

INTERNATIONAL OIL DAILY®

SPECIAL REPRINT REPRODUCED WITH PERMISSION BY ENERGY INTELLIGENCE FOR MEXICO PACIFIC LIMITED.
COPYRIGHT © 2020 ENERGY INTELLIGENCE GROUP. UNAUTHORIZED COPYING, REPRODUCING OR DISSEMINATING IN ANY MANNER,
IN WHOLE OR IN PART, INCLUDING THROUGH INTRANET OR INTERNET POSTING, OR ELECTRONIC FORWARDING EVEN FOR INTERNAL USE, IS PROHIBITED.

Buyers Line Up for Mexican LNG Amid Pandemic

Despite the Covid-19 pandemic, LNG project developer Mexico Pacific Ltd. (MPL) says it may sanction two phases of its export project in 2021 having received strong interest from buyers.

MPL Chief Executive Douglas Shanda tells Energy Intelligence in an interview that it could potentially secure sales agreements with up to eight buyers -- four deals are in place with another four provisional deals signed. "The commercial interest is driving us towards sanctioning two phases with a total capacity of 8.6 million tons per year ... this is likely," Shanda said, adding that the buyers were a mixture of Asian firms and international oil companies.

Houston-based MPL is planning a three-phase 12.9 million ton/yr LNG project at Puerto Libertad in Sonora, western Mexico. Initial plans target a final investment decision (FID) on the first 4.3 million ton/yr phase. Backed by private equity funds Avaio Capital and Tortoise Capital, MPL is led by a team of industry executives with LNG experience. Shanda was previously senior vice president of operations at Cheniere and oversaw the US' first LNG export terminal at Sabine Pass.

Unlike rival schemes in the US which need to conduct front-end engineering and design (Feed) work first before applying for permits, Shanda said MPL had secured all permits except an export permit which is due in the first half of 2021.

TechnipFMC will complete Feed work on MPL's project at the end of the third quarter or early fourth quarter of 2021. A lump-sum turnkey contract will be signed in the fourth quarter. "Being in Feed now means we can look at ways to operate the plant with greater efficiency and lower emissions to reduce our environmental impact," Shanda said. An FID is slated for late 2021 or early 2022, with first gas in the second half of 2025.

"We are incredibly competitive against [the] US Gulf Coast projects," Shanda said, insisting that MPL can also compete with lowest-cost gas supplier Qatar. MPL's project location on the western coast of North America means it can ship LNG directly to Japan, South Korea and China across the Pacific Ocean, bypassing the Panama Canal where increasing US LNG exports have led to concerns over congestion and delays for buyers.

MPL believes its geographic proximity means it would shave about 45% off shipping costs compared with exports from the US Gulf of Mexico. It would take around 11 days to ship to Japan, compared with at least 20 days from the US Gulf Coast.

Shanda views the recent FID taken by Sempra for its Energia Costa Azul (ECA) project at Baja California as good news for its project (LNGI Nov.17'20). "It's a great indicator for investors and buyers how the administration views LNG projects. They value them incredibly."

MPL has not received any conditions from Mexican President Andres Manuel Lopez Obrador who had said it would only grant an export license to Sempra's ECA project if it helped to offset the natural gas oversupply in the area. Sempra had waited for over a year for clearance (LNGI Nov.13'20).

Shanda insisted the government has been very positive toward MPL's project. "The government likes private investment which does not compete with state-owned companies and can support the socioeconomic goals of the country."

MPL plans to engage state power utility Comision Federal de Electricidad (CFE) which has signed contracts for natural gas that were not needed. "We have not started discussions yet but we are looking to engage CFE since we will be a big buyer of gas," Shanda said, adding MPL is open to buying gas from anyone as long as it's priced against the Waha hub in the Permian Basin.

MPL is offering long-term LNG contracts indexed to Waha, a key differentiating factor from US schemes which are selling LNG priced against US benchmark Henry Hub.

Waha, which is now trading at a discount to Henry Hub, is a relatively unfamiliar gas index for most Asian buyers. But Shanda points out that some Asian buyers already own upstream assets in Texas and have become more familiar with Waha and the US gas market. It has become more familiar compared to 10 years ago when Cheniere started to bring in Henry Hub-indexed contracts, he notes.

Clara Tan, Singapore