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Can Krish Suthanthiran Turn A Remote Ghost Town Into An LNG Export Hub?

None of B.C.'s LNG export projects are as unlikely – or as interesting – as Suthanthiran's ambitious plan to reconfigure the forgotten town of Kitsault

By Max Fawcett
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British Columbia is home to no fewer than 20 proposed LNG export projects. But none of them is as unlikely – or as interesting – as Krish Suthanthiran's plan to turn an industrial ghost town into a thriving oil and gas export hub
Photograph courtesy Kitsault Energy

And you thought David Black was a dreamer. Black, you'll recall, is the newspaper publisher who came out a few years ago and declared that he intended to build an oil refinery on the coast of British Columbia, notwithstanding the fact that he had no experience in the oil and gas industry nor any financial backers willing to support his vision. But Black has nothing on Krish Suthanthiran. That's not just because Suthanthiran's eclectic background makes Black look like an energy sector insider by comparison. It's also because, when assessed purely on its merits, his dream probably has a better shot of actually becoming a reality.

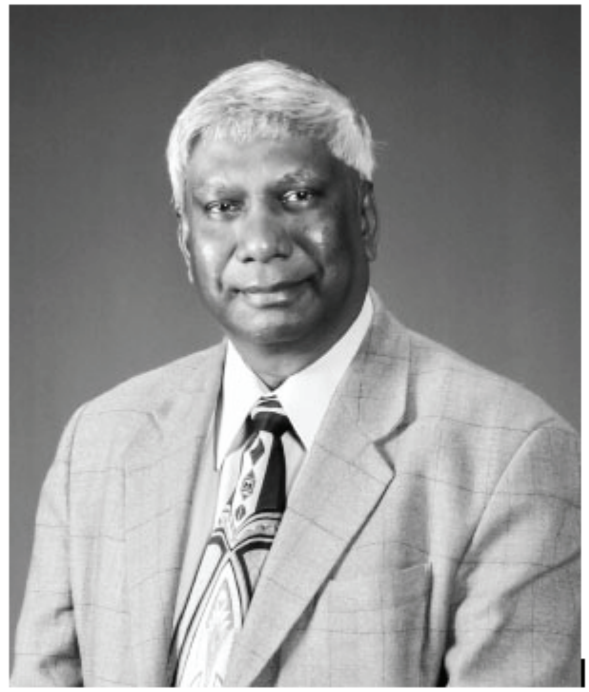
Suthanthiran knows all about David Black, and he rejects – and resents – the comparison. “I’ve heard about the David Black project for three years now. But David Black is trying to raise money from other people and spend it. I’m spending my own money. David Black’s project is unrealistic, and it’s not economically viable. If Enbridge has spent a billion dollars and six years and still can’t get anywhere, I don’t understand why David Black thinks he’s going to be any different.” Indeed, Suthanthiran thinks any project that involves a refinery proves that its proponents don’t understand what the market is really looking for. “The most important part is: What does your customer want? The customers in Asia want crude oil. They don’t want a refined petroleum project. That’s why Enbridge is planning on building a pipeline for crude oil rather than building a refinery. Enbridge might have made some mistakes, but the truth is that it’s a successful energy company. They’re not idiots.”

Suthanthiran isn’t either. He immigrated to Canada from India in September 1969, and moved to Ottawa to pursue his master’s degree in mechanical engineering at Carleton University. After finishing that degree he moved to the United States in 1972, and spent five years working at Howard University Hospital until deciding to go into business by founding Best Medical International, a Virginia-based healthcare supplies distributor. Since then, he says he’s invested “many millions” of dollars in medical, real estate, construction, entertainment and energy companies. And in 2005, he purchased the town – yes, the entire town – of Kitsault, British Columbia for a reported $7 million. The town was built in 1979 in order to support a nearby molybdenum mine, and its amenities included a shopping mall, restaurant, swimming pool and accommodation for 1,200 people, but it was abandoned in 1982 after molybdenum prices crashed and the mine closed. Since buying it, Suthanthiran says he’s poured an additional $18 million into ensuring that it doesn’t fall into disrepair.

