LNG Sellers Will Go Extra Mile in Battle to Win Over Buyers (3)

2017-12-01 15:30:58.207 GMT

By Anna Shiryaevskaya and Kelly Gilblom

(Bloomberg) -- Liquefied natural gas producers are having to hone their salesmanship.

Cheniere Energy Inc., the pioneer in exports from U.S. shale, is discussing buyer requests for shorter periods, using different price indexes and delivery terms that are even more flexible and diverse than its original supply deals.

Nigeria LNG, Africa's biggest producer, is ready to consider all forms of price indexation and shipping terms, and others have similar sales pitches.

It's all par for the course as the start of new plants is seen leading to a glut, which Bloomberg New Energy Finance expects to peak at 87 million tons in 2020, about 28 percent of total demand. Attracting everything from investments for new projects to buyers for a single cargo is turning into a dog fight and a test of negotiating skills.

"When we were contracting 20 years ago the situation was different, so you cannot come with the history into the future," Nigeria LNG Chief Executive Officer Tony Attah said at the CWC World LNG Summit in Lisbon. "So, we are not rigid.''

Cheniere's first 20-year Sabine Pass contracts were revolutionary, using a formula directly linked to U.S. Henry Hub gas prices and without the traditional destination clause, meaning buyers such as Royal Dutch Shell Plc could ship the fuel to whatever market they wanted. That made sense for Cheniere, which doesn't produce its own gas but buys it on the market.

Now the Houston-based company is ready to further develop its approach to pricing cargoes and structuring contracts. It has already sold LNG to Electricite de France SA linked to the Dutch Title Transfer Facility, a European benchmark.

That may make buyers less vulnerable to swings in prices on spot LNG markets. Whereas spot LNG prices in southwest Europe ranged from $4.80 a million British thermal units to $8.50, day-ahead prices on TTF have traded in a narrower range of $4.60 to $7.30.

Buyers' Shoes

"If I put myself in the shoes of the buyer today I would really find it very difficult to find what to buy, when to buy, for how long to buy and how to price it," Cheniere Marketing Managing Director Eric Bensaude said in an interview in Lisbon.

"We are trying to see if we can accommodate additional differentiating factors that allows our customer to compete on their own market and we need to do it in light of how we can finance our trains," or production units. Nigeria LNG aims to send most of its cargoes from expiring contracts to Europe, so is open to pricing cargoes to any index its buyers want, Commercial Manager Godwill Dike told journalists at the conference. He said the company's also flexible with letting buyers sell on the cargo after they take possession, once a nearly unheard-of practice.

Another U.S. producer, Tellurian Inc., is working to reduce cost of construction its project to offer LNG free-on-board for as low as $3 per million British thermal units. That would make it possible to deliver to Europe at as low as $3.50, said CEO Meg Gentle. The company last month signed fixed-price agreements totalling $15.2 billion for engineering, procurement and construction of the Driftwood LNG plant in Louisiana.

“Sellers will continue to face challenging market and financing conditions to secure project financing under the current business environment,” said Claudio Steuer, director of SyEnergy Ltd., a Poole, England-based energy consultant. “If buyers are seeking flexibility to manage sufficiently high levels of take-or-pay supporting green-field LNG final investment decisions, there should be commercial constructs enabling buyers and sellers to find agreement.”

Other comments made at the conference:

* As LNG prices softened in 2016, demand responded this year with Pakistan, Bangladesh and other emerging markets seeking to expand in LNG, said Kathleen Eisbrenner, CEO of NextDecade Corp., the developer of a liquefaction project in the U.S.

** NextDecade intends to be leader of second wave of LNG exports with low-cost production from the U.S. once its Rio Grande project starts by end 2022-2023

** Co. sees project as “the most cost competitive’: if FID is taken on 2 trains, engineering, procurement and construction costs would be $500 per ton, costs for 3 trains would be $450 dollars per ton

* “Challenge is not finding resource, resource is there,” said Jonty Shepard, BP Plc’s global head of LNG. “We need to bring competitive supply”

To contact the reporters on this story:
Anna Shiryaevskaya in London at ashiryaevska@bloomberg.net
Kelly Gilblom in London at kgilblom@bloomberg.net

To contact the editors responsible for this story:
Lars Paulsson at lpaulsson@bloomberg.net
Rob Verdonck at rverdonck@bloomberg.net