

Small steps to a big future in the Gulf of Guinea

Cagey investors plan network of boutique LNG production sites

ERIC MARTIN London

Hopes of building new liquefaction trains in West Africa's Gulf of Guinea are gaining ground, particularly in Gabon.

The region could see a multinational, multi-off-taker network of smaller plants emerge, according to sources involved in the discussions, who remain circumspect about the details because of strict confidentiality constraints.

Austria's EconGas is at the centre of one effort involving mid-scale liquefaction in Nigeria and Gabon, said Rudolf Huber, the company's head of business development.

He declined to fill in details of the potential project but said his company defines mid-scale as around 500,000 tonnes per annum.

It has forged partnerships with engineering contractors, off-takers and potential lenders, and is working on securing feedstock gas supply.

"The most important problem for mid-scale production is the storage of LNG because you have to

fill a commercially sized vessel that is able to bring the LNG to market," Huber said, noting the comparatively large expense of storage tanks and dock facilities for a small liquefaction train.

"We found a solution for that," he said, declining to reveal more at present.

Shell is also understood to be pursuing a comparably larger-scale liquefaction plan in Gabon, where it is in the process of taking over all of Hess's assets in the country.

Market players argue that the Gulf of Guinea is full of gas fields that are too dispersed to feed a large-scale LNG plant but make it ideal for smaller-scale projects, particularly in a region where pipelines face security risks.

Derek Campbell, whose Washington, DC-based Accession International advises companies seeking to enter the African market, said liquefaction trains of 200,000 to 500,000 tpa provide the region with an option to reach stranded gas with low start-up costs.

Building a plant of this size could cost \$300 million, and LNG vessels could aggregate cargoes from multiple small trains.

"In West and Central Africa, it is beyond concept phase. There are some things that are about to take off," he said, although

he declined to give details of individual projects, including those in Gabon.

A global shift from oil-linked pricing toward hub gas pricing could also provide an opportunity for Gulf of Guinea players to take advantage of regional arbitrage opportunities, he reasoned.

"Anyone who is market savvy would know that this is a good play," Campbell said. "It's the kind of play that quite frankly is going to make some people some money."

UK-listed Gasol has been working on a plan for a chain of small liquefaction projects in the region with some of the feedstock coming from Gabon.

In 2008, the company said it was considering overall capacity of between 1 million and 2 million tpa with onshore and offshore elements, although an industry source expressed doubt the proposal will come to fruition.

The company is in the midst of a strategic review with its largest shareholder, the African Gas Development Corporation, to reassess "all opportunities available for monetisation of stranded gas assets in the Gulf of Guinea taking into account the speed with which projects can be developed and desire to achieve early shareholder returns".

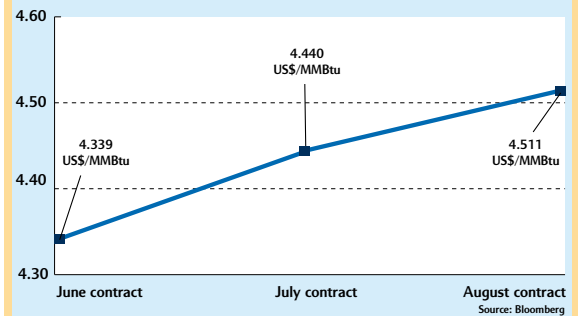
NATURAL GAS MARKET

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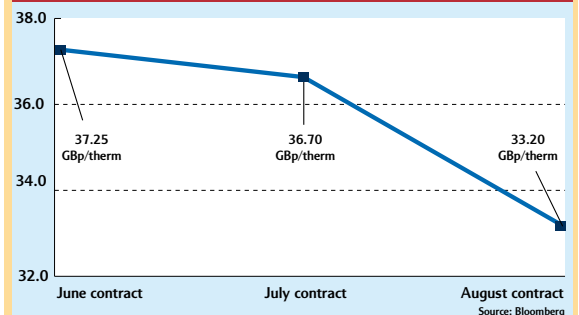
Stocks (Bcf)	7 May 2010	30 April 2010	Net week change (Bcf)	1 year ago	5-year average*	Change vs 5-year avg**
East	958	905	53	819	813	17.8%
West	344	330	14	330	265	29.8%
Producing	787	760	27	843	685	14.9%
Total Lower 48	2089	1995	94	1992	1764	18.4%

Note: This report tracks US natural gas inventories held in underground storage facilities. Changes in reported stock levels reflect all events affecting working gas in storage, including injections, withdrawals, and reclassifications between base and working gas. The weekly stocks generally are the volumes of working gas as of the report date.
*Average levels 2005-2009, **Difference from 5-year average (percent). Source: EIA

NYMEX/HENRY HUB NATURAL GAS FUTURES PRICE CURVE



UK NATURAL GAS FUTURES PRICE CURVE



• US natural gas futures have climbed over the past week with the market seemingly having found a floor just below \$4 per million British thermal units. The June contract closed Thursday at \$4.339, up 5.5 cents on the day and about 40 cents from the same time last week.

Gains early in the week came after the EU debt rescue plan in Europe helped reassure skittish global stock markets. Positive economic data and healthy demand in the cash market for natural gas then helped encourage further gains on Wednesday and Thursday.

Latest inventory data from the Energy Information Administration was seen as mildly supportive because the climb of 94 billion cubic feet in the latest week, while high, was below analysts' expectations. A Reuters survey had predicted a climb of 101 Bcf.

Although storage remains ample, talk this week was of the potential for demand to pick up with the economy. The approach of higher summer temperatures is also expected to lead to increased cooling demand.

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