Gas Strategies

FLNG has democratised liquefaction and is no longer the preserve of IOCs

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Executive summary

- Floating LNG (FLNG) solutions are highly applicable to independents and national oil companies (NOCs) holding stranded and associated gas resources, perhaps of smaller scale or in challenging geographies
- Attention has moved to how FLNG can be used to capture value from different types of gas resources in different settings. The speed and cost advantages of the technology are proven
- FLNG has lowered the barrier to entry even further and is democratising the LNG industry just as the phenomenon of US gas liquefaction achieved 10 years ago
- Success in FLNG will be achieved through a project development mindset, whole value chain thinking and the creativity to explore innovative commercial structures. With the right approach there is no reason why the benefits of FLNG cannot continue be reaped by all resource holders, not just international oil companies (IOCs)

Not the full story

"Floating gas plant off Africa proves breakthrough for European supply", claimed the Financial Times on Friday 20th February. The article was not only a validation of our recognised position that floating LNG (FLNG) is now established and here to stay, it was also an exceptional profile piece for Eni.

From this Financial Times article, a reader could be forgiven for believing that Eni is the only player of consequence in the field, or indeed that the record breaking 18 Mtpa Argentina LNG project is not being led by YPF as a new entrant to LNG. Unsurprisingly, the article played the potential of FLNG back into the hands of international oil companies (IOCs). It does not do justice to the fact that FLNG so strongly enables new entrants to LNG through lower costs and an alternative risk profile. We see this opportunity opening up for new entrants, whether they be national oil companies (NOCs) or independents sitting on often smaller or niche resource opportunities and we are supportive to them.

FLNG is not just a game-changer in cost profile. It has the potential to open access for monetisation of gas through global LNG for the benefit of countries and resource holders, without the dependency on the uncertainties that capital management within IOCs has brought in the past and does so now increasingly.

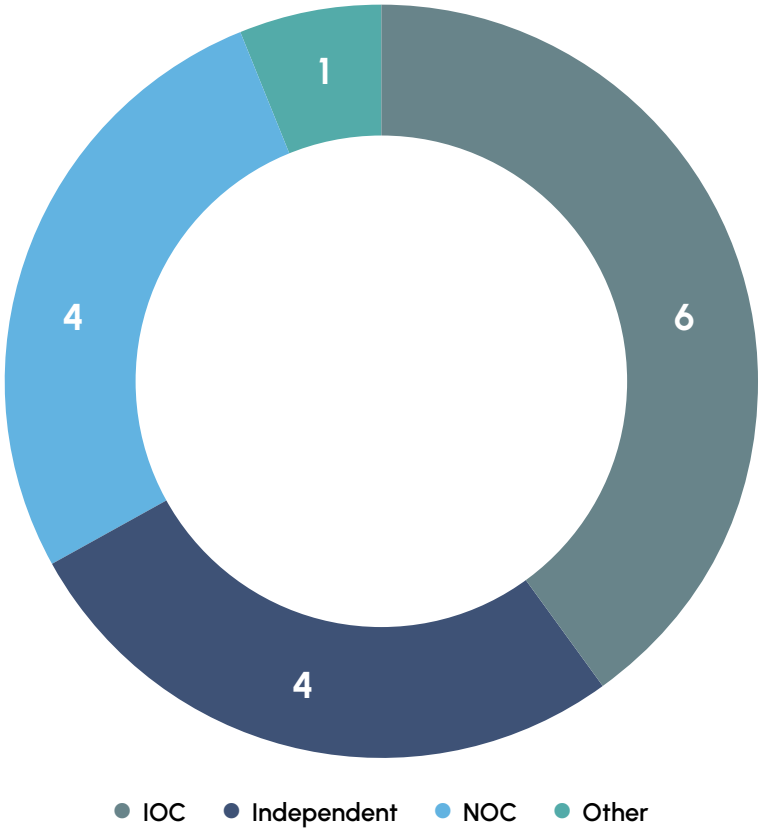
The Financial Times states that FLNG technology is being brought towards the mainstream but with eight vessels successfully operational we argue the industry has matured and is evolving fast.

Further democratisation of LNG

The phenomenon of US gas liquefaction and export created a new lower cost (at its inception at least) lower financial covenant and flexible (without destination restrictions and with cargo cancellation rights) model for LNG buyers from an industry which had been conservatively controlled by IOCs for its first 50 years.

