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Abe heralds energy ties during Australia visit

Japanese Prime Minister Shinzo Abe (left) with his Australian counterpart Tony Abbott. (PA)

James Byrne
East Asia Editor

JAPANESE Prime Minister Shinzo Abe heralded economic and energy ties between his country and Australia during a visit to Canberra on Tuesday to close a free-trade agreement (FTA) that will increase commerce and cooperation between the two nations.

"Opening up Japan's economy and society is one of the major engines for my growth strategy," said Abe in a speech delivered to the Australian parliament marking the first bilateral visit by a Japanese prime minister in more than 10 years. "Reforms are now starting in the fields of agriculture, energy policy and medicine for the first time in decades."

"Since 1957, Australian coal, iron ore and gas has powered Japan's prosperity; and Japanese cars, consumer goods and electronics have transformed Australians' lives," said Australian Prime Minister Tony Abbott.

With Japanese nuclear plants still mothballed after the Fukushima disaster, securing alternative sources of LNG and energy remains a priority for policymakers in Tokyo. The search for additional energy supplies has also come as Malaysia and Indonesia – two of Japan's largest suppliers – are facing declining output and diverting supplies to their domestic markets.

Australia has already overtaken Qatar as Japan's largest gas supplier, with Japanese importers scheduled to become the country's largest customers when a raft of Australian LNG liquefaction plants come online later in the decade. Japanese buyers will have more than 35 mtpa of term commitments in force in 2017.

However, it remains unclear whether the FTA between the countries will encourage LNG trade, with analysts saying any reduction in tariffs will most likely have a minimal effect. "The largest impacts are likely to be in agriculture and not LNG – the real issue in the future is the competitiveness of Australian gas supplies," said Tony Regan, principal consultant at Singapore-based Tri Zen International.

Japan is already one of Australia's largest foreign investors, with yearly investment flows placing it just behind the United States and the UK. Japanese companies spent $57.5 billion in 2012 – a large proportion of which went to oil, gas and coal projects, according to the Australian Trade Commission.

➤ 02

Inside Natural Gas Daily

➤01 "Discussions between the two leaders with Australian and Japanese business leaders confirmed Australia's place as one of the most important suppliers of minerals and energy to Japan, driven by continuing Japanese investment – including [in] LNG and coal," said a joint statement released by both prime ministers.

Abe's plan

Despite Abe's ambitious attempts to kickstart the Japanese economy through a combination of monetary and fiscal policy, and structural reforms, his plans have stumbled as a result of high energy costs – which have pushed up electricity prices and reduced industrial competitiveness.

"The speech and the agreements underline the two main priorities of the Abe administration: strengthening the economy through more transfers of natural resources from Australia to Japan; and strengthening Japan's national security with a more proactive defence posture that may include technology transfers from Japan to Australia, particularly in submarine technology," said Tom O'Sullivan, founder of Tokyo-based Mathyos Energy.

> [We] oppose any unilateral attempt to alter the status quo in the East and South China seas by the use of force or coercion
>
> **JOINT STATEMENT OF THE AUSTRALIAN AND JAPANESE PRIME MINISTERS**

While future Australian LNG supplies are likely to rank among some of Japan's most expensive sources of gas, the country's extensive resource base, stable political system and location have all proved attractive qualities to Japanese buyers.

Faced with a number of problems – including public opposition, new regulations and ageing plants – it is increasingly uncertain whether Japan's embattled power providers will restart the shuttered nuclear plants. Without these, utility companies such as Tepco and Kansai Electric may search for additional LNG or coal supplies.

In addition to more than a dozen Australian offtake agreements, Japanese companies have equity positions in liquefaction plants and gas fields across the country. The 8.4 mtpa Inpex-led Ichthys project plans to begin operations in late 2016, with the majority of the plant's output directed at the Japanese market. Meanwhile, the Japanese Bank of International Cooperation has lent close to $2 billion to Chevron's Wheatstone project, which will deliver LNG to Japan's Tohoku Electric.

After Canberra, Abe will also travel to Papua New Guinea, marking the first time a Japanese prime minister has visited the country. The trip comes shortly after ExxonMobil's PNG LNG plant started deliveries to Japan. The inaugural cargo landed in Tokyo bay earlier this summer.

"Japan's interest in Papua New Guinea is that it lies within the Australian sphere of influence, and LNG from the country will help diversify its energy sources and bolster its energy security," said Simon Chelton, a former British diplomat based in Tokyo and director of Cheltons Consulting.

China crisis

Faced with an increasingly assertive China – whose deployment of a deepwater rig in Vietnam's territorial waters has drawn international condemnation – the joint Australian and Japanese statement affirmed the importance of solving disputes by means of the UN Convention on the Law of the Sea.

