

Alert

A New Focus on Natural Gas-Powered Vessels

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The use of natural gas in the form of LNG (liquefied natural gas) as a fuel for vessels in the United States is receiving focus from both the natural gas and maritime industries.



At the September meeting of the Natural Gas Roundtable of Washington, D.C., speakers from the natural gas and maritime industries addressed “*Natural Gas and the Marine Industry – the Next Major Gas Demand Opportunity and Strategic Implications.*” Historically, LNG as a vessel fuel has been restricted to certain operations in the Scandinavian countries. This month, at the Shipbuilding, Machinery & Marine (SMM) exhibition in Hamburg, Germany, it was announced that a 28,000 DWT product tanker operated in Scandinavian waters for Statoil would be retrofitted with dual-fuel (marine diesel and natural gas) machinery. Also announced was the retrofitting for the first use of LNG to power a containership.



Plentiful Supply

Reports and studies indicate that more than anytime in the recent past, U.S. gas supplies are plentiful for the long term. Additionally, it is noteworthy that the pricing of natural gas is more predictable and favorable than in the past. This is in large part driven by the availability of large and economical natural gas reserves from shale formations (for example, the Barnett, Haynesville and Marcellus shales). Similar favorable trends are seen worldwide. See [The Future of Natural Gas, An Interdisciplinary MIT Study, Interim Report \(June 2010\)](#).

Although existing vessels can be converted to natural gas, most of the demand will come from new construction. It

has been reported that the investment in using LNG fueled engines should be recouped within two years.

Environmental benefits from the use of LNG can be significant. By August 2012 ships in the coastal waters of the United States and Canada will have to comply with low sulfur requirements of the North American Emission Control Area. Natural gas can be a logical fuel supply to satisfy these types of requirements for reduced emissions. Pipeline quality gas has near-zero SO₂, and about 20 percent of the NO₂ and 80 percent of the CO₂ of alternative marine fuels.

Accessing Supply

The logical first choices for accessing LNG supply for the maritime industry would be the nine major U.S. LNG import or export terminals – those in Cameron, Louisiana; Cove Point, Maryland; Elba Island, Georgia; Everett, Massachusetts; Freeport, Georgia; Kenai, Alaska; Lake Charles, Louisiana; Penuelas, Puerto Rico; and Sabine, Louisiana. Access is aided by the current excess LNG import capacity in the United States.

In addition, many local gas distribution companies (LDCs) have LNG storage facilities that are used for peak deliveries. Although the capacity of these facilities is typically much smaller than those of the major import terminals, under appropriate conditions they may also be available to supply LNG to the maritime industry.

Acquiring LNG Supplies

Acquiring LNG supplies can involve complex commercial and regulatory arrangements. Commercially, the LNG sales/purchase agreement is the key agreement. These

arrangements can be firm or interruptible. Depending on how a vessel owner or operator desires to manage its physical supply and pricing, the totality of these arrangements could also include natural gas and/or LNG transportation and storage arrangements. Because there are pricing risks, the buyer may want to hedge its pricing arrangements.

Depending on the source of supply and related natural gas services, several federal (and potentially state) regulatory agencies may play a role. For example, the Federal Energy Regulatory Commission (FERC), the United States Maritime Administration (MARAD), the Commodity Futures Trading Commission (CFTC), and state Public Utility Commissions may become involved. Regulatory approvals and modifications to existing regulatory regimes may also be required to accommodate this new market.

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