



LNG SUPPLIES FOR ASIAN MARKETS (LNGA) 2019

*From Regional to Global: Convergence of LNG Markets and
Implications for Asia*

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Deals Among US LNG Developers' Innovations

Smaller developers of US LNG projects are offering innovative contract terms to fend off fierce competition from major portfolio players, which can sanction their projects without having long-term sales contracts in place.

To differentiate itself in a market increasingly dominated by Western majors and big trading houses, one US developer is offering Brent-linked contracts in response to buyers' needs, marking a shift from the familiar US Henry Hub-linked contracts (IOD Mar.7'19).

"Offering Brent-linked contracts will expand our commercial options to a wider market," NextDecade CEO Matt Schatzman told Energy Intelligence on the sidelines of the LNG Supplies for Asian Markets conference in Singapore (WGI Feb.27'19).

NextDecade, which is planning the \$15 billion, 27 million ton per year Rio Grande project in South Texas, would be selling LNG on a freeonboard basis. Unlike well-heeled majors like Royal Dutch Shell or Exxon Mobil, smaller private US players need to sign longterm contracts with buyers in order to secure project finance.

The company has offered the Brent-linked option since last summer after getting feedback from buyers in Asia and Europe, which are unable to pass on Henry Hub pricing risk to their downstream markets, Schatzman said.

One reason why Brent indexation might work for NextDecade is that it would be sourcing its gas from the Permian Basin and Eagle Ford, where there is abundant, cheap associated gas produced from booming oil output.

"The first wave of US projects was driven by shale gas. The second wave will be driven by tight oil whose economics is driven by oil, not gas," he told the conference.

Due to flaring restrictions, Permian oil production would be limited without incremental gas demand on the Texas Gulf Coast. The Permian Basin will produce more associated gas than the mid-to-lower

Texas Gulf Coast can absorb, and natural gas takeaway capacity will remain constrained, he said.

Schatzman said NextDecade has been in talks with Permian producers for buying gas at Brent-linked prices based on "creative structures" and would sell Brent-linked LNG contracts like any traditional Brent-linked contracts outside the US with take-or-pay provisions.

"What will differentiate us is we will also offer 100% destination flexibility and no revenue sharing requirements," he said.

Schatzman expects NextDecade to sign its first binding deal by the end of this month but would not say if it would be a Brent-linked deal. He expects Brent-linked contracts to constitute a "material portion" of the first phase of sales, but NextDecade will continue to offer indexation to US hubs like Henry Hub, Waha and Agua Dulce.

The idea of buying oil-linked gas in the Henry Hub-driven US market is unprecedented. But the Brent-linked LNG offering has been met with interest from rival US developers, some of which have also explored such an option.

"It's not easy to find a producer which can accept Brent pricing, many would prefer Henry Hub unless it is a major such as Chevron or Exxon Mobil, which have been flaring a lot of gas," a source with another US project told Energy Intelligence.

Meanwhile, progress in US-China trade talks is making US developers generally more upbeat about selling gas into the world's fastest growing market after Beijing introduced tariffs on US LNG (IOD Mar.7'19).

"The impact of the trade war is on timing ... we have not seen any impact on buying interest," said Schatzman, who expects deals to get signed once both countries iron out a deal. NextDecade, which has an office in Beijing, is targeting a final investment decision (FID) for the first three trains at Rio Grande at the end of the third quarter, with startup in 2023.

Another US developer, LNG Ltd., which is planning Magnolia LNG in Lake Charles, is offering LNG on a free-on-board basis with a lower linkage to Henry Hub.

CEO Greg Vesey told the conference that it is offering deals at 113% to Henry Hub plus a fixed liquefaction fee, rather than the usual 115% linkage first introduced by Cheniere.

"We have recently applied to [US regulators] to upsize our plant capacity from 8 million tons/yr to 8.8 million tons/yr, which allows us to offer a better market price," he said.

Following the recent sanctioning of the Golden Pass project, the next FID for a US project is expected to be Venture Global's 10 million ton/yr Calcasieu Pass project. Venture Global is known to have offered lower prices than its US competitors through substantial cost savings achieved from a bottom-up approach to construction.

"We are in a delicate period of time now," said chief commercial officer Tom Earl. He said an FID is

expected "soon," and the company is now in talks with financiers ahead of the FID (OD Feb.25'19).

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