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HD **Report cites high Canadian LNG costs; Analysts take measured view**

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As companies like Petronas prepare to make final investment decisions, the International Energy Agency said Wednesday it expects the cost to produce and export liquefied natural gas from Canada to be among the highest in the world - second only to Australia.

Widely considered the bible of energy forecasts, the Parisbased IEA released its World Energy Outlook on Wednesday that showed the cost to extract, chill and ship natural gas from Canada could be higher than some industry insiders had expected. The IEA puts the cost to export LNG from Canada between $13/MBtu and $14/MBtu - depending on where the product is headed.

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"It seems a bit high," said Vancouver-based energy lawyer Warren Brazier. Previous estimates for Canadian LNG development put the cost in the $11/MBtu range.

The IEA's numbers show Canadian exports would be more expensive than American, Russian and Africansourced LNG. Compared with the U.S., IEA data shows Canadian LNG would cost $1.80 more per MB tu for exports to northeast Asia and $3.60/MBtu for exports to Europe.

Global consulting **firm** PwC's national energy leader Reynold Tetzlaff said the IEA's numbers wouldn't cause potential LNG investors to panic. "I've seen a range between $12 to $14," Mr. Tetzlaff said. "I did show some of those numbers to investors over the course of October and they didn't seem surprised."

The IEA's outlook also showed that global natural gas demand is expected to grow more than 50% by 2040, led by rising demand from **China** and the Middle East. Global LNG exports are expected to double over the same time period.

Energy industry analysts and consultants have long warned that the nascent Canadian LNG industry could see the same kind of cost overruns that have hammered Australian projects - and the IEA's report showed Australian LNG would cost only between $0.40 and $0.90 more per MBtu than Canadian product.

Project costs in Australia have skyrocketed as energy companies in the country work to develop additional LNG export projects. According to the Australian Petroleum Production and Exploration Association, there are currently three LNG projects operating in the country and seven more under construction.

By contrast, there are no LNG projects operating or under construction in B.C. Petronas' Pacific Northwest LNG project is widely considered the front-runner of the export facilities proposed for construction on B.C.'s coastline. The **company** confirmed in an email to Bloomberg today that it viewed the B.C.'s government's new LNG tax framework as positive, and that the **company** will continue working with the province in an effort to come to a positive final investment decision, which is expected in December, on its LNG project.

"For Petronas, they own the molecules, so they don't need to buy the gas," National Bank Financial analyst Greg Colman said in an interview. As a result, companies like Petronas and Shell can use their development costs instead of natural gas prices in calculating their LNG production and export costs.

In an October research report, Mr. Colman said that he believed Canadian LNG costs, which he calculated at $11.25, were competitive not only with Australia, but with the U.S. "What we're saying is it's a lot cheaper to do it in Canada than Australia," Mr. Colman said Wednesday. "Once you build the facility, Canada would be a low-cost producer of LNG ... ."

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ART Handout / Lelu Island, near Port Edward B.C., is the site of the proposed $11-billion Pacific Northwest LNG project majority owned by Petronas.; Andrew Barr, National Post / SOURCE: INTERNATIONAL ENERGY AGENCY; Handout / Lelu Island, near Port Edward B.C., is the site of the proposed $11-billion Pacific Northwest LNG project majority owned by Petronas. [NTNP_20141113_All_but_Toronto_FP6_03_I001.jpg]; Andrew Barr, National Post / SOURCE: INTERNATIONAL ENERGY AGENCY [NTNP_20141113_All_but_Toronto_FP6_03_I002.jpg];

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