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# Utilization Rates For LNG Plants Reach Historic Low In 2015

SCOTT WEEDEN, CONTRIBUTING EDITOR SEP 19, 2016 122 VIEWS



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Strong competition between project developers and sellers to find markets for their LNG will continue to put downward pressure on LNG prices. This will be the environment in which new LNG plants, including those in operation and under construction in the U.S., will have to operate as new supplies grow.



Global LNG supply increased by 2.7% from 2014 to 2015, rising from 241.5 million metric tons per year (MMmt/y) to 248.21 MMmt/y. The Pacific Basin saw the largest increase of 11.6%, while the Middle East decreased 2.2% and the Atlantic Basin was down 3.3%, according to a July 2016 report, titled “LNG Supply Outlook 2016 to 2030,” prepared by Andy Flower of Flower LNG for the Bureau of Economic Geology’s Center for Energy Economics at the University of Texas at Austin.

That level of supply was in the face of lower production from several countries. Production was below

capacity in Indonesia, Oman, Nigeria and Trinidad due to shortfalls in natural gas supply from depleting reserves or diverting natural gas to domestic markets.

Four LNG plants are shut down—two in Egypt, one in Angola and one in Yemen. With Noble Energy's Leviathan discovery off Israel and Eni's find offshore Egypt, Egyptian LNG (5 MMmt/y) and SEGAS (7.2 MMmt/y), could be brought back online. The owners of Angola LNG (5.2 MMmt/y) are bringing the facility back online. Yemen's plant was shut down due to fighting in the civil war. Its 6.7 MMmt/y could be brought back online if the fighting subsides.

Three LNG plants began production in the first quarter of 2016. The first train at the Australia Pacific LNG plant on Curtis Island and Train 1 at the Gorgon LNG facility in Australia, and Train 1 at Sabine Pass in the U.S. started up in the quarter.

"The three trains that loaded their first cargoes in 1Q [first-quarter] 2016 will add 14.2 MMmt/y to available capacity when they are operating at full capacity," Flower said. "The surge in LNG projects under construction [become] commissioned will take global LNG supply to 385 MMmt/y by 2020, which is an increase of 55% compared to 2015.

"The increase in supply as new trains are being brought online has been outpacing demand. The result has been a weak market for producers and sellers, which is expected to continue until the early 2020s," he emphasized.

What has the oversupply of LNG done to LNG prices? "Spot prices in Asia, as measured by Platts' Japan-Korea Marker, declined to \$4/MMBtu [million British thermal unit] in mid-April 2016, the lowest level since [the marker] was first published in February 2009. Natural gas prices at European trading hubs averaged \$4.20/MMBtu in the first four months of 2016," Flower explained.

If all of the proposed LNG export plants in the U.S. were built it would add 247.6 MMmt/y (32.19 Bcf/d) of capacity. Proposed Canadian plants would add another 333.3 MMmt/y. Proposed export plants in East Africa, Russia, West Africa and the rest of the Pacific Basin would boost production by 140 MMmt/y.

"If all were developed they would add more than 700 MMmt/y to global LNG capacity, which is several times more than any realistic assessment of what will be needed. Many of the projects will struggle to cover the cost of capital and will not earn the returns that had been expected when the decision to invest was made—unless, of course, prices increase," he said.

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