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Woodside says LNG may not follow oil market

- *Nigel Wilson*

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WOODSIDE chief executive Don Voelte has challenged the view in the US that it is inevitable the LNG market will become similar to that for oil, with shipments being sold in transit.

Speaking at a Houston conference organised by Daniel Yergin's Cambridge Energy Research Associates, Mr Voelte used the fast-tracked Pluto LNG project on the North West Shelf to argue that long-term take-or-pay contracts were still the favoured mechanism for LNG gas customers.

The huge NW Shelf gas project could not have begun if it had not been underwritten by 20-year take-or-pay contracts from eight Japanese customers.

Pluto, which Woodside estimates will cost up to $10 billion to develop as an LNG export project, was found only two years ago and is expected to be producing in 2010 if the company's board delivers a final investment decision this year.

The field is offshore, about 180km northwest of Dampier, and is estimated to contain around 4.1trillion cubic feet of gas.

Woodside has secured accords with Tokyo Gas and Kansai Electric to deliver upwards of 3.5 million tonnes of LNG a year worth up to $20 billion of Pluto LNG over 15 years.

Mr Voelte told the Houston CERA conference that in recent years some commentators had predicted LNG markets would soon be dominated by innovations such as small-scale projects, floating liquefaction and floating re-gasification; flexible contracts, and globally integrated, short-term trading. "But in today's world, the logic of managing and sharing risk may drive many buyers and suppliers to return to traditional LNG business practices."

Long-term partnerships and long-term take-or-pay contracts for large LNG volumes still dominated industry and might remain dominant in hard times, he said.

Traditional, large LNG projects would still be necessary because they generated the economies of scale that helped concentrate human and material resources, manage costs and serve diverse markets. "The new high-stakes energy world will highlight the different preferences of different customers across issues such as risk management, port facilities and shipping, and gas qualities.

"This too will tend to preserve some aspects of the traditional LNG market landscape, with distinct regional markets. Because the LNG industry faces new risks and opportunities and a faster pace of change, customers and suppliers who could read market trends and respond to them quickly and decisively would have an advantage."

Gas industry consultant Michael Williams, a former NW Shelf executive, said Mr Voelte returned balance to the argument over long-term contracts versus the spot market. "I generally find that the amount said by someone talking up the spot market and their knowledge of the LNG industry is inversely proportional."

Last year at the APGas conference in Perth, Joseph Kelliher, chairman of the US Energy Commission, said his country was moving towards the concept of a North American market for natural gas linking markets in Canada, the US and Mexico.

Speaking a year and a half after hurricanes Rita and Katrina devastated US gas supplies, Mr Kelliher said the four existing US LNG receival terminals had operated differently, ranging from being supplied under long-term contract to taking spot cargoes from any suppliers. He noted that when US natural gas prices soared after the hurricanes, LNG deliveries fell because prices were higher in Europe.

This perhaps is the point behind Mr Voelte's assertion that Woodside believes combining both traditional and innovative approaches can be a key to unlocking LNG opportunities.