

Commonwealth LNG tries new approach to contracting

Commonwealth LNG is prioritising flexibility in its newly launched tender for offtake from its planned facility in Louisiana

PROJECTS & COMPANIES

WHAT:

Commonwealth LNG has launched a tender for supplies from its planned terminal, and is offering a variety of options to customers.

WHY:

Flexibility has become increasingly important in the LNG market, and Commonwealth hopes to capitalise on this.

WHAT NEXT:

The company is targeting an FID in early 2022.

THE LNG market is evolving as new sources of supply allow buyers to enjoy greater flexibility in terms of how they obtain their volumes. Sellers, meanwhile, are faced with growing competition and are trying to adapt to this. A tender announced by Commonwealth LNG this week for offtake from its planned export terminal in Cameron, Louisiana illustrates these dynamics.

Commonwealth is proposing to build an 8.4mn tonne per year (tpy) liquefaction facility. It is one of a number of proposals for terminals on the US Gulf Coast on which a final investment decision (FID) has yet to be taken, and the company is seeking to secure offtake agreements. It launched the tender in association with commodity trader Gunvor Group, which struck a marketing and gas supply agreement with Commonwealth in 2019. Under that agreement, Gunvor committed to supporting Commonwealth in securing binding LNG offtake and gas supply agreements for the full capacity of the liquefaction plant. It also committed to taking up to 3mn tpy of LNG offtake from the facility itself.

Flexible options

Now, the partners are moving forward with plans to find other offtakers. In its statement, Commonwealth noted that the tender would be the first of its kind, allowing prospective LNG

customers to secure future term supply at volumes, pricing and durations of their own choosing through a competitive bidding process.

“LNG will be made available under tolling, free on board (FOB) or delivered at place (DAP) offtake agreements to match customer preferences,” Commonwealth stated. Company officials added that a different approach was warranted in response to market changes brought about by the coronavirus (COVID-19) pandemic.

Under the plan, Gunvor will be able to offer DAP basis to those customers that prefer this option. The companies added that using Gunvor’s LNG portfolio would help mitigate the supply risk traditionally associated with a greenfield project, and would allow for deliveries of LNG prior to the start-up of the Commonwealth plant if buyers require earlier supplies.

“The flexibility Gunvor can offer both in terms of early bridging volumes and firm DES/DAP contracts differentiates Commonwealth from other developing LNG projects,” stated Gunvor’s co-head of LNG trading, Kalpesh Patel.

LNG suppliers have largely struggled to sign offtake agreements in recent months, faced with intensifying competition in a market where buyers have been increasingly able to shop around for the best option available to them. ▶▶





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“Clearly flexibility in contract terms is a significant benefit of this tender structure,” Jason Feer, the head of business intelligence at LNG advisory firm Poten & Partners, which is managing the tender process, told *NewsBase*. “Many sellers are trying to find ways to offer more flexible terms. However, Commonwealth has an advantage because its costs are lower than many other US projects and that enables it to offer liquefaction fees that are lower than many other projects,” he said. “Tenders have been used in many other segments of the LNG business, including short-term supply, import terminal capacity and pipelines, among others. We believe this is a mutually beneficial model because it is faster in terms of project development and offers more certainty to buyers and seller.”

Demand spike

Commonwealth’s tender comes as spot LNG demand and prices in Northeast Asia have soared to record highs at the start of this year. This has been attributed to a combination of factors, including colder-than-expected winter weather, supply outages in other parts of the world and shipping delays, among others.

Spot prices for cargoes to be delivered in March are already down on those set to be delivered in February on expectations of warmer weather and some of the other issues being resolved. However, it appears that the spike is causing some buyers to plan more carefully for

the future in an effort to avoid running into similar situations further down the line.

“We are seeing rising interest among buyers in securing long-term supply,” Feer said. “I think the winter price spike has shown buyers that relying too heavily on spot supply can be risky. The assumption that buyers can always get a spot cargo has been tested this winter and several buyers have been unable to get cargoes when and where they needed them,” he added. “At the same time, the US surge is running its course and we don’t expect to see much more supply coming online for a couple of years. Buyers understand that and we believe that many are beginning to engage more actively with suppliers.”

Commonwealth and other would-be LNG developers on the Gulf Coast are now hoping to take advantage of these shifting dynamics as a new race to reach FID picks up. Indeed, some are currently targeting 2021 for taking FIDs on their terminals, but Commonwealth is aiming for the first quarter of 2022. If this deadline is met, its first cargo is anticipated in the second quarter of 2025. Commonwealth said it would be implementing a predominantly modular approach, with major components being fabricated offsite. The company expects this approach to help speed up the construction process, as well as enabling the project to offer what Commonwealth describes as “one of the most competitive LNG sales prices from the United States.”

And if construction falls behind schedule, Gunvor’s ability to offer LNG prior to start-up could prove useful. ♦

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