"[We] oppose any unilateral attempt to alter the status quo in the East and South China seas by the use of force or coercion. Emphasising the need for disputes and issues to be settled by peaceful means [we call] on all parties concerned to refrain from actions that could increase tensions," the statement said.

However, both countries looked to bolster security and defence cooperation on Tuesday, with Abe's move to reinterpret Japan's post-war pacifist constitution potentially paving the way for joint work on submarines that could help defend important sea lanes.

"The reference to the US is also important, as is the reference to the rule of law for resolving disputes – which may be intended for public consumption in China with regard to territorial disputes in the East China Sea and the South China Sea," said O'Sullivan.

"Both are sea lanes used for shipping to and from Japan/Australia, and are critical to the trade and energy relationship," he added. ■

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Today on interfaxenergy.com

Exploration & Production

South Africa needs home-grown gas-fired growth

Increasing its gas production from its present low base would be a boon for South Africa for several reasons – not least in reducing the volatility of its currency.

Wildcat Blog

Wildcat's Pick of the Week

Wildcat gives you a headstart on the coming week and a round-up of what mattered last week.

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1 China's Datang pulls away from CTG sector with divestment

2 Finland gearing up for series of LNG projects

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EXPLORATION & PRODUCTION | **LITHUANIA**

Chevron packs up and leaves Lithuania

Joshua Posaner
Central & Eastern Europe correspondent, Berlin

UNITED States supermajor Chevron has given up on conventional and unconventional gas exploration in Lithuania, having closed its office in Vilnius and ceded its stake in the company holding the Rietavas licence to Sweden's Tethys Oil.

"Chevron has closed its office in Vilnius. The company has divested its 50% equity interest in LL Investicijos," the company said in a statement.

LLI acquired the Rietavas concession in 2007, with Chevron taking on a 50% stake in the local company for LTL 58 million ($22.8 million) in 2012.

Chevron turned down the opportunity to develop the Silute-Taurage concession in Lithuania last October, despite winning the tender as the only bidder.

It blamed an uncertain regulatory regime for the decision, and sources in Vilnius say little has changed.

Proposals last year for shale gas revenue taxation included provisions for a 40% rate – more than double the existing levy for conventional oil and gas production.

"Significant changes to the fiscal, legislative and regulatory climate in Lithuania have substantially impacted the operational and commercial basis of the investment decision," Chevron said at the time, although the company claimed it would continue with conventional exploitation of Rietavas.

"Clearly, it is a victory of those who opposed shale gas extraction and I welcome it," Algirdas Sysas, a deputy speaker in Lithuania's parliament, told local radio on Wednesday, according to *LETA*. "I also agree that such technology in a small country such as Lithuania is unacceptable," he added.

Public opposition

Chevron has been at the forefront of shale gas development across Central Europe and has encountered significant public protests.

In addition to Lithuania, it has pursued projects in Poland, Romania and Bulgaria – with the company forced to abandon operations in the latter after Sofia decreed a moratorium in early 2012.

Meanwhile, Sweden's Tethys Oil confirmed this week it had increased its stake in Rietavas from 14% to 30% following Chevron's exit. It also holds stakes in two other projects, with production underway at the Gargzdai licence.

"The work programme, focused on evaluation of the licence area for conventional and unconventional hydrocarbon potential, continues as planned and is not affected by Chevron's exit," Tethys said. ■

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EXPLORATION & PRODUCTION | **IRELAND**

Irish setback spells more trouble for Cairn

Tom Hoskyns
Western Europe editor, London

SCOTLAND'S Cairn Energy has been forced to postpone exploratory drilling at its Spanish Point discovery off the coast of Ireland following delays in rig maintenance.

Cairn planned to drill an appraisal well on its licences within the Northern Porcupine Basin – approximately 200 km off the west coast of Ireland – in Q2 or Q3 this year, but its inability to source a functional rig has pushed operations back to 2015.

"The postponement of appraisal drilling at Spanish Point is regrettable and beyond the control of the partnership," said Tony O'Reilly, chief executive of Cairn's project partner Providence Resources.

On a more positive note, Providence confirmed the planned 3D seismic survey covering Spanish Point South would go ahead as planned over the summer.

Providence has said Spanish Point could contain recoverable resources of up to 200 million barrels of oil equivalent, which would make it even more prospective than the giant Corrib gas field, 83 km off Ireland's northwest coast.

The delay in drilling comes at a difficult time for Cairn, which has had little success at its Atlantic margin acreage.

Efforts to uncover commercial volumes off the northwest coast of Africa have found little to boost investor confidence. The company has plugged and abandoned two wells offshore Morocco, and although a third well confirmed the presence of heavy oil, the quality of the reservoir remains unproven.

