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Galloping natural gas demand puts heat on suppliers

Angela Macdonald-Smith
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WOODSIDE Petroleum says an "unprecedented tightness" in the liquefied natural gas market is boosting costs and making it more difficult to develop projects on schedule.

Global trade in LNG might reach 370 million tonnes by 2015 from about 145 million in 2005, "nearly trebling in only 10 years", Don Voelte, managing director of Perth-based Woodside, said in a speech in Houston.

Worldwide, LNG demand could outstrip supply by as much as 20 million tonnes a year in 2008-2015, he said.

Woodside, operator of the North-West Shelf LNG venture, is developing the Pluto LNG project, also in Western Australia. It aims to build Pluto in a world-record time of fewer than six years from discovery of the gas to the start of production.

"LNG markets are seeing unprecedented growth," Mr Voelte said in the speech, a copy of which was lodged with the Australian Stock Exchange.

"As suppliers seek to meet this increasing LNG demand, the scarcity of human and material resources has contributed to rising costs and challenges in delivering new projects on time."

LNG is natural gas chilled to a liquid, substantially reducing its volume, for delivery to destinations not connected by pipeline. It is then turned back to a gas for use in power stations, factories and households.

The increased risk of building projects means long-term LNG sales contracts would probably become more important, in contrast to the predictions of some commentators that the market would soon be dominated by more flexible contracts, short-term trading and small-scale projects, Mr Voelte said.

"Long-term contracts with less flexibility on issues such as percentage of take-or-pay volumes may be essential for new, large projects to come on line in time to satisfy demand," he said.

"In today's uncertain times, customers may agree to restricted flexibility in individual contracts to encourage development of more numerous and diverse supply sources."

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