Meet Alfred Sorensen, Canada's accidental LNG architect

Canadian Spirit Resources Inc. CEO Alfred Sorensen
Photograph Bryce Meyer

Alfred Sorensen's plan to carve out a global supply role for Canadian natural gas began almost by fluke. Sorensen, the energy trader who co-founded Galveston LNG Inc. and sold the Kitimat LNG project to Apache Corp. and EOG Resources for just over $300 million, was attending an investor symposium in London in 2007 when he ran into the chief executive officer of a major North American gas producer.

"What do you do?" the executive asked during a networking break.

Sorensen introduced himself as the proponent of a West Coast regasification facility planned for Kitimat, British Columbia. "That," the executive replied, "is the stupidest idea I've ever heard of."

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Natural gas production was on the cusp of seismic changes, though Sorensen didn't know it. He was in London to sell investors on a North American liquefied natural gas (LNG) import terminal just as producers had figured out how to extract natural gas from shale rock without going broke.

On a late July afternoon five years later, Sorensen, 51, marvels at the extent of his oversight. "Even a layman could understand that if they could crack the technology, there was enough of this stuff that we'd be able to light up North America and see it from Mars," he says.

Within six months Galveston had changed course. The Kitimat scheme was flipped from an import to an export terminal in a "last ditch" effort to save the $25 million in equity the company had raised. "It ended up being a good strategy," Sorensen says.

Today, export developments are led by companies with much larger balance sheets. It is no accident that Sorensen, now chief executive officer of Calgary junior Canadian Spirit Resources Inc., is sitting on the type of long-dated natural gas assets they need to support sales contracts with Asian gas buyers.

"This is an excellent consolidation play," he says of Canadian Spirit, seated in a downtown Calgary boardroom that boasts more chairs than the company does employees. "You get rid of five people and an office and you're done."

Sorensen is an unlikely character to have kicked off Canada's LNG foray. He freely admits he knew little to nothing about the product when he launched Galveston. He is, according to a former colleague, "a very bright guy," "a bit of a gambler" and someone who "likes to talk."

Joseph Doucet, interim dean of the University of Alberta's School of Business, where Sorensen graduated in 1983 with a commerce degree and still serves as a member of a business advisory council, says Sorensen has a knack for being "in front of the market." Like Wayne Gretzky, Doucet says, Sorensen "goes to where the puck is going to be, not where it is."

He is also an assiduous promoter with an opinion on everything from deregulation ("dog-eat-dog") to Facebook (for "grannies" and "children") and subsidies for renewable energy ("slowly bankrupting Ontario.") He dismisses Northern Gateway proponent Enbridge Inc.'s efforts to win over coastal First Nations in British Columbia as "too little, too late" and says pipeline builders in general have been caught "behind the eight-ball" by the rapid ascent of digital activism. "Once you become reactive," he says, "the sharks just come after you. It's like blood in the water."

No blood was spilled during lengthy negotiations with the Haisla First Nation over Kitimat LNG, Sorensen likes to point out. He credits the band's support to his willingness to try new approaches and think differently about consultation.

On an early trip to the West Coast community of Kitimaat Village, for instance, he skipped the typical PowerPoint presentation and spiel about how a massive plant – then still a regasification terminal – might benefit the isolated town.Instead, he arranged for an aboriginal guest speaker who ran a thriving winery in the Okanagan Valley to address the elders about life as an entrepreneur. "It allowed someone to tell a story that we could never have told," Sorensen recalls. "It wasn't condescending."

Sorensen began his own career at Direct Energy in 1987 as an accountant. This was about the time Canada deregulated its markets for oil and natural gas. He moved quickly into trading. In 1989, he co-founded Continental Energy Marketing Ltd., which at its peak moved 2.2 billion cubic meters of gas per year before being bought by a corporate predecessor to Duke Energy Corp. in the mid-1990s.

Sorensen first glimpsed the potential of LNG in the early 2000s, while working in London to establish a European beachhead for a division of Duke Energy International. One day he answered his phone to a trader looking to offload a tanker stuffed with three billion cubic feet of chilled gas.

Though he knew nothing of the product – "We're not in liquids," he told the caller – Sorensen was intrigued. "What would you be willing to sell it for?" he wanted to know. The cargo was going for the equivalent of $4 per 1,000 cubic feet, he recalls. Sorensen ran a calculation. "That's like six million bucks," he figured.

Reluctantly, he turned it down, fearing the volume was too large to move on such short notice. But the episode left an impression. "The next time someone calls," he says he told a colleague after hanging up the phone, "I want to be able to say yes, because there's a huge margin to this business."

Sorensen left Duke in 2002 and took a year off work to, as he puts it, “see if I could run a marathon.” He used the training regimen to plot his next move.

That turned out to be Galveston. By December 2004, the holding company had offices in Calgary, Nigeria, Oman and Australia. Together with his partners, Sorensen, who says he pumped “just shy” of $3 million of his personal wealth into the scheme, raised seed money from Denham Capital Management LP, a private equity firm in Boston.