A lack of exploration success saw Cairn deliver a post-tax loss of $556 million in 2013, meaning the company is in need of good news.

Shares in Cairn have fallen by almost 30% since the beginning of 2014, although the company received a boost in June when the UK government approved the development of its £1 billion ($1.7 billion) North Sea 'Catcher' project. Cairn has said it aims to begin production from Catcher in 2017, with volumes expected to peak at 50,000 barrels per day.

First drilling on the Kraken area, in the East Shetland Basin, is scheduled for the first half of 2015, with first oil targeted in the second half of 2016 or first half of 2017. ■

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Europe in brief

The Serbian leg of the **South Stream** pipeline will be built by Gazprom subsidiary Tsentrgaz, according to a statement this week. Four Russian and Serbian companies bid for the contract, which was launched in March and is said to be worth $2.9 billion. Serbia's parliament has assigned special status to South Stream, and an FID for the Serbian section was reached in November 2012. Gazprom owns 51% and Srbijagas owns 49% of the Serbian section. However, uncertainty remains around South Stream's Bulgarian leg, where construction was halted after the EU claimed the project contravened its third-party access laws.

EXPLORATION & PRODUCTION | CAMEROON

Victoria share price falls despite production increase

James Batty
Africa correspondent
Leigh Elston
Middle East & Africa editor

SHARES in London-listed Victoria Oil and Gas fell by 15% on Wednesday morning despite an increase in gas supplied from the Logbaba project in Cameroon, according to company reports.

The company's subsidiary Gaz de Cameroun supplied an average of 119 thousand cubic metres per day (Mcm/d) to industrial customers at the end of April, based on a five-day week. Peak daily output has reached 127 Mcm/d.

The company was supplying 91 Mcm/d in April 2013 and 57 Mcm/d in July 2013 after beginning operations towards the end of 2011. However, Victoria has consistently failed to meet output targets set by management (see graph).

Victoria sells gas from the Logbaba field to industrial users in Douala – Cameroon's largest city – such as cement and bottling factories. The group plans to sell the gas for $16/MMBtu under a series of five-year contracts with more than 20 customers.

The company said on Wednesday it had connected six 1.5 MW power generation units to customers that were having problems with intermittent electricity supply from Cameroon's grid.

The company also announced the connection of Socapursel, a food manufacturing business, to the gas network for use in its industrial boilers. The company is preparing to install final gas connections to a Dangote cement plant that is expected to start up in August.

Connection issues

The main reason for the delay in reaching production targets has been the difficulty in connecting customers to the Logbaba gas grid.

The company hoped to complete 200 metres of pipeline per day when the project began. However, at one point the completion rate was as low as 200 metres per week – an average of 29 metres per day – although larger drilling machines have since improved this to 400 metres per week (57 metres per day).

Victoria said it had renegotiated its contract with contractor Britanica HDD International for a fixed dollar price per metre of pipeline laid. The contractor is preparing to start work on a pipeline connection across the Wouri River. ■

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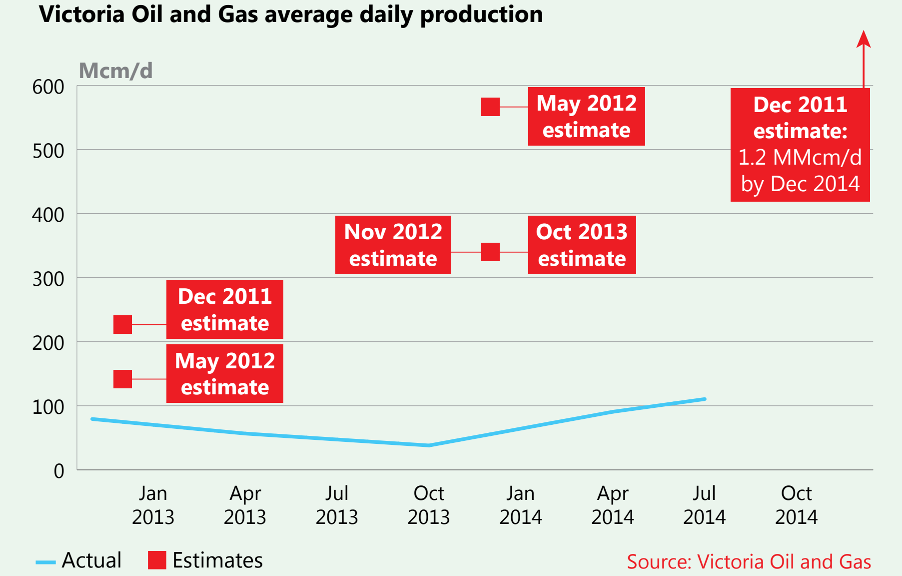
Victoria Oil and Gas average daily production



Source: Victoria Oil and Gas

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SUPPLY & DEMAND | UKRAINE

Ukraine imports 14.5 bcm of gas in H1 2014

Irina Denisova
Ukraine correspondent, Kiev

UKRAINE imported about 14.5 billion cubic metres of gas between January and June 2014, 40% more than in the same period last year, when it imported 10.3 bcm, according to data from Ukrtransgaz.

