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Market Drivers and Floating LNG Regas Projects

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Overview and Observations

- The significant growth in the number of floating LNG regasification (FLNG) projects should be considered in the context of the relative supply and demand for energy, and the relative cost and efficiency of developing primary or alternative energy supplies
- Forces driving the development of FLNG are many and varied
- The liquidity and development of the global LNG market will be an important factor for the future of FLNG

LNG: State of Play (1)

- Significant growth in LNG market from 1970s
 - near doubling of demand every 15 years
 - LNG delivered in 2014 - 240 MTs
 - expected LNG delivery in 2030 - 500 MTs
 - most new supply not yet sanctioned
 - expectation that gas will dominate in OECD by 2030 (31%)
 - China & non-OECD to account for 50% of LNG by 2035

LNG: State of Play (2)

- However -
 - current deviations from recent past trends
 - abundance of supply (US, Qatar, Australia, PNG)
 - new supply: Russia, East Africa, Australia, PNG, US & Canada
 - softening demand in certain key markets (China, Korea)?
 - Asian prices down from recent record highs
 - relatively low market share in EU
 - continued pressure from coal, nuclear, gas, renewables

LNG: State of Play (3)

- Changing drivers
 - technology and innovation, opening supply
 - aggregation of demand, creating leverage?
 - decline in oil price has multiple effects
 - reduces oil-linked contract prices, spot prices
 - reduces break-even cost for new projects
 - increased scrutiny on E&P and Project FID
 - potentially shortening LT supply?
 - LT cycle and impact on market?

FLNG: State of Play (1)

- Impressive growth and flexibility from inception
 - 2005: first FLNG project - US Gulf Coast
 - 2007-10: new US projects, all subsequently suspended
 - 2008 - present: waive of FLNG projects
 - 2015: 20 FLNG projects implemented
 - IGU reports 34% increase in capacity from 2012 to 2013 (to 44.3 mtpa), with another 20 mtpa implemented in 2014, with another 100 mtpa authorised

FLNG: State of Play (2)

- Drivers:
 - relatively low capex
 - relatively fast start-up
 - flexible: purpose/function, short, medium or long term
 - innovative: capacity & efficiency (cost)
 - reliability
 - potentially a game changer

FLNG: State of Play (3)

- Competing forces & issues
 - alternative sources & uses of energy (impact of US shale)
 - competition from oil, nuclear, (piped) gas, renewables
 - long term vs. short-medium term focus
 - availability, terms and price of LNG
 - developing countries and new player issues (eg, credit)
 - Govt policy - energy security vs. other national issues

Some Observations

- As a component of the LNG market, all matters impacting LNG are potentially relevant to FLNG
 - Government policy
 - sources and use of energy
 - availability and price of LNG
 - availability and price of alternative fuels
 - local political, economic, legal & regulatory issues

Conclusions

- Taking into account the above factors, including the relative supply and demand for energy and the relative cost and efficiency of existing or alternative energy supplies, the significant growth in the number of FLNG projects demonstrates the relative viability of this new and growing sector of the LNG market
- LNG market dynamics and local political, economic, legal and regulatory factors are critical - case by case basis
- Viability of any FLNG project will depend on careful coordination of LNG purchase and gas supply obligations and FLNG project issues

Thank you!

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