So why did an Indian-American entrepreneur who made his money selling medical supplies decide to plunk upwards of $25 million on a ghost town in northern British Columbia? “Everybody who was looking at the town was looking at it strictly as a real-estate play. I saw it differently.” What he saw, he says, was an opportunity to bring economic activity into the region and drive up the value of the town that he’d bought. Initially, he says, because of the secluded location and beautiful scenery he thought it could be used as a conference center or an artist’s retreat. But as talk grew in the region in 2011 and 2012 about the possibility of LNG export facilities, he realized his ghost town might have another use. “I spent a lot of time sitting in hotel rooms researching,” he says. “And the first thing that struck me was that Spectra [Energy] was bringing a pipeline right by Kitsault. And I thought, ‘why are we taking it an extra 300 kilometers?’”

The pipeline he’s referring to is Spectra’s massive Westcoast Connector Gas Transmission Project, which could accommodate two 48-inch pipelines with total design capacity of 8.4 billion cubic feet per day. And while the project’s most likely terminus is in Prince Rupert, Suthanthiran believes that Kitsault’s geographic advantage – saving those extra 300 kilometers – make it a more natural choice. “You’re immediately saving $3 billion,” he says. Building an LNG export terminal in Kitsault, meanwhile, would require very little in the way of residential or camp construction, costs that can also add up in a big way. Rio Tinto Alcan paid millions to build camp accommodations for its smelter modernization project in Kitimat, B.C., and when that ran out of space it spent millions more putting up workers in an 11-deck cruise ship that was temporarily tied up in the city’s port. Those two advantages, when combined with Kitsault’s deep-sea port and full BC Hydro access, started to look like the formula for a successful project in the increasingly competitive race to get gas from Alberta and B.C. to Asian markets. And so, on January 8, 2013, Suthanthiran traveled to Ottawa to officially announce the creation of Kitsault Energy. The company applied to the NEB on April 4, 2014 for a license to export 20 million tonnes of LNG per year. That application is still under review.

Suthanthiran isn't blind to the magnitude of the challenge in front of him. He is, after all, a man with no track record in the energy sector and no history of building megaprojects, who is pitching large publicly traded corporations on the idea of partnering with him on a multibillion-dollar project. But, then again, so was Charif Souki, and he's about to bring North America's first major LNG export facility online by the end of this year. Souki is a Lebanese immigrant to the United States who began his career as an investment banker, made enough money to retire at 34 and then started dabbling in the restaurant business, opening one restaurant in Aspen and three more in Los Angeles. One of those restaurants was a Brentwood hotspot called Mezzaluna, and it quickly became popular among celebrities – a crowd that included Nicole Brown Simpson, O.J. Simpson's ex-wife. As it happened, it was also where a young waiter named Ron Goldman worked, and when Simpson's mother left her glasses behind at the restaurant he swung by her condo to drop them off. The rest, as they say, is history, and Mezzaluna became a key stop on the informal O.J. Simpson tour. "It wasn't a very nice picture into human nature," Souki told Bloomberg Businessweek. "The morbid curiosity, the lack of taste and decency of people, was pretty astonishing." Souki shut the restaurant down in 1997.



Krish Suthanthiran's background is in the healthcare supplies industry, but he thinks that expertise is transferable to the regulation-heavy business of oil and gas infrastructure
Photograph courtesy Kitsault Energy

He turned his attention to the oil and gas industry and, armed with an interest in 3-D mapping and the ability to put together a deal, he executed a reverse takeover of a defunct film-colorization company and founded Cheniere Energy. By June 2001, the company announced that it planned to build four LNG import terminals at a total cost of at least US$1.2 billion. But as Bloomberg Businessweek noted in a recent story on Souki, "If anyone was going to build an LNG import terminal, it was going to be a major energy company, not some former restaurateur who couldn't keep his stock above $1." Despite getting turned down by every private equity firm he pitched the project to – and he apparently pitched it to 30 of them – Souki continued to plug away, and eventually found someone who would back his play so long as he promised to shrink it down to a more reasonable size. A company called Basin Exploration partnered with Souki on one LNG terminal in Freeport, Texas, but Basin retained operational control and majority ownership. Souki, in turn, used some of the cash from that deal to continue developing his own facility at Sabine Pass, the swampy package of land in Louisiana he'd bought up a few years earlier.

