoned investments in **oil** and gas production.

Woodside said Tuesday it will buy 850,000 metric tons of LNG a year from Cheniere **Energy** Inc.'s proposed Corpus Christi terminal in Texas. Sales of LNG--gas cooled to a liquid form so it can be transported by ship--are due to begin in 2019 and continue for at least 20 years.

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For Cheniere, the deal locks in a customer at a time when it is seeking financial backing for the multibillion-dollar project ahead of a targeted start for construction next year.

Sharp increases in production of shale gas in North America has driven down domestic prices, prompting many companies to draw up proposals for terminals that can ship cargoes of LNG to Asia where demand is rising quickly. This wave of competing North American supply risks eating into the profits of companies such as Woodside, which operate or are building terminals on Australia's northern and eastern coast.

Pressure on Woodside is also mounting after management recently walked away from a deal to invest in a large natural gas discovery offshore Israel, and last year delayed the multibillion-dollar development of the Browse gas field offshore Australia due to high costs.

Woodside has operated Australia's giant North West Shelf LNG project since 1989, and started up a second export facility known as Pluto in 2012. But the Perth-based **company** remains a small player in LNG trading, an industry that is dominated by international **energy** companies such as Royal Dutch Shell PLC and Total SA, and specialist trading houses including Mercuria.

Woodside said it would buy LNG from the Corpus Christi plant with a view to selling it to customers at a higher price.

"This agreement is a demonstration of how we are extending and enhancing our marketing and trading capabilities and adding value to the portfolio," Peter Coleman, Woodside's chief executive, said in a statement. Woodside shares closed up 0.5% Tuesday, outperforming a 0.4% fall in the wider market.

Woodside has agreed to pay Cheniere a 15% premium to the monthly Henry Hub natural gas price--the U.S. domestic benchmark--plus a fixed price of US\$3.50 per **million** British thermal units. That implies a price of US\$8.61 per MMBtu, based on the current Henry Hub price of US\$4.44 per MMBtu.

Asian utilities are currently paying in the mid-to-high teens per MMBtu, giving Woodside room for profit after shipping costs, provided regional demand remains strong.

U.S. gas exports remain a contentious issue in Washington because of the potential impact on domestic users. Canadian exports, however, are due to start in 2017, while Russia recently agreed to pipe natural gas to **China**.

Eurasia Group, a Washington-based consultancy, expects three more U.S. LNG projects will be approved by the end of the year, in addition to Cheniere's Sabine Pass project in Louisiana.

That would bring U.S. export capacity to 6.52 **billion** cubic feet per day by 2020 and catapult the U.S. to become the world's third-largest LNG exporter.

"Demand uncertainty, and competing new supplies from Australia, Russia, and possibly Canada will limit the appetite for substantial additional volumes of U.S. LNG beyond around 8 **billion** cubic feet per day," said Leslie Palti-Guzman, a senior analyst at Eurasia.

Cheniere wants to start building Corpus Christi by next year, pending regulatory approval. The Federal **Energy** Regulatory Commission last month released a draft environmental impact statement for the project, which aims to produce 13.5 **million** tons of LNG annually at its peak.

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