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Mexico liquefaction project boosters urged to seize moment amid Platts JKM bull run

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HIGHLIGHTS

Location, cheap feedgas incentivize further build-out

Pipeline infrastructure, investment needs among hurdles

A fourfold jump in spot Asian LNG prices over 12 months has created a window for developers of new liquefaction projects on Mexico's Pacific Coast to build commercial support.

With several proposed US and Canadian liquefaction terminals stalled, delayed or scrapped, now may be a moment to seize for Mexican projects, many of which would rely heavily on cheap American feedgas and benefit from a shorter route to the key East Asia import market. The locations along the West Cost also would allow for offtakers to bypass the persistently congested Panama Canal.

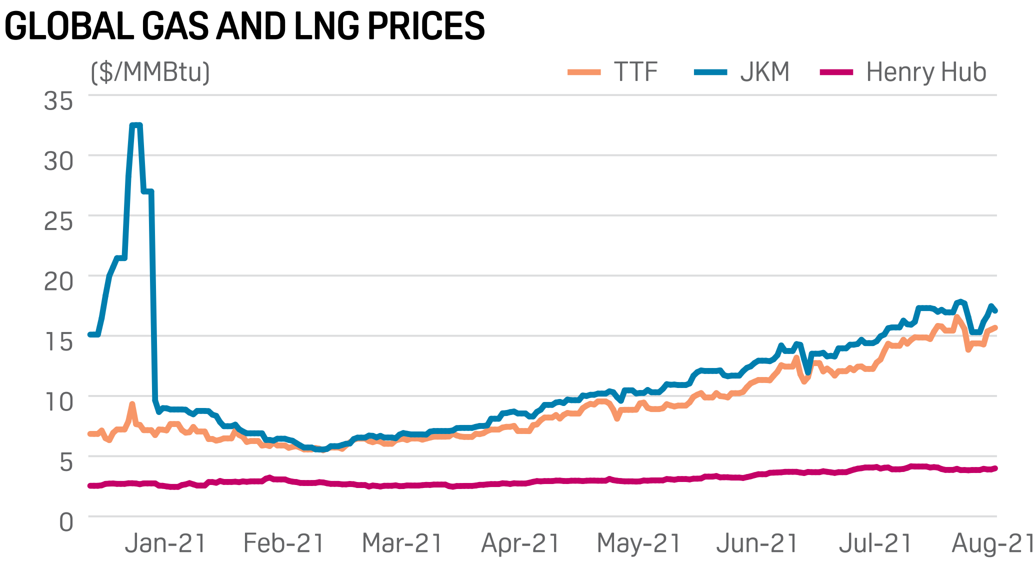
A Platts JKM forward curve that suggests moderating end-user prices in early 2022 could narrow that opening, as could regulatory, political and pipeline infrastructure investment considerations that exist even after meaningful energy reforms the country has implemented over nearly a decade.

There is currently one major LNG export terminal under construction in Mexico, Sempra's liquefaction project at its Energia Costa Azul facility in Baja California, along the country's Pacific Coast.

Among the developers that want to add their own export facilities: Mexico Pacific Limited, which has proposed an up to 12.9 million mt/year facility at Puerto Libertad in Sonora, and Sempra, which is looking to develop a second project called Vista Pacifico at Topolobampo in Sinaloa. The Mexican government heralded a proposed export facility in Salina Cruz, also on the Pacific Coast, though some experts have suggested that project is not currently feasible because of the inability to source sufficient feedgas supplies.

MPL said in late January that it was in advanced discussions with customers in South Korea, Japan and China about purchasing supplies from the proposed facility and was on track to start closing binding agreements around the middle of the year. While that time frame has already passed without any announcements, commercial talks continue to have "great momentum," the developer's chief commercial officer, Sarah Bairstow, said in an email Aug. 26 responding to questions.

"There is significant interest in our project due to our fundamentals, as we offer the lowest North American landed LNG price into Asia, given our strategic North American West Coast location, which provides a shorter shipping route as well as the ability to avoid the Panama Canal transit, which is very attractive to Asian customers," Bairstow said.



Source: S&P Global Platts Analytics

MPL, which is catering mostly to utilities and other end-users, now has preliminary agreements with six counterparties covering 14 million mt/year of supply, Bairstow said. That is an improvement over figures the developer provided in January. Another four potential customers, representing an additional 8 million mt/year of supplies, have moved talks to the purchase agreement stage, she said.

The project still needs an export permit from the Mexican government.

Despite Mexican regulatory processing time frames having been suspended due to resurgence of the coronavirus, MPL's permit application is progressing, Bairstow said. The company is optimistic it will receive the permit in the coming months, she said.

MPL had previously expected an FID on the first and second phase of the project by the end of 2021 or in early 2022. Bairstow said in the Aug. 26 email that current FID timing is focused on early 2022.

Hurdles remain

Even with the positive outlook from some developers, infrastructure projects will find hurdles in Mexico in the near future, said Rosanety Barrios, an independent consultant in Mexico City.

On the one hand, the sudden changes to the regulation made by the government based on ideology have increased uncertainty and threatened the viability of projects, Barrios said. The recent changes in the rules for imports and exports are an example, she said, referring to the cancellation of a fuels terminal in Manzanillo by Sempra's Mexico unit, IEnova.

On the other hand, any LNG export project will realize that Mexico does not have excess gas as the current government claims. The current gas pipeline infrastructure was designed to meet the expected future demand in the country, not for export. And Mexico will need increased amounts of imported gas, as the national production declines, industry experts say.

The current demand is 6 Bcf/d but climbed to 7 Bcf/d during the summer, an all-time high. This is very close to the maximum available capacity, which according to Barrios' calculations is close to 9 Bcf/d.

"On paper, the installed capacity is larger, but not all of it can be used at the same time," she said.

Market factors may provide the biggest driver one way or the other for the sanctioning of new liquefaction projects in Mexico.

Permian factor

S&P Global Platts Analytics estimates that natural gas production in the Permian Basin, which spans West Texas and southeastern New Mexico, will grow to 18.6 Bcf/d by 2025, an increase of 7 Bcf/d, or about 60%, from this year. Only 4.4 Bcf/d of incremental pipeline takeaway capacity is currently sanctioned over that timeline, suggesting that further expansions will be necessary to transport future production growth.

There are no major westbound pipeline expansions planned out of the Permian, which would likely be needed to support the larger 8.8 million mt/year second phase of the ECA export facility. Only the first phase has currently been sanctioned.

This year to date, utilization of Permian takeaway pipes has averaged 77%, which has allowed for the Waha cash price to increase by over $1.70/MMBtu, year on year. Despite the stronger prices, Waha continues to carry the largest discount to US Henry Hub prices in the region, further advantaging export economics from ECA LNG versus the US Gulf Coast, Platts Analytics data shows.