By 2004 he'd raised $300 million through the sale of common shares, and signed Total and Chevron to 20-year take-or-pay agreements. And while the collapse in natural gas prices turned the economics of his new LNG import terminal upside down (and kneecapped the value of his company, which had peaked at more than $2 billion in 2005), Souki decided to pivot. The LNG import facility would become an export-oriented one, and in May 2011 the U.S. Department of Energy gave its blessing to the proposal. By October, he'd signed a deal with British Gas that would see Cheniere sell it $8 billion worth of LNG over 20 years. Not long after that, private equity giant Blackstone pledged $2 billion to the construction of the facility itself. And while the narrowing price spread between U.S. natural gas and global LNG has made Cheniere's economics look less promising than they had a few years ago, it will nonetheless deliver its first shipment of LNG sometime this year.

The fact that Charif Souki was able to bring the $12-billion Sabine Pass facility online doesn't necessarily mean that Suthanthiran can do the same in Kitsault. But it does mean that his project deserves consideration, and he's confident that the advantages that Kitsault's location and infrastructure offer can outweigh the skepticism that people might have about him. "The CEOs do things a little differently in large corporations, but the engineers who are working on the projects know the challenges. They look at Kitsault and see that we're in an ideal situation – better than any of the other sites. The projects ultimately have to make economic sense. And our project makes better economic sense than any of the other ones on the table right now."

And while his background might not seem in line with the task of getting a multibillion-dollar LNG export terminal built, he says that his experience in the medical business has at least prepared him for the challenge of navigating the regulatory process. "Everybody in the energy sector keeps saying this whole process is very complicated and too bureaucratic. But I come from the medical field. If I come up with a product, I have to get it approved by Health Canada, and then if I want to get it sold in the United States I have to go through it all again. If I want to sell it in Brazil, I have to go through it all over again."

For now, Suthanthiran is busy lining up the various stakeholders needed to turn his dream for Kitsault into a reality. He says he's had "a number of conversations" with Doug Bloom, the president of Spectra Energy's Canadian LNG business, and says TransCanada has "kicked the tires" on the site as well. He's also had conversations with local First Nations, and says he understands their concerns. "We can't just say that we're going to create jobs, and then everybody should let us do whatever we want to do. It's a collaborative process. And [with] First Nations, it's like dealing with another country. If you were trying to put a pipeline through the United States, they'd say, 'Hey, wait a minute, you have to follow our rules.' And it's the same with First Nations." Suthanthiran even says he has MOUs with a few potential uptakers, and has met several upstream companies who might have an interest in buying a minority stake in the project. And, like Souki, he's willing to pivot if that's where the market wants to go. "We haven't fallen in love with LNG. We think methanol is just as viable, or even more viable, than LNG."

And where is the money going to come from to actually build the facility? Suthanthiran says he's had plenty of conversations with potential Asian partners, who don't just want to put up the capital to fund the construction of an export terminal but also want to help him build a gas-fired power plant that would take at least 50 per cent of Kitsault's output. He's also kicking the tires on a potential public listing for the company, one that would make the parallels between him and Souki even more obvious. And while collapsing global spot LNG prices are casting doubt on the future of other potential export terminals in B.C., Suthanthiran remains undeterred. The NEB is expected to make a final decision on Kitsault's export license application by the first quarter of 2016, and Suthanthiran says that softening prices actually make his project look even better by comparison. "How many of the projects are going to deliver economically at those prices? Everybody talks about the big boys, but can the big boys deliver LNG under $9 per million btu to Asia? I don't think they can. At $12 to $15 per million btu? Yeah, they can make money. But below $10, none of them can make money. And we can."

