

Time LNG cheerleaders took a cold shower

Monday, 14 April 2008

LNG is the stuff normally associated with Don Voelte. But last week Slugcatcher saw the Woodside Petroleum boss carrying a large bucket of cold water, which he unceremoniously dumped on some of the excessively exuberant delegates and organisers of the annual APPEA gabfest in Perth.



Don the water carrier - dare we call him "Aquarius Don"? - was tipping his bucket over speakers who made bold (as in ridiculously bold) forecasts about the growth of Australia's liquefied natural gas industry.

Some even went as far as to suggest a tripling in size of the LNG business within 10 years.

The Slug, like Don, finds forecasts like that a little hard to swallow, especially as he enters the third (or is it the fourth) decade of writing stories about the enormous potential of the Gorgon project.

Wonderful as that potential is, the pace of development at Gorgon would make a snail blush.

But wait, there's more. Gorgon is just one example of undeveloped potential of Australia's north and west coasts. Lumped in with that unfortunate project being championed by Chevron Corporation is the Scarborough gasfield of BHP Billiton and ExxonMobil (discovered more than 20 years ago), the Brecknock and Scott Reef fields of Woodside (more than 30 years ago), and the Sunrise gasfields of Woodside (at least 20 years ago).

Demand for gas from these fields has undoubtedly grown rapidly as the world oil price has risen. But so have costs, and many of them have carbon dioxide problems that must be resolved, adding to the expense yet again.

What Voelte did on the sidelines of the APPEA conference was acknowledge the gee-whiz demand factor, and then draw everyone's attention to the reality of actually building an LNG project.

Those two events are a country mile apart, and do not sit comfortably with predictions of a sudden west coast LNG boom.

The more likely process by which LNG will expand in Australia is slow and steady, rising over a 30 years period to become one of the world's great sources of supply of liquefied gases.

Tripling in 10 years will not happen for the reasons Voelte outlined with the most important being that there simply is not sufficient capacity in the Australian economy to sustain an LNG boom.

Take Gorgon (again) as an example. After 30 years in the cooler, Chevron is now talking about a massive scaling up of the project. Rather than its original single

production train Gorgon grew to two trains, and is now seeking government approvals for a third train, and might eventually have five trains.

Why this spectacular expansion in size? The answer lies in what *The Slug* calls “reverse financial engineering” – a process which sits very comfortably with Voelte’s warning about excessive optimism.

Reverse financial engineering is a process by which an engineer, when told that his plan is financially crippled, doubles the size of the proposed plant. In theory, he achieves economies of scale – more gas out of the same plant footprint.

At Gorgon, a \$10 billion project has gradually become a \$30 billion project – and perhaps a lot more if it really is to be a five-train monster.

But, to get there Chevron will have to discover an entirely new generation of engineers and other skilled professionals to build the project.

Capacity constraints, skill shortages, and cost blow-outs are the big issues which will dog any LNG boom.

Voelte knows it because he’s experiencing it at his Pluto project. Armchair observers from APPEA should note carefully the voice of experience.

That Australia will develop a world class LNG industry is not in doubt. But, it will not be a boom. It will be a long, slow, rumble.