Ukraine imported 2 bcm of gasin June, more than double the 900 million cubic metres (MMcm) imported in June 2013. Around 300 MMcm of Ukraine's gas imports in the month came from Europe and 1.7 bcm from Russia.

"The increase in the import volume to Ukraine is connected with the seasonality of... gas injection to underground storage facilities, which had [reached] around 14.4 bcm as of 30 June 2014," Ukrtransgaz said.

Russia stopped shipping gas to Ukraine on 16 June after the two countries were unable to agree on an import price for Ukraine's national oil and gas company Naftogaz Ukrainy.

Ukraine imported 30.0 bcm of gas in 2013 (15% less than in 2012), worth $11.5 billion, according to Gosstat. It imported 25.8 bcm, worth $10.7 billion, from Russia; 891 MMcm, worth $347 million, from Germany; 614 MMcm, worth $250 million, from Hungary; 534 MMcm, worth $218 million, from Austria; and 93 MMcm, worth $38 million, from Poland.

Russia's Gazprom delivered 12.9 bcm to Naftogaz Ukrainy and 12.9 bcm to Dmytro Firtash-controlled Ostchem in 2013. Imports from Europe amounted to 2.1 bcm.

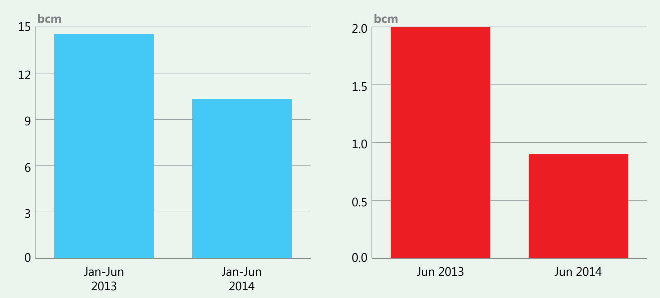
Meanwhile, Ukraine cut gas transit to Europe and CIS countries by 7.1%, or 2.8 bcm, year on year between January and June to 36.6 billion cubic metres, pipeline operator Ukrtransgaz said.

Sergei Ivanov, the Russian president's chief of staff, said on Wednesday that Europe must diversify its gas supplies as Kiev will likely start taking gas from the transit pipeline in the autumn.

Transit to Europe fell by 8.1% to 35.1 bcm between January and June, but transit to Moldova grew by 26.4% to 1.4 bcm.

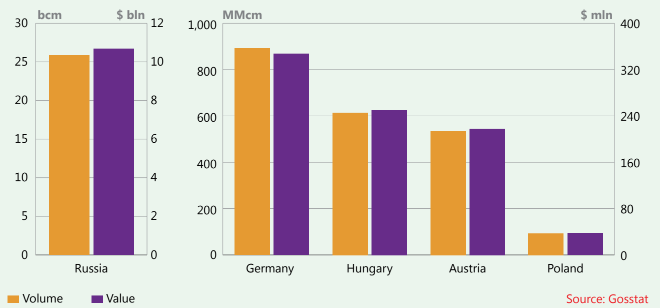
Gas transit to Europe fell by 7.3% in June year on year to 5.9 bcm, while transit to Moldova grew by 78.1% to 147 MMcm.

Total Ukrainian gas imports



Source: Ukrtransgaz

Ukrainian gas imports 2013, by source



Source: Gosstat

"All the requests of importing countries were carried out on time and in full," Ukrtransgaz said.

Gas deliveries to Ukrainian consumers fell by 14.1% year on year between January and June to 21.9 bcm, while in June they dropped by 26.3% to 1.2 bcm.

Gazprom transited 86.1 bcm of gas through the Ukrainian gas transportation system (GTS) in 2013, which was 2.2% more than in 2012. This included 83.7 bcm to Europe and 2.4 bcm to Moldova.

The Ukraine's GTS has the capacity to recieve 288 bcm/y and send out 179 bcm/y, including 142.5 bcm/y to Europe and 3.5 bcm/y to Moldova. ■

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COMPANIES & FINANCE | AZERBAIJAN

Shah Deniz development capex to be $33 bln by 2041

Nigar Abbasova
Azerbaijan correspondent, Baku

THE amount of capital expenditure needed to develop the Shah Deniz field will amount to $33 billion by 2041, State Oil Company of Azerbaijan Republic (SOCAR) said in a financial report for 2013.