To learn more about **Kitsault Energy**, download the company information packet at:
http://www.kitsaultenergy.com/presentations/KE_London_Feb19_2015.pdf

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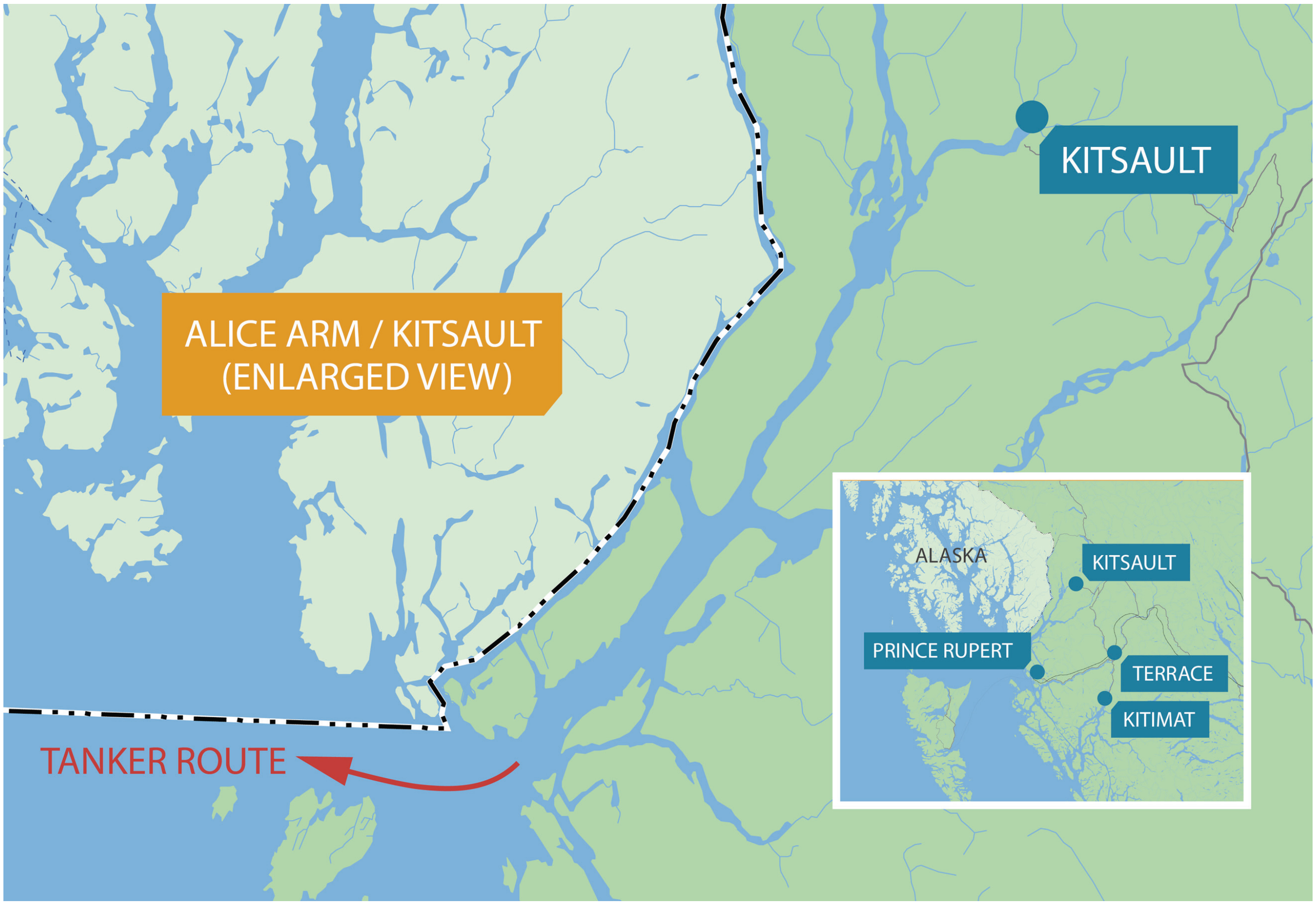
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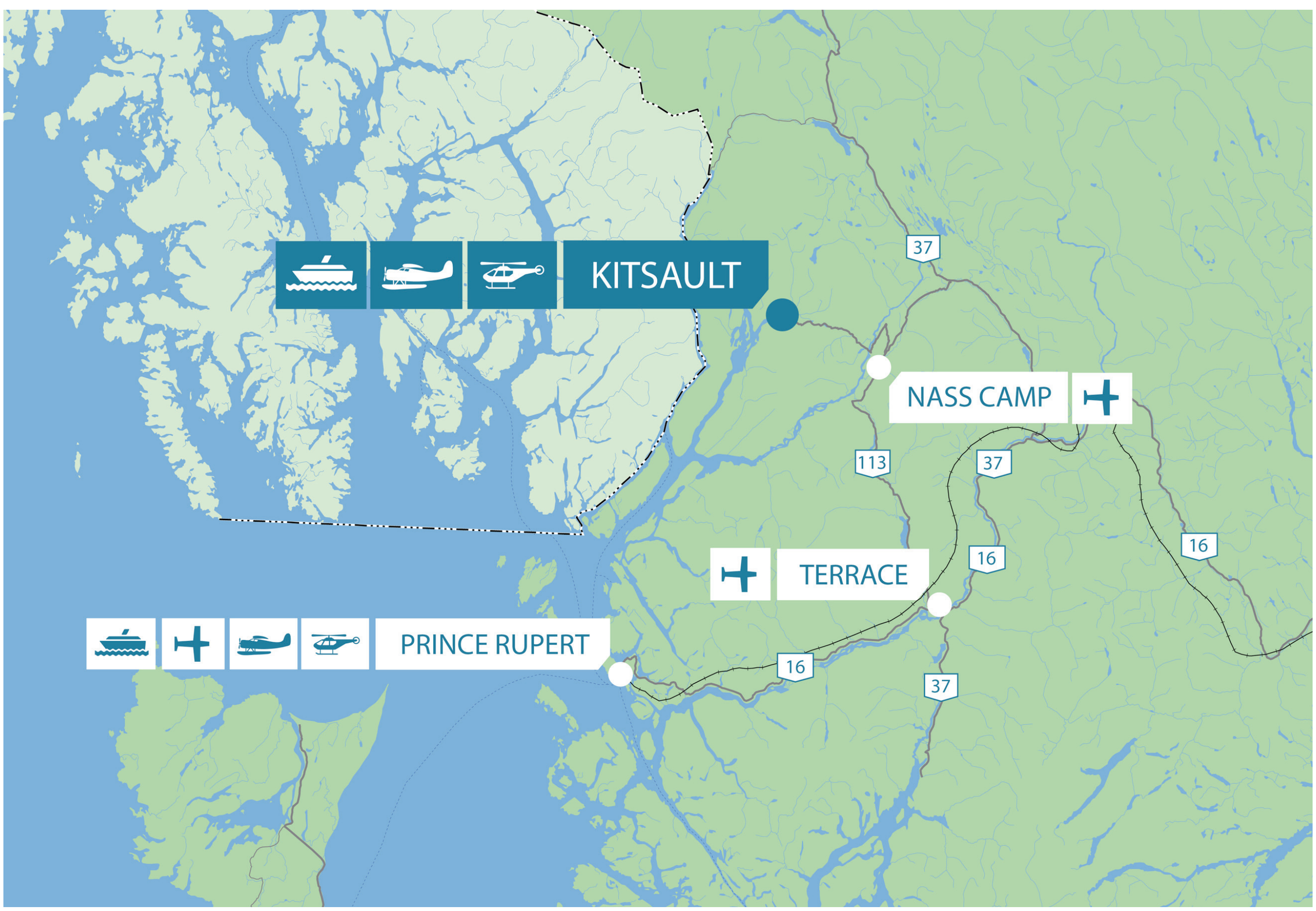
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