



## What Apache's New Plans Could Mean for Canadian Natural Gas

### Description

Bloomberg is reporting that **Apache Corporation** (NYSE: APA) is looking for a buyer for its stake in **Chevron's** ([NYSE: CVX](#)) Wheatstone liquefied natural gas project in Australia. At the same time, Apache and Chevron continue to move forward on a similar, though currently less expensive, project in Canada.

One of the reasons for this is that Apache sees the opportunity to realize more value in its Canadian project than to continue pouring more money into what is turning out to be a very expensive Australian venture.

### What is Wheatstone?

Chevron and its partners are planning to invest a total of U.S.\$27 billion to build the Wheatstone LNG project in Western Australia. The project is expected to produce 8.9 million tons of liquefied natural gas per year starting in 2016. However, in order to get to that point, the partners still need to pour a lot of capital into the project.

Apache, which owns a 13% stake in the project, is expected to spend \$1.4 billion this year and another \$800 million next year to fund its portion of the project's costs. However, the costs of Australian LNG projects like Wheatstone have severely overrun previous budgets, which is one reason why big oil companies like Chevron are simply drowning in high-cost projects and why Apache wants out.

Apache, like many other energy companies, is looking to cut back on capital spending as its not providing the returns it had hoped. When it comes to Wheatstone, in addition to saving the \$2.2 billion in future capital spending, Apache could net as much as \$2.5 billion for its stake in Wheatstone.

That's a lot of money for the company, which it could use to buy back its stock or invest in more appealing projects like its Kitimat LNG project with Chevron in Canada. While Apache is [said to want to reduce its 50% stake in that project](#), it's not looking to fully exit like it is with Wheatstone as it sees value in moving that project forward.

## Why the Kitimat LNG project makes more sense

Apache needs the Kitimat project to move forward so that it can unlock its vast natural gas position in Canada. Apache believes that its position in the Liard Basin holds upwards of 48 trillion cubic feet of natural gas. For perspective, that's enough natural gas to meet the energy needs of 48 million households for 15 years. That's a lot of natural gas, considering that only about 35 million people live in all of Canada. Needless to say that the only way for Apache to unlock value from that position, as well as its position in the gas-rich Horn River Basin, is to export gas to energy-hungry Asia.

That's why plans for Kitimat continue to move forward, with **TransCanada** ([TSX: TRP](#))([NYSE: TRP](#)) recently announcing plans to [build a \\$1.9 billion pipeline](#) to move natural gas to the Kitimat facility. The TransCanada pipeline could be complete as early as 2020, which is when Apache and Chevron should be able to begin sending gas to Asia.

While that timetable shows that the project is a few years behind Wheatstone, given all of the cheap natural gas that Apache can produce in Canada, as well as the lower cost to bring Kitimat online, Apache should come out well ahead by sticking with this Canadian venture.

As the cost of Australian LNG projects spiral out of control, it's opening up the opportunity for investments in cheaper Canadian LNG projects. That could work to Apache's benefit as it stands to reap large profits out of its Canadian LNG project. That facility really is the key for the company's ability to monetize the world-class shale gas position it owns in Canada's Liard and Horn River Basins.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:CVX (Chevron Corporation)
2. NYSE:TRP (Tc Energy)
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