FID was taken for Phase 2 of the Shah Deniz project on 17 December 2013, and amendments to the agreement on the exploration, development and production of the field were signed.

"The period of validity of the contract is extended [by] 40 years, beginning on 7 March 2001. In accordance with the project's work programme, the volume of capital expenditure for the project until 2041 will amount to $32.98 billion. The share of SOCAR in the total volume of capex is $3.30 billion," SOCAR reported.

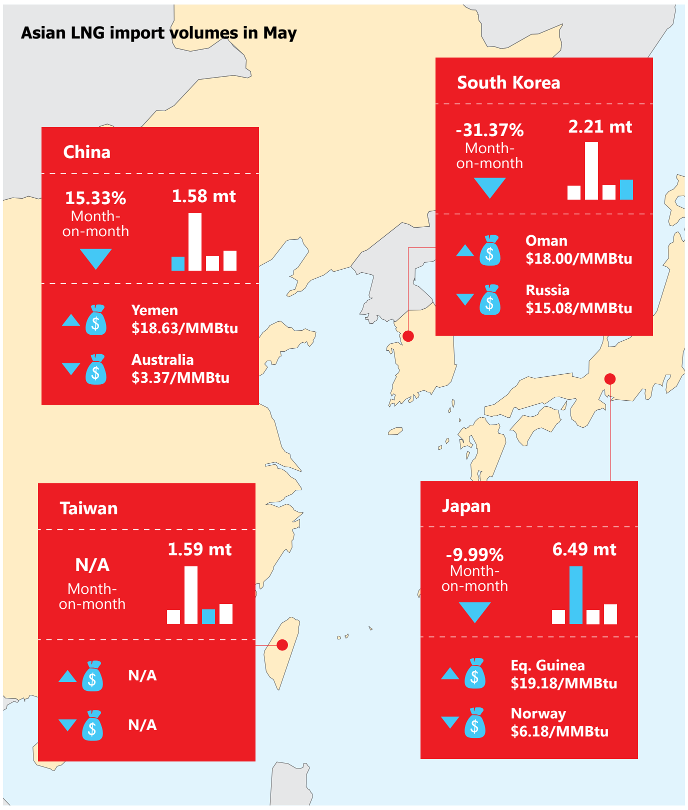
The project shareholders will allocate at least $25 million for Phase 2 by 31 December 2018.

The cost of expanding the capacity of the South Caucasus pipeline as part of Phase 2 is estimated at $5.30 billion. SOCAR's share of this is $530 million.

The multinational consortium developing Shah Deniz includes project operator BP (28.8%), SOCAR (16.7%), Statoil (15.5%), Lukoil (10%), Nico (10%), Total (10%) and Turkish Petroleum Corp. (9%).

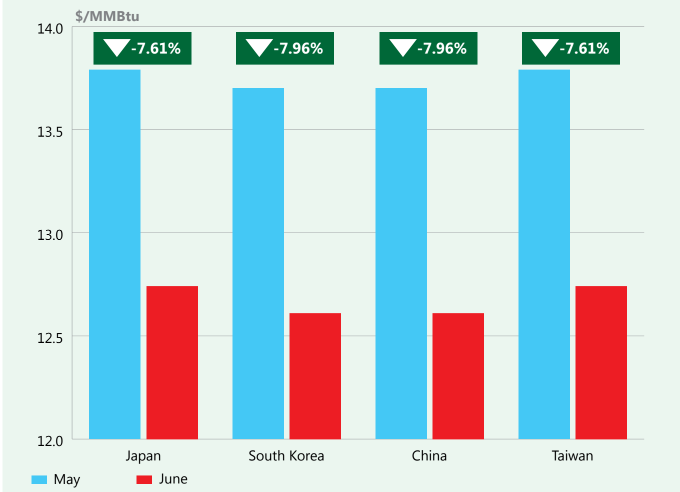
Officials at SOCAR said in June that Total would sell its stake in the Trans Adriatic pipeline project – which is aimed at channelling gas from Shah Deniz into EU markets. Total has not confirmed the announcement. ■

