

LNG 17 SCHOLARS REPORT

LNG 17 took place in the George R. Brown Convention Centre, Houston on 16-19 April 2013. Attending the LNG17 conference as an AGIT delegation scholar provided an excellent learning and networking opportunity. The conference is considered to be one of the premier global LNG events, and is one of the few events conducted specifically by the LNG industry for the LNG industry. The event brings together Upstream Exploration & Production companies together with Buyers, Sellers, Traders and Suppliers. There is no doubt that this is the place to do business in LNG.

The conference mood was one of optimism for the growth of LNG over the period 2010 – 2030 with recognition of the considerable challenges facing the growth of the industry. Some of the key themes covered by the conference include:

- **Gas at the heart of a sustainable energy future:** A clear message from most of the speakers was that gas is at the heart of a sustainable energy future and LNG demand is expected to double by 2025, with the main growth coming from the Middle East, Asia and South America
- **US LNG Supply:** The US Department of Energy (DOE) is evaluating 200 mtpa of applications to export LNG to non free trade agreement (FTA) countries. The DOE is moving as fast as it can on the approvals but has also said that it will not be rushed as getting it right is important for the long term. DOE approval is unlikely to be the only deciding factor in whether all of the US projects go ahead and commercial considerations (market demand, cost competitiveness, financing, etc.) are likely to also put upper bounds on the amount of LNG that will be economic to export.
- **Additionally, LNG supply/demand** estimates indicate that 150 mtpa of new LNG is needed to take final investment decision (FID) by 2020 to be in production by 2025. Cost of new projects is critical to whether new projects will result in cheap gas. Keeping new LNG supply costs down is a real challenge for the industry. Over the short term it will be difficult to see a number of new projects reaching FID with Buyers seeking lower cost LNG at the same time as projects are grappling with the challenge of the high cost environment.
- **LNG Pricing:** There was much discussion about whether the arrival of Henry Hub priced LNG into Japan will have an impact on LNG pricing in Asia and whether the global model for LNG pricing is changing. Several speakers noted that even though Henry Hub pricing was being sought as a new benchmark for LNG pricing it does not necessarily mean lower prices and US LNG will not be that much cheaper than LNG from Australia and East Africa.

Throughout the course of the week there were many networking events in which we attended. The organising committee of LNG18, to be hosted in Perth on 12 – 15 April 2016, hosted a small cocktail party on the second evening of the conference. The function attracted some of the industry's most prominent figures. Grant King, CEO of Origin and director of the LNG18 Executive Committee, welcomed attendees and discussed the background of how Perth won the opportunity to host the conference. Australia and Qatar were in a two horse race to host the conference. Prior to the announcement the international football federation announced that Qatar had won the opportunity to host the 2018 World Cup. This announcement made the executive slightly nervous about our bid for the conference but when Australia was announced as the winners it made it all the sweeter.

The Honourable Gary Gray, Minister for Energy, followed and made a sincere tribute to the Honourable Martin Ferguson for all his hard work in positioning Australia to be one of the world's largest LNG exporters. He then followed to outline his vision for Australia to be a center for engineering and technology excellence in LNG. The honorable Bill Marmion, Minister for Mines and Petroleum; Housing, Western Australia, followed with a discussion of the opportunities for Western Australia related to hosting such an event.

After a busy week of back to back conference sessions, peer meetings and a plethora of social events, the crowds were thinning by the final day of LNG 17. For the more resilient delegates or at least those who had left the House of Blues before closing on Thursday evening –the final day of LNG 17 delivered some valuable insights into emerging LNG commercial arrangements in the United States.

In traditional LNG projects, LNG suppliers (Sellers) take gas supply risk whilst LNG buyers (Buyers) take volume or market risk with both parties exposed to price risk through oil price volatility (this can be somewhat negated through S-Curve contracts). LNG projects in the United States are challenging the status quo due largely to a highly liquid domestic gas market, low gas prices and increasing supply volumes.

At LNG 17, Davis Thames – President of Cheniere Marketing provided an outline of Cheniere's commercial arrangements. Cheniere has inked LNG supply deals with Buyers where Cheniere will sell LNG for 115% of the U.S. benchmark Henry Hub prices plus a fixed fee of \$2.25 - \$3 MMBtu. This commercial structure is effectively a tolling agreement where Sellers limit LNG feedstock volume and price risk (straight pass through to Buyer) while ensuring revenue to cover its capital investment in the liquefaction facility with Buyers having a firm commitment to pay. Buyers limit LNG feedstock volume and price risk by having the flexibility to cancel LNG offtake.

This new commercial structure has been validated by Cheniere's successful project financing for Trains 1 and 2 of ~USD4b. Securing LNG sales agreements with credit worthy buyers is one of a number of critical steps required in securing project finance for liquefaction facilities. As at April 17, 2013 there were 19 proposed North American LNG export terminals – some of which may utilise similar commercial arrangements as Cheniere. While governmental approval is not yet assured for all of these projects, their ability to secure credit worthy buyers and support from the banks will be a key discriminator in determining which projects ultimately go ahead.

The finale of the conference was the convention closing functions on the last day which started with a ceremonial handover from the LNG17 organising committee to the Perth LNG18 organising committee which included an address by Grant King (Origin CEO and LNG18 director), a traditional didgeridoo performance, as well as a children's choir singing Australian classics like Waltzing Matilda, and I Still Call Australia Home. It was then time for a more casual event, for which jeans and Texan 10 Gallon hats were actively encouraged. This started with an indoor rodeo sponsored by LNG18 which was set up in one of the convention centre halls. It was a spectacular event that included dozens of animals, bull-riding competitions, rodeo clowns, bucking horses, trick rope performance, whip cracking, team calf lassoing competition and a whole range of cowboys and cowgirls. After the rodeo, the delegates adjourned to an outdoor BBQ function held in the Discovery Green adjacent to the convention centre. As well as the buffet food and samples of Australian wine, there were also Texan attractions including armadillo racing, line-dancing demonstrations, and a

mechanical bull ride. This less formal event and atmosphere allowed for more networking and conversation with some of the thousands of delegates that you hadn't yet been able to meet previously, and was a great way to round out the convention.

by Andrew Macky (APA Group), Andrew Macphillamy (APLNG), Dean Manifis (Apache) and Phaedra Deckart (Santos).



Technical Tour through Sabine Pass LNG Terminal, from left to right: Phaedra Deckart, Andrew Macky and Andrew Macphillamy.



Dinner at one of Houston's famous steak houses: Vic and Anthony's, from left to right Andrew Stock (ED LNG 18), Andrew Macky, Dean Manifis and Andrew Macphillamy.



LNG18 Conference Exhibition Stand, from left to right Roslyn McLeod (Managing Director arinex pty limited), Dean Manifis, Andrew Macphillamy, Phaedra Deckart, Andrew Macky and Gemma Collocott (arinex pty limited).