

Contracts Show Lake Charles Plant Moving

Jeff Amy, Associated Press

A \$2.5 billion chemical plant may be getting closer to reality in Lake Charles.

Leucadia National Corp. said Monday that it's signed contracts to sell methanol, hydrogen and carbon dioxide from a plant that would convert an oil refinery byproduct called petroleum coke.

"This is quite a milestone for our project," said Hunter Johnston.

Johnston is the son of former U.S. Sen. J. Bennett Johnston, a Louisiana Democrat. The father's Johnston Development Co. is a joint venture partner in the project.

Leucadia is still looking for investors to help pay for the plant. It hopes to start construction by mid-2013, if it can raise the money and get environmental approval. The plant would employ 165 people when finished, and create up to 1,500 construction jobs during the 40 months it will take to build.

New York-based Leucadia is also trying to develop gasification plants in Moss Point, Miss., and Rockport, Ind. Those aren't as far along as the Louisiana facility, though.

The Lake Charles plant would be built next door to a Citgo Petroleum Corp. refinery that makes lots of petroleum coke. The original proposal for the gasification plant called for it to turn the solid carbon refinery leftover into a synthetic substitute for natural gas. But natural gas prices plunged as new drilling technologies glutted the market.

Now Leucadia hopes to make different products. It says a unit of BP PLC has agreed to buy the majority of the methanol, while Air Products and Chemicals would buy hydrogen. Both firms had earlier signed letters of intent but have upgraded to contracts, Johnston said. BP could use the methanol to make chemicals or could seek to blend it into gasoline. Air Products sells hydrogen to chemical plants.

Denbury Resources earlier signed a 20-year contract to buy all the carbon dioxide the plant would make. Denbury pumps carbon dioxide into old oil fields to force more oil out of the ground.

"We're producing methanol," Johnston said. "We're not producing natural gas, so we're not in competition with natural gas prices."

David Netzer, a Houston engineer who's studied the process, said the plant will still compete with methanol made from cheap natural gas. Prices for natural gas have risen over the last six months, but are still trading below \$3.50 per million British thermal units. Netzer said making methanol from petroleum coke is likely only to equal out if natural gas prices rise to \$5 per million BTU or higher. But selling

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carbon dioxide could make it economical even at current low gas prices

"It depends on how much someone is willing to pay for the carbon dioxide," Netzer said.

The Port of Lake Charles would build land and sea terminals to ship the methanol, investing around \$100 million, said port director Bill Rase. Those terminals would create about another 50 permanent jobs, he said.

Rase said Leucadia has already cleared 70 acres and done drainage work, and is preparing to move in 800,000 cubic yards of fill dirt to elevate the site to 14 feet above sea level.

"They've got everything but their financing," Rase said. "I think that's something they're really confident they can do."

Johnston said it's too soon to tell how much of the project Leucadia will own. He said that depends on what investors come forward. Johnston said one task is finding investors who can use the \$273 million in federal tax credits available to the plant. The company also has \$260 million in U.S. Department of Energy grants it must spend by Sept. 30, 2015.

The company has issued \$1.56 billion in GO Zone bonds awarded by the state of Louisiana and is holding proceeds in the bank, Johnston said. Created by Congress after Hurricanes Rita and Katrina in 2005, tax-free GO Zone bonds allow companies to borrowing money at lower interest rates.

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