

Pilot LNG steers course towards creation of US Gulf bunkering hub

Company chief executive Jonathan Cook has spotted a gap in an emerging market

Lucy Hine
London

By 2025, ships calling at ports in the Galveston and Houston areas in the US Gulf will have their own LNG bunker supplier on hand — but one with a difference.

Pilot LNG — the brainchild of LNG industry veteran Jonathan Cook — plans to build a 500,000-tonne-per-annum floating liquefaction unit specifically to produce marine bunkers for the US market.

A small LNG bunker barge would ship volumes from the FLNG unit to vessels at local anchorages or ports.

Cook formed Pilot LNG a little over a year ago while working with former colleagues and associates with the primary focus of creating new downstream market access for what is currently an oversupplied sector.

While investigating LNG bunkering as an option, there appeared to be nothing on the US Gulf coast, so Cook said the team started to look at potential locations.

Together with Pilot LNG partner and chief development officer Shaun Davison, Cook zoned in on Pelican Island near Galveston.

They were familiar with the site, which was the subject of an LNG terminal application by BP 20 years ago, from their days working together at Excelerate Energy.

Pilot LNG secured exclusivity to develop it, engaged engineering contractors and a consultant specialised in regulatory and permitting for large-scale export projects.

But Cook recognised the importance of having something tangible before hitting the market with the project.

The team waited until their permit application for the project was lodged with the US Army Corps of Engineers and the US Coast Guard before going public on their plans.

The permitting authorities are something of a clue to the thinking behind using an LNG floater



POWER PORT: Galveston welcomes more than 10,000 deep-draught vessels each year

Photo: urban.houstonian/Creative Commons

rather than a land-based facility.

Cook said that by sourcing the feed gas for the floater from intrastate pipelines solely within Texas, Pilot LNG does not have to go through the US Federal Energy Regulatory Commission (FERC) for permitting, which would add time and cost to project development.

He said the permitting process should take between 12 and 14 months, compared to three to four years with FERC.

With this target, Pilot LNG aims to take a final investment decision on the project at the end of next year. A three-year construction period would see the unit operational by the end of 2024 or early in 2025, he said.

Pilot LNG is working on the floater with Chinese shipbuilder Wison Offshore & Marine, which built the world's first barge-based

TW PILOT FLNG UNIT

Capacity: 500,000 tonnes per annum

Storage: 18,000 cbm

Length: 148 metres

Breadth: 32 metres

Depth: 21 metres

liquefaction unit, Exmar's Tango FLNG.

The US developer has yet to reveal the expected cost for the project or the FLNG unit.

But Cook said that to build a land-based terminal would be expensive in this area, where the geotechnical conditions would require deep piling.

Instead, the company believes it can have better cost control over a yard-built floating unit, while min-

imising its environmental footprint onshore with some small landside infrastructure and a jetty.

Cook said Pilot LNG, which has recently been out in the market on a fundraising exercise, is frequently asked why LNG bunkers cannot be sourced from existing LNG terminals.

"We believe we can deliver LNG to a vessel at a cost of around or a little bit less than \$8 per MMBtu," he said, which compares favourably with the pricing range of low-sulphur fuel oil.

Producing in a market where the demand is helps to save on transportation costs. That is key, since the project's LNG bunker barge would need to be a Jones Act vessel built at a more expensive US yard, he said.

In addition, large-scale export projects are in the business of ser-

ving their long-term export customers, so they are not set up logistically to handle small bunkering tonnage.

He said shipowners that order dual-fuel tonnage will have additional capital expenditures that they will need to recover.

"We believe that we are going to be able to provide LNG which is being used because of its emissions profile as well as being able to supply the fuel that is competitive on a pricing perspective," he said.

Cook has wider ambitions for the company, whether on the bunkering or into other areas such as floating storage and regasification units.

"That is all on the table," he said. "We have a couple of other projects that are in their early stages of development and origination and are not quite ready for prime time."

MOMENTUM IS BUILDING FOR LNG FUELLING, US BUNKER SUPPLIER SAYS



JONATHAN COOK: Chief executive of Pilot LNG

Photo: Lucy Hine

US Gulf Coast bunker provider Pilot LNG has yet to secure its first customers, but chief executive Jonathan Cook is convinced the demand will be there.

Cook said the greater Galveston Bay port complex, which includes Houston and the Port of Texas City, has more than 10,000 deep-draught vessels calling in and out of the area each year.

He pointed out that Galveston is also the fourth largest cruise port in the US, clocking up more than 300 sailings in 2019 — and a new terminal offers the possibility to increase this by 25%.

Key user Carnival Corp, the

cruise giant, has indicated it may use one of its LNG-fuelled vessels out of the port.

Cook said there is more momentum now towards LNG fuelling, but he recognised that it will likely be for newbuildings rather than retrofits.

FID IN LATE 2021

But he said this fits with the timeline for Pilot LNG's project. This would allow owners to secure their bunker supply once Pilot LNG takes a final investment decision on the development of its floating LNG-based liquefaction plant at the end of

2021, and then order their newbuildings.

"It is the classic chicken and egg thing," Cook said. "There is not a list of shipowners or vessels requiring LNG as a fuel that are already designating that they are going to trade in and out of the area, but if the LNG fuel is available then the ships could be scheduled to do that."

Last month, Pilot LNG teamed up with GAC Bunker Fuels by signing a heads of agreement under which it would supply LNG as a marine fuel to its new partner.

Cook said GAC could become a customer and do some market

aggregation. But Pilot LNG is also talking to other potential clients.

Pilot LNG is open as to whether shipowners want to use their own LNG bunker vessels or prefer not to be involved in local logistics and have their volumes delivered.

Cook said whether Pilot LNG owns the LNG bunker barge or uses a third party for this is still to be determined.

"We wanted to get the permit filed and be established as a real project and not just a PowerPoint concept before we started with the customer outreach," he said. "So far the reception has been very positive."