

Calhoun LNG counts on location, financing to succeed with proposed terminal

Houston—A small Houston, Texas-based company thinks it has the ideal location and financing mechanism to break into the LNG import terminal 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 the terminal construction, and it would own the facility.

All Calhoun LNG needs is a company to commit to the terminal's capacity.

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

Calhoun LNG plans to file in March at the US Federal Energy Regulatory Commission for a permit for a terminal with 1 Bcf/d of capacity and two single-containment storage tanks, Godbold said.

"If the capacity holder wants up to 1.5 Bcf/d, we can include a third (storage) tank," he added. "The tank site is available."

The terminal proposal would allow the capacity holder to start on a smaller scale with as little capacity as 300-mil cf/d and only one storage tank, he said.

The terminal site is in the midst of a number of industrial plants, including facilities owned by Dow Chemical, BP Chemical, Formosa Plastics and Alcoa. The petrochemical plants use large volumes of natural gas as feedstock and fuel.

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

Plans for the Calhoun terminal call for two pipelines out of the facility—one to carry regasified LNG to nearby industrial plants as well as several interstate and intrastate pipelines, and another pipeline for gas liquids, which would be sold to a local user, 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 petrochemical industries and significant (gas) 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 cts/Mcf, compared with 32 cts/Mcf at some other proposed US terminals, Godbold said. The tariff would cover Calhoun LNG's profit, operating expenses and 20 years of interest on the bonds.

The terminal capacity holder would have to guarantee the municipal bonds in order for the financing to work, Godbold said.

Calhoun LNG is looking for a single capacity holder, he noted. "When you bring in multiple users, it becomes very complicated trying to schedule ships, storage and vaporization."

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

While a number of communities are frightened by the prospect of LNG tankers plying nearby waters, it won't be a problem at Port Lavaca, said Port Director Van Borssum.

"Our facility already meets (LNG) 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.

The port also has an "overcapacity of infrastructure," he said, referring to fire and stormwater systems.

Calhoun LNG has \$10-mil 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 John Olson, chief market strategist for Sander Morris Harris and co-manager of the 2003 Houston Energy Partners Hedge Fund. Olson is also a long-time natural gas energy analyst. "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."—*Michael Rieke*