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Huge Baja Project May Chill Others' LNG Plans

Mexico's easier permit process allowed San Diego-based Sempra Energy to get a head start over those considering plants in California.

By Gary Polakovic
Times Staff Writer

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In the high-stakes competition to import natural gas from across the Pacific to California, one San Diego-based company has such a commanding head start that it could determine whether others can stay in the race.

Being the first to open a marine terminal to process liquefied natural gas on the West Coast involves more than bragging rights. International companies are spending millions to get permits to build giant terminals in hopes of reaping billions in revenue.

But while other companies are mired in the morass of U.S. and California regulations, Sempra Energy Co.'s Costa Azul plant is already half-built, aided by political tailwinds and less red tape in Mexico. Twin dome-shaped natural gas storage tanks rise 180 feet above a rugged coastal strip about 14 miles north of Ensenada in Baja California.

The terminal is on track to begin processing 1 billion cubic feet of natural gas daily as early as 2008 — years ahead of the competition. Moreover, Sempra is aggressively pursuing more energy contracts with suppliers — enough to more than double the size of its processing plant — with plans to make the additional fuel available in 2010.

With its proximity to Southern California, the Sempra plant may alter the race to build other LNG terminals proposed along the coast, regulators and industrial officials say. Four such projects are seeking approval, but the California Energy Commission says they won't all be needed.

Some experts question whether any new projects will be needed, given the proposed expansion at Costa Azul.

"The market won't support a lot of projects," said Harvey Morris, attorney for the California Public Utilities Commission. If Costa Azul is expanded, "it might obviate the need for others or might mean only one more is needed on the West Coast."

That prospect has not deterred other companies seeking to build LNG terminals along the coast from Long Beach to Malibu to Port Hueneme. The terminals would receive super-chilled liquid natural gas from big tankers, warm it back to vapor, then ship it in pipelines for use in homes, businesses and power plants.

Two Australian companies, BHP Billiton and Woodside Energy Ltd., are seeking permits to build separate operations offshore near Malibu, each capable of processing about 800 million cubic feet of gas daily.

Sound Energy Solutions, a project by ConocoPhillips and Mitsubishi Corp., is seeking to build a plant with similar production capabilities in Long Beach Harbor. And Texas-based NorthernStar Natural Gas Inc. has filed a permit application to convert an offshore oil platform 13 miles from Oxnard into an LNG plant.

"We'll continue with our project," said Tom Giles, president of Sound Energy Solutions. "There's a significant need for natural gas in the United States and the West Coast, and we believe, whatever they end up doing in Baja, our project will still be a go."

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A Growing Trend

Natural gas is increasingly favored by utilities and environmentalists because it is the cleanest-burning fossil fuel. It is used by power plants and factories across the United States. Domestic natural gas consumption is expected to increase 39% by 2025, according to the federal Energy Information Administration.

There are at least two dozen proposals to build LNG terminals in North America over the next several years. Currently, just four terminals operate in the United States — none on the West Coast.

California is the nation's second-largest consumer of natural gas, but it produces only 18% of the fuel it uses, according to the state Energy Commission. For years, that wasn't much of a problem because fuel from the Plains states and Canada was plentiful.

But today there is more competition for natural gas, resulting in price swings and limited availability.

Furthermore, the Energy Commission estimates that the state will need 15% more electricity in the next decade to accommodate expected growth. That will require more clean-burning fuel to help clean the nation's smoggiest skies.

"California has fewer choices within the state, and it doesn't have nearly the degree of flexibility for natural gas that might be available in other states, so LNG provides more diversity in natural gas sources," said Michael Toman, director of the environment, energy and economic development program for the Rand Corp.

Consequently, President Bush and Gov. Arnold Schwarzenegger favor developing new energy sources, including building LNG terminals to import natural gas from overseas. Business groups also back such projects because they offer more fuel choices.

But coastal environmentalists and some elected officials vigorously oppose the LNG projects because they think they will be unsightly and dangerous and will produce too much air pollution.

The state's energy master plan identifies a need for one LNG terminal — and possibly two. But that plan did not take into account a single plant as big as Costa Azul just south of the border.

Darcel L. Hulse, president and chief executive of Sempra LNG Co., said his company chose to build in Mexico because it is easier to acquire permits in a country eager for foreign investment.

"We would not be able to supply consumers if we were to wait 10 years for that [U.S. permit] process," Hulse said.

Strategically, Sempra seeks to benefit by being the first to supply imported LNG to fast-growing Baja California, which operates on a power grid more closely connected to the western United States than to most of Mexico.

Hulse said the region that includes Washington, Oregon, California, Nevada, Arizona and Baja California requires about 10 billion cubic feet of natural gas daily, but produces only about 700 million cubic feet.

In the first phase of the project, the Costa Azul plant will process 1 billion cubic feet of fuel daily, supplied by gas fields in Russia and Indonesia.

Up to half the natural gas will be used in Baja California and the rest will move north into the U.S. Southwest. At full capacity, the expanded LNG terminal could process 2.5 billion cubic feet per day, and Hulse said the bulk of that would flow into California and the West. He said an expanded Costa Azul project could provide up to two-thirds of the natural gas needed for Southern California.

"This terminal, with expanded capability, could be a key infrastructure to the Southwest and Baja," Hulse said.

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Eager Suppliers

Energy suppliers already are scrambling to sign contracts to sell gas to Sempra's new Baja plant. The company has reported that shippers have expressed a willingness to supply 2.9 billion cubic feet of gas daily.

Meanwhile, Sempra will pursue more permits from Mexican authorities and is seeking approval from California and the Federal Energy Regulatory Commission for pipeline expansions across the international border and between California and Arizona.

"They'll be in the driver's seat in terms of signing up customers before anyone else because they will have a physical, tangible facility," said Pat Perez, manager of LNG projects for the California Energy Commission. "It will give them an added advantage."

But critics worry about one company operating a big LNG terminal in a foreign country as a key supplier to California.

Bill Powers, co-chairman of the Border Power Plant Working Group, said Sempra's plan to expand its Costa Azul terminal is an attempt to drive out potential LNG competitors. The group advocates for renewable energy and consumer rights in energy disputes.

"If they build it to the size they want to build it, it would provide almost the total amount of daily natural gas supply for Southern California," Powers said. "It's very monopolistic and unfavorable to

the consumer."

Toman of the Rand Corp. said the Costa Azul project might still leave room for another LNG terminal on the California coast. Indeed, he said, one more such facility might be good to provide competition and ensure U.S. control and security for the West Coast's natural gas supply.

"There are trade-offs," Toman said. "Do we think market manipulation or a cutoff is significantly serious that it's worth going through the permitting and construction to have California LNG instead of just Mexican LNG?"

"It's an interesting question if the project in Mexico can be a better option" than the plants proposed in California, he added.

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