



Small scale LNG

Game changer or a different game?

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The current LNG market has prompted a profusion of different business models, and the prospect of greater availability of LNG at prices that compete with other liquid fuels has prompted huge growth in the number of technologies that propose to use LNG. To many LNG industry participants, small scale LNG offers an opportunity to grow the market for the commodity.

Many players who have been in the LNG industry for a long time are now looking at small scale, and micro, LNG receiving facilities and applications for LNG use. Will the lessons that Big LNG has spent the last 40 years learning be relevant in these new contexts, or is this a new game with rules that have more in common with the distribution of downstream products such as gasoline or LPG?

One lesson that the LNG industry claims it has learnt in the past, but has only shown evidence of doing so in part, is standardization, and the philosophy of “design it once, and build it many times”. The LNG industry has been notorious for developing bespoke solutions for every new liquefaction and regasification facility. Particularly in a small scale terminal context, the LNG quantities and the profit margins cannot support bespoke solutions, whether they are engineering, financing, contractual structures or anything else. The LNG industry needs to draw from mass manufacturing industries for the techniques that will prevail, and the lawyers that support the LNG industry need to adopt simple structures that can be quickly and cheaply replicated on a large scale, and can be packaged up into funds or other portfolios of revenue streams which pension funds or similar investors may be interested in.

There are suggestions in the LNG industry that the requirement for project finance lenders to have borrowers enter into long term offtake agreements is stifling the development of new projects, and imposing on the industry something that buyers in particular no longer want. The sheer diversity of small scale receiving projects makes generalization difficult, but it is likely the case that in this fast evolving sector there will be few off-takers willing to commit to purchase LNG, by contracts lasting ten years or longer, from small

scale projects using unproven business models and/or technology. It is clear then that limited recourse project finance that has served conventional LNG projects so well for the last forty years is likely to need a significant rethink in a small scale context. The models developed for renewables projects, where a portfolio of qualifying projects can be project financed, may be an option where revenue streams are sufficiently predictable. Where they are not, it may be that companies with big balance sheets will be needed to open up the markets (like they did in the early days of the LNG industry).

The development of LNG liquefaction (and before that regasification) projects in the United States in the last 15 years has taught the LNG industry the issues and challenges associated with developing projects close to populations that are politically active and capable of mobilizing mass media. Small scale LNG projects will not be economic if each project is required to win a protracted public relations campaign. The LNG industry needs to be able to show that small scale receiving terminals and downstream uses for LNG are safe, much better for the environment than existing options, and will benefit the communities in which they are located. This debate needs to be won at conceptual level, thereby reducing the risk of numerous campaigns opposing individual projects. The LNG industry needs the siting of small scale LNG facilities to be no more controversial than the siting of roadside gasoline filling stations. Indeed, it is likely that some of the applications will see LNG facilities in existing gasoline service stations.

The development of small scale LNG receiving terminals and applications for LNG use open up issues that are new to “Big LNG”, but many of the potential solutions have been discussed in the energy industry before, whether in the context of renewables, or in the downstream sector. Small scale LNG is definitely a different game from the LNG industry of a few years ago that was supported by high oil prices. The next question is will small scale LNG be a game changer, in terms of the amount of LNG sold through small scale projects, and whether that makes an impact on how the current LNG market is balanced?

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