Contact editorial at: editorial.news@interfax.co.uk

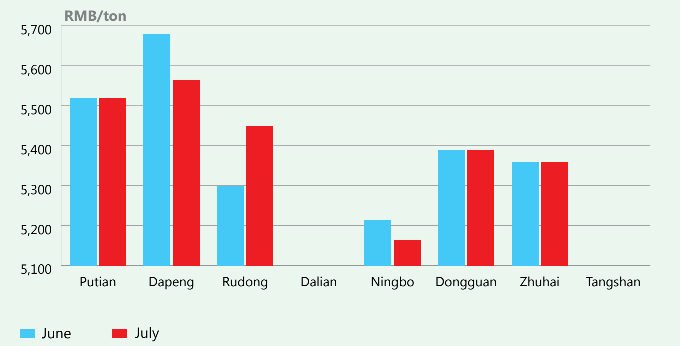


Asian LNG import volumes in May

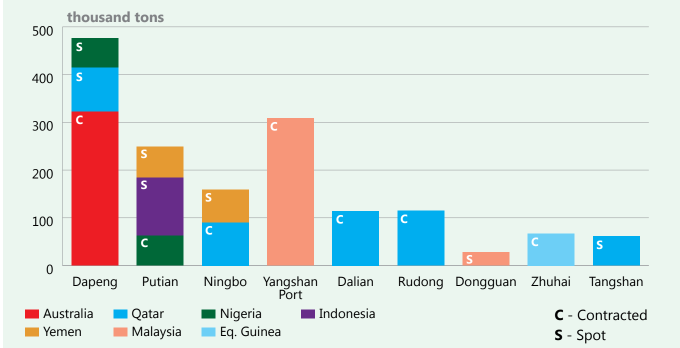
Asian spot LNG prices have tumbled since the highs of mid-February, and declined by an average of 7.79% in June from May as mild weather and healthy storage levels pushed down demand for flexible cargoes. "Significantly weaker demand is the primary culprit for spot price weakness," energy consultancy Pira Energy said last month. "It is getting to the point where production cuts by LNG suppliers will have to be considered." Prices in Japan, Korea, China and Taiwan averaged $11.49/MMBtu at the end of June, compared with $13.29/MMBtu at the end of May and $15.47/MMBtu a year ago.



Average monthly CIF prices for spot LNG cargoes



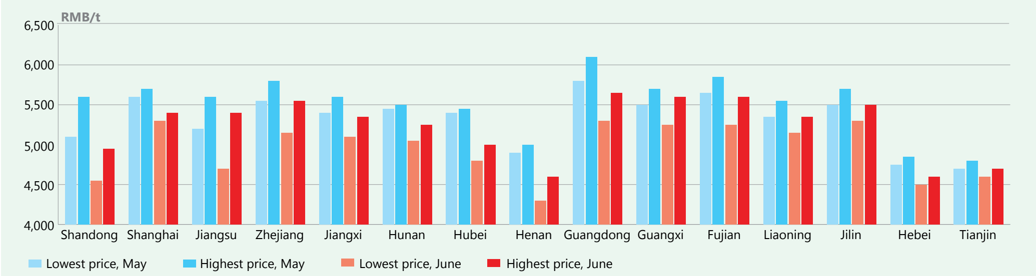
Quoted prices for trucked LNG from import terminals



LNG terminal deliveries by source

Prices for trucked LNG quoted at the Dapeng and Ningbo terminals for July fell by an average of 1.55% from June. Prices from Rudong in Jiangsu province increased by 2.8% month on month. The Dalian and Tangshan terminals have stopped LNG sales as they are regasifying all imports to inject into the local pipeline network.

China imported 1.58 mt in May via nine terminals. Term volumes made up nearly three-quarters of total imports, while 18% were spot buys from Nigeria, Qatar, Yemen, Malaysia and Equatorial Guinea. No cargoes have arrived at China's first floating LNG import terminal in Tianjin since January.



Trucked LNG purchasing prices in key Chinese markets

Oversupply from LNG plants and import terminals, combined with weak demand, pushed down purchasing prices in all major consumption regions.

Prices declined by an average of 6.05% in June from the previous month. Shandong saw the biggest fall, at 11.21%, followed by Henan on 10.1% and 9.68% in Hubei.

Sources: Korea Customs Service, Japan Ministry of Finance, Sublime China Information

Tang Tian
Shanghai

Storage builds leave Henry Hub futures at six-month low

Abhishek Kumar energy and modelling analyst, London

HENRY Hub front-month futures ended the trading session on Tuesday at $4.20/MMBtu, registering their lowest closing level since 13 January – which was also a decline of 5.8% on a weekly basis. Persistent storage builds in North America were the main factors weighing on prices.

The latest data from the Energy Information Administration shows a net injection of 2.8 billion cubic metres was made into gas stores in the United States in the week ending 27 June, taking total stocks to 54.6 bcm. Storage builds were also observed in the East Consuming Region (ECR), West Consuming Region (WCR), and Producing Region (PR).