Even then, Sorensen had yet to fully grasp the nuances of the global LNG trade, according to a former colleague. “Alfred thought we were going to be LNG traders,” recalls Dale Dickson, a private equity investor who was hired by Sorensen at Continental and later joined Kitimat as vice-president of risk management.

Dickson, a veteran trader himself, was skeptical of the strategy, not least because the LNG market is illiquid and based almost exclusively on long-term bi-lateral contracts. “It wasn’t hard to figure out,” he says. Galveston lacked the scale, financial clout and gas reserves typical of the business. “We didn’t have anything,” Dickson says.

Still, he credits his former colleague for turning the project around when it was nearly undone by shale gas and, later, for his cool head when a decision was made to sell it outright. “He wouldn’t panic,” Dickson recalls. Nor would Sorensen be “bullied” by Apache Corp. chairman and chief executive officer Steve Farris during negotiations to sell the start-up venture, Dickson says.

Sorensen also crossed swords with Shell. According to Dickson, the Canadian arm of the Hague-based giant offered an undisclosed sum for 40 per cent of the Kitimat venture in 2010, just days before Apache plunked down $150 million for a 51 per cent stake in the project. (Shell declined to comment. In an email, a spokesman said, “It is not Shell’s practice to talk about the specifics of commercial business activity.”)

Dickson also declined to discuss specifics, but he says Sorensen was livid with what he considered a low offer. “Alfred thought it was a joke,” Dickson recalls. To emphasize the point, “He locked [Shell] out of the virtual data room the next day.”

Sorensen was in London to talk up the University of Alberta's MBA program to *The Economist* and *Financial Times* when Petronas, Malaysia's state-run oil and natural gas company, made its initial offer for Calgary-based intermediate Progress Energy Resources Corp.

Already his mental gears were whirring. Could Canadian Spirit be paired with Canbriam Energy Inc. and Terra Energy Corp. and sold off as a bundle to LNG developers? "If someone could find a way to consolidate us," he mused in a telephone interview that week, "I think we would be very attractive to the Asians to sort of play into the Shell project."

Shell, in regulatory filings with the National Energy Board, says it will fulfill future gas supply requirements for its massive West Coast terminal through a combination of existing reserves, prospective resources "and future net acquisitions." That has touched off speculation that B.C. gas producers – even minnow-sized companies like Canadian Spirit – are suddenly in play. What's more, the $5 billion-plus valuation for Progress has effectively raised the price for potential acquirers seeking fresh, long-dated reserves.

"I think there is a higher floor to what these assets are worth," says Patrick Reddy, an equity analyst with Leith Wheeler Investment Counsel Ltd. in Vancouver who owned Progress shares. The reason is demand. "A lot of these national oil companies and publicly traded multinational oil companies are short gas to backfill these LNG facilities," Reddy says.

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It's far from clear, however, that Canadian Spirit is first in line among potential takeout targets. Its shares enjoyed a brief lift after Petronas agreed to buy Progress, but the company's resource base of five trillion cubic feet of natural gas and 15.9 million barrels of natural gas liquids remains highly prospective. "I think they're quite a ways down the pecking order" as an accretive acquisition, says Eric Nuttall, a portfolio manager with Toronto-based Sprott Asset Management LP, which owns 9.7 per cent of Canadian Spirit's outstanding shares.

"Their business model was to prove up one [trillion cubic feet of reserves] over five years and that was probably seven years ago," he adds, describing a company that has always been “somewhat at the mercy of capital markets to get enough capital to prove up what they felt they were sitting on.”

Sorensen is not oblivious to such critiques. He joined the company full time last May after a brief stint as interim chief executive and immediately hit the road in search of fresh capital. Among his first stops was Montreal, where he called on Luigi Liberatore, a 69-year-old art collector and president of Elmag Investments Inc. “I was very impressed with him,” Liberatore says in a telephone interview.

Enough, in fact, that he subscribed to another 2.7 million shares, bringing to 19.7 per cent his total share of outstanding Canadian Spirit stock. Sorensen forked over $1.2 million in the same equity raise, which brought in just north of $4.2 million. Toronto-based Pinetree Capital Ltd. and a Canadian Spirit director made up the balance.

The money will cover Canadian Spirit’s share of a joint venture with Canbriam Energy focused on proving up the liquids potential on the eastern portion of its Farrell Creek property. Sorensen, who has never before worked for a producer, is hopeful the campaign will help Canadian Spirit shed its status as a dry gas producer and provide some much-needed working capital in the process.

The company has identified 1,200 well locations on its lands, a monster drilling program for a six-person outfit. At $10 million a well, “that’s a $1.2 billion company that needs to do that,” Sorensen says.

It’s one reason he hasn’t given up marketing the upstart company to prospective buyers. “That’s what I think my bigger skill set is – selling things,” he says. He pauses. “As long as you’re not selling something that’s not real, I suppose.”

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