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NATURAL GAS WEEK

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Mexican LNG Export Developer On Track for FID

As LNG export projects in the US Gulf of Mexico shift focus to brownfield expansions, a little-known scheme located on the western coast of North America is making quiet strides in advancing its three-train, 12.9 million ton per year (1.77 billion cubic foot per day) greenfield project targeting Asian markets.

Houston-based Mexico Pacific Ltd. (MPL) said it has received oversubscribed interest for its initial phase of two trains, which puts it on track to achieve a final investment decision (FID) in late 2021 or early 2022. Each train has a capacity of 4.3 million tons/yr.

The project has garnered nonbinding memorandums of understanding for 10 million tons/yr, "plus additional commercial interest," MPL's CEO Douglas Shanda told Energy Intelligence. "We are currently in an oversubscribed position for the initial phase of the project."

MPL, which is backed by private equity fund Avaio Capital, sets itself apart from traditional US export projects. Unlike schemes that typically price their LNG against the benchmark Henry Hub index, MPL plans to price-link 100% of its LNG output to Permian Basin's Waha Hub, from which the project will derive its feed gas (NGW Dec.7'20).

Asian buyers are keen to diversify their pricing exposure by trying out new indexes beyond oil benchmark Brent and Henry Hub. The Alberta benchmark Aeco promises to play a key role in contracts Malaysia's Petronas negotiates for its offtake at the LNG Canada venture under construction in Kitimat (NGW May10'21).

Waha has traded at a striking discount to Henry Hub for many years, especially since shale oil drilling in the Permian Basin began producing more associated gas than takeaway pipelines could handle precipitating bouts of negative pricing (NGW Dec.3'18). However, the price differential has narrowed considerably as new takeaway capacity opens.

Shanda said the LNG contracting market has gained more urgency since the beginning of this year. "Buyers are willing to skip the MOU process and move straight into SPA [sales and purchase agreement] negotiations," he said. "Customers are becoming increasingly concerned about congestion at the Panama Canal."

MPL's location at Puerto Libertad in Sonora will allow cargoes from MPL to bypass the Panama Canal. Shanda said reducing that risk adds to a general West Coast locational advantage that also shortens transportation time by 11 days compared to Gulf Coast projects. This provides a lower landed price for Asian customers as well as reduces the environmental impact of cargoes due to shorter transit times at sea.

MPL expects its cargoes would take around 13 days to reach Japan and shipping costs would be about 45% lower than shipping from the US Gulf Coast.

Underscoring progress of its work so far, MPL earlier this year awarded a front-end engineering design contract to TechnipFMC and selected Japanese bank Mitsubishi UFJ Financial Group as its financial adviser.

MPL, however, is still waiting to receive an export permit, which had been expected in the first half of this year. Shanda said the permit is currently with the regulator.

Sempra's Energia Costa Azul project -- the only liquefaction project to be sanctioned in 2020 -- was awarded its export permit after it agreed to Mexican government demands that it first mop up a regional gas surplus. Shanda said MPL plans to open talks with state power utility CFE, which has also signed contracts for unneeded gas and is decommissioning a CFE gas-fired plant in Puerta Libertad fed by the Sonora Norte pipeline that will feed MPL.

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