A total of 31.3 bcm was placed into storage in the first 13 weeks of the 2014 injection season – an increase of 20.6% on an annual basis and the highest level for this period since 2001. Furthermore, year-on-year increases in net injections were also observed in the ECR, WCR and PR. In particular, improving supplies from the Marcellus shale resulted in a net injection of 17.4 bcm in the first 13 weeks of the period, which was an increase of almost 16% on an annual basis.

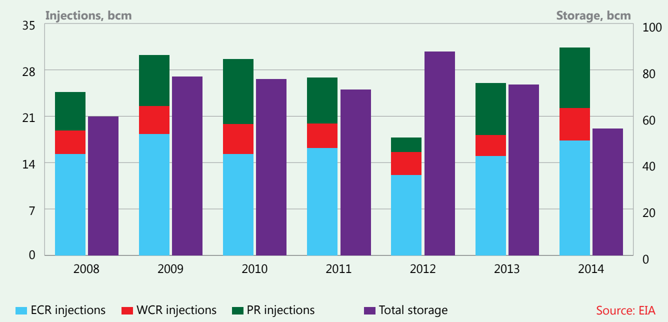
Spot prices in the key consuming region of the Middle Atlantic in the US ECR remained volatile as a result of temperature variations influencing cooling-related demand. However, they are generally trading at a discount to the Henry Hub spot price as improved supplies from the Marcellus have capped gains. For instance, the Transco Z6 spot price in New York has traded at an average discount of $1.36/MMBtu to the Henry Hub spot price so far in July, which has given a competitive advantage to gas for power generation over coal.

The speculative length on Henry Hub front-month futures fell by 9.5% – to around 49,500 contracts – last week from the week before, which also weighed on prices. However, speculators were net short in front-month futures at the same time last year, which is supporting prices above $4/MMBtu.

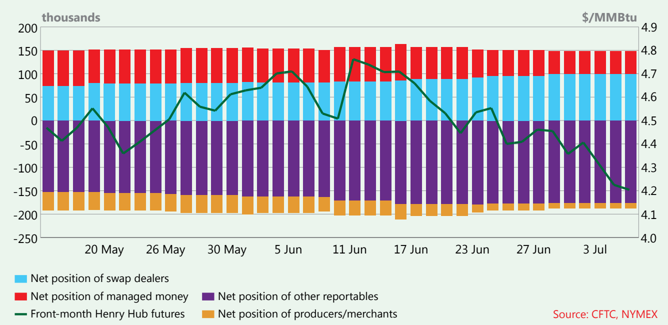
The level of nuclear power plant outages was another bearish factor for the Henry Hub futures price. Nuclear outages in the US have averaged 2.7 GW so far in July – a sharp decline from the June average of 5.3 GW. The current level is also 35% down year on year and 41% below the five-year average. Gas competes with nuclear for power generation in the US, and lower nuclear outage levels dampen demand for the fuel. Gas will face tough competition from nuclear in July as more plants remain online to meet power demand.

Forecasts for above-average temperatures in many western US states will support regional spot prices in the week ahead. Forecasts suggest a 62% chance of above-average temperatures in states such as California, Oregon and Washington. Moreover, states such as California are already suffering a drought, which has supported gas prices. Consequently, the PG&E Citygate price has averaged $4.89/MMBtu, giving an average premium of $0.57/MMBtu over the Henry Hub spot.

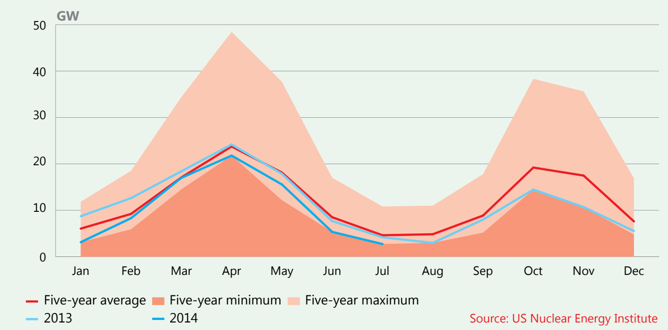
US net injection in the first 13 weeks of the injection season



Disaggregated CFTC net positions in Henry Hub futures



Nuclear power plant outages in the US



Milder temperatures aid Canadian storage builds

A net injection of 538 million cubic metres was made into Canadian gas storage sites in the week ending 27 June, bringing total gas stocks in the country to 8.1 bcm.

Forecasts for milder weather in the US ECR will further support gas replenishment in the Canadian ECR, which relies on imported gas from the US.

Weather forecasts suggest a more than 40% chance of below-average temperatures in several states in the Middle Atlantic and US Midwest. Consequently, the spot price at the Dawn Hub in East Canada has averaged $4.50/MMBtu so far in July, which is a decline of 7% from the June average. ■

Interfax Global Gas Analytics

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Wildcat Blog

Insight. Analysis. Wit.

