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Small Houston-based firm has big plans to break into competitive LNG business

A small Houston-based company thinks it has the ideal location and financing mechanism to break into the liquefied natural gas import business.

Calhoun LNG has an option to lease a 150-acre site in an industrial area in Port Lavaca along the Texas Gulf Coast's Matagorda Ship Channel. The Calhoun County Navigation District has agreed to issue tax-free municipal bonds to finance construction of an LNG terminal, which it would own.

"The terminal would be ideal for someone who has LNG supply but needs downstream capacity," John Godbold, Calhoun LNG president, told Platts. The CCND "could control the design and use of the facility."

Calhoun LNG plans in March to file a permit with FERC for a terminal with 1 Bcf/day of capacity and two single-containment storage tanks, Godbold said. "If the capacity holder wants up to 1.5 Bcf/day, we can include a third tank," he added. "The tank site is available."

The proposal would allow the capacity holder to start on a smaller scale with as little capacity as 300,000 Mcf/day and only one storage tank, Godbold said.

The terminal site sits among several industrial plants, including facilities owned by Dow Chemical, BP Chemical, Formosa Plastics and Alcoa. The petrochemical plants use large volumes of natural gas as a feedstock and fuel.

They also use large volumes of gas liquids, potentially alleviating what is a problem for some existing U.S. terminals, Godbold explained. Some imported LNG contains higher volumes of gas liquids than interstate pipelines can accommodate, meaning those liquids must be stripped out and the terminal operator must find a market for them.

Plans for the Calhoun terminal call for two pipelines from the facility—one to carry regasified LNG to nearby industrial plants and several interstate and intrastate pipelines, and another to move gas liquids to local end-users, Godbold noted.

"It's a perfect fit," said Robert Van Borssum, port director of the Port of Lavaca-Point Comfort. "We're close to a lot of petrochemicals industries and significant pipeline corridors."

Financing provided by the navigation district's municipal bonds would be equivalent to commercial financing but "maybe a little bit less expensive," Van Borssum said. "We've done this before with some chemical terminals. There are some operating advantages from lower fees."

The financing would allow a terminal tariff of 20 cents/Mcf, compared with 32 cents/Mcf at some other proposed domestic terminals, Godbold said. The tariff would cover Calhoun LNG's profits, operating expenses and 20 years of interest on the bonds.

The capacity holder would have to guarantee the municipal bonds in order for the financing to work, Godbold explained, adding that Calhoun is looking for a single contract. "When you bring in multiple users, it becomes very complicated trying to schedule ships, storage and vaporization," he said.

If the terminal is built with 1 Bcf/day of capacity, it would handle about 10 LNG ships a month, each with capacity up to 145,000 cubic meters.

While many communities are frightened by the prospect of LNG tankers plying nearby waters, it won't be a problem at Port Lavaca, Van Borssum insisted. "Our facility already meets port security standards because we handle a lot of chemicals" he said. "Our alert levels are always a little higher than average." The residential area nearest the LNG terminal site is seven miles away, he added.

Calhoun already has \$10 million in financing it's using to get the necessary permits, Godbold said. The money comes from Haddington Ventures LLC, a Houston-based company that, in the past, has invested in midstream energy assets.

"Haddington Ventures is well-respected," said analyst John Olson, chief market strategist for Sander Morris Harris and co-manager of the 2003 Houston Energy Partners Hedge Fund. "They have a very good pedigree within the industry and have done a number of interesting projects, primarily in the gas/power interface."

Whether that success can carry over to LNG business remains to be seen, Olson said. "LNG is a tough business. You're trying to keep all sorts of things in balance. It's not a good venture unless you have deep pockets and a lot of patience."