Talk of the barrio: sudden death in Argentina?

Nothing shakes Lionel Messi from the front page in Argentina, not even the prospect of economic Armageddon. The country faces the prospect of a second default in 13 years on 31 July, but the Argentine press has decided Wednesday's World Cup semi-final against the Netherlands is a greater priority. When it comes to selling newspapers, football trumps fiscal policy every time.

Wildcat has been considering a cruel – but not unrealistic – doomsday scenario in which Argentina loses its semi-final, then defaults on 31 July, leading to total paralysis of its capital markets. But will default spell the end of the Argentine shale dream?

Not necessarily, according to Nicolas Bridger, an economic analyst at Buenos Aires-based investment consultancy Prefinex. He argues Argentina's shale industry is yet to take off.

"I'm not sure a default would have a huge impact, because until now foreign interest in Vaca Muerta has not translated into large capital inflows," he told *Wildcat*. "[State-run] YPF needs $5-10 billion per year to exploit Vaca Muerta, but pledged investments have been modest. So current problems may have little bearing over the cash available for unconventional exploration."

The market seems unsure what a default would mean for YPF. The company's shares plunged in mid-June after the United States Supreme Court decided not to revisit a lower-court order for Argentina to pay so-called 'holdout' bond holders, which obliged the heavily-indebted Latin American country to give about $1.33 billion to a hedge fund.

US courts ruled the holdouts – which Buenos Aires has dubbed 'vulture funds' – must be paid at the same time as the owners of new discounted bonds. The Argentine government, which holds around $29 billion in central bank reserves, has warned it will default on its sovereign debt if required to pay in full. Even though YPF is not financed from central bank coffers, investors took fright at the prospect of reduced exploration resources.

And Argentina's remaining cash does not travel easily, said Bridger. "It wouldn't be easy for Buenos Aires to transfer cash from one section of the economy to another, because Argentina is already running a primary deficit. There just aren't enough available funds, and a lot of the cash is already tied up in stocks."

More concerning was the prospect of YPF's assets being embargoed by holdouts seeking full payment. That threat seems to have passed, with YPF claiming last month it was an "independent company", rather than an extension of the Argentine state's bank account, and therefore safe from its creditors. YPF's shares rebounded in late June. *Wildcat* understands several North American funds had considered investing in Vaca Muerta, but delayed decisions because of the government's unpredictability.

Wildcat remembers the words of Chevron executive Ali Moshiri, who explained that investment in unconventional exploration needs to be continuously high to maintain production levels: "The minute you stop investment – boom!" In footballing terms, that's sudden death. CN ■

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LNG | CANADA

Steelhead LNG joins BC project lineup

Robert Sullivan

ANOTHER hopeful has applied to export LNG from west Canada to Asian markets, adding to an already sizeable contingent of prospective projects along the British Columbia (BC) coast.

Vancouver-based Steelhead LNG Corp. said on Tuesday it had applied to Canada's National Energy Board (NEB) for a licence to export up to 30 mtpa of LNG for 25 years from a proposed site near Sarita Bay on Vancouver Island.

The development would be split into four 6 mtpa LNG trains, according to Steelhead. The company indicated it is working with pipeline operators to explore infrastructure options for delivering gas from fields in northern BC to the proposed site.

The development plan includes an option for an additional 6 mtpa LNG export facility along the pipeline route.

The company has also signed an agreement with the Huu-ay-aht First Nationsgroup to jointly explore the development of the project, which would be located on Huu-ay-aht land at Sarita Bay.

"[This] does not mean we have agreed to an LNG project," the Huu-ay-aht First Nation noted in a separate statement on Tuesday.

"It means we have agreed to look at it closely, consult our people and our neighbours, and hire our own experts to examine the issues and questions our people have related to LNG," the statement said.

Steelhead is backed by KERN Partners, a Calgary-based private equity firm funded by Canadian pension funds and North American university endowments, which has investments in independent Canadian energy companies.

Steelhead does not own any gas assets, and plans to operate the LNG plant on a tolling model.

The NEB has previously issued export licences to tolling projects such as the Pacific Oil & Gas Group's 2 mtpa Woodfibre LNG development, and the 2.3 mtpa Triton LNG project backed by Idemitsu Kosan and AltaGas.

However, the proposal from Steelhead is among the largest put forward to export gas from BC, with a planned liquefaction capacity greater than projects backed by majors such as Shell and Chevron with upstream assets in west Canada.

Nine LNG projects have already been approved for export licences in BC, while a further two approvals have been granted to projects based in Oregon in the United States hoping to ship Canadian gas to Asia. ■

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