Our **Viewpoint: FLNG is redefining gas monetisation**, published just last year aptly put it: the barriers to entry have been lowered yet again. At Gas Strategies, we believe FLNG is the next major step change in the evolution of the LNG industry. As we explored in a previously published Perspective, FLNG is increasingly becoming a simpler, scalable, and lower cost solution. With 15 projects sanctioned to date and a spate of pre-FID projects upcoming, FLNG is no longer viewed as the technical option of last resort. It is mainstream, and its benefits apply equally to onshore and offshore resources. Moreover, we now see FLNG driving further innovation in the industry through unconventional project sequencing and an emphasis on fast-tracking.

Figure 1: **Traditional liquefaction project development schedule**



Space for all

IOCs have led six FLNG projects to final investment decision (FID) but non-IOCs have sanctioned nine, Figure 1. Precedent shows that any resource holder with sufficiently low cost feedgas and the right project development mindset and skills can leverage FLNG technology. Notable independents successful in FLNG include Perenco and participants in the Southern Energy SA project: Pan American Energy, Pampa Energia and Harbour Energy. Perenco has developed two FLNG projects, its first being the Kribi project (Cameroon) sanctioned in 2015 using the Golar Hilli and its second being the Cap Lopez project (Gabon) which reached FID in 2022. Meanwhile, the Southern Energy SA project (Argentina), is set to become one of the fastest projects ever with first LNG anticipated just 30 months after FID.

Also pursuing FLNG are a diverse range of players with access to pipeline gas. The Cedar LNG project in Canada, for example, is being developed as a joint venture comprising Haisla Nation, an indigenous-owned company, and Pembina Pipeline Corporation, a listed midstream infrastructure company. Key to this project was the management of diverse stakeholders and socio-economic concerns in Western Canada, neither of which are topics on which IOCs can claim unique prowess.

Project developers with less internal LNG capability and weaker balance sheets are more likely to lean on FLNG service providers, as the SESA partners have engaged Golar LNG. The FLNG service providers, typically shipping players and shipyards, are increasingly influential. They can offer vessel leasing models and operating capability as well as project development expertise and possibly even access to financing. They often bring a shrewd commercial mindset and a greater appetite for risk which can offer simplification, of course at a cost.

Being a successful new entrant

FLNG project developers face many of the same challenges as stick-build projects, namely constructing robust and financeable value chains and building confidence with offtakers. In this, IOCs are advantaged with large balance sheets and relatively low borrowing costs as well as existing credibility with offtakers and possible ready LNG portfolios to absorb supply. However, as highlighted above, IOC involvement is not a prerequisite for FLNG project success. In fact, more nimble players, possibly pursuing smaller-scale projects, can be advantaged.

As we approach peak LNG, as early as 2035 in Gas Strategies' Reference Scenario, successful liquefaction projects will be increasingly characterised as low capital cost, smaller in scale, with a shorter lifespans and perhaps location advantages too. These traits are synonymous with FLNG. The majority of existing vessels have throughput capacities between 2 to 3 Mtpa and shipyards are comfortable engineering to these specifications with storage capacities of ca. 180,000 m^3 to match the modern LNG carrier fleet. A 2 to 3 Mtpa offtake can also be taken by a single offtaker providing the flexibility necessary for FLNG without materially impacting large portfolios – a 'sweet spot' in a market fearful of oversupply and peak LNG.

Many of the potential resource candidates for FLNG development held by independents are associated gas and necessitate the successful renegotiation of production sharing contracts. Consequently, aspiring FLNG developers face the challenge of not alone establishing credibility and the right commercial terms with offtakers, but also of securing corresponding attractive fiscal terms with the host country. And achieving both together on a basis that makes for a financeable project.

An incremental approach to these seemingly separate elements of the value chain, while technically rational, inevitably leads to significant delays in development. As we have seen in some pre-FID projects still undergoing a long gestation. With LNG market outlook making time to market of the essence, some proven approaches taken by stick-build projects can be helpful.

Projects that succeed in LNG most often do not start with the technical, but with commercial structure. Then comes credibility, and then derisking. The commercial structure establishes the challenges of alignment between fiscal; offtake commercials; resource scale, reliability and cost; FLNG vessel provision; and financing. The interdependencies are addressed and rationalised upfront, with visibility that provides confidence to stakeholders and translating complexity into something different stakeholders can understand and trust.

Within such an approach non-IOCs (and IOCs) can build robust value chains from the upstream resources all the way through to offtake, and including employing innovative commercial structures and partnerships to do so. Inter-related workstreams can then be progressed in parallel, i.e., taking decisions across technical, commercial and financing streams considering the full value chain in order to avoid commitments in one part of the chain which erode value elsewhere and are later regretted.

Successful LNG project developers excel in stakeholder management. Building a strong value chain requires aligning all stakeholders, extending beyond project partners, service providers and offtakers, to include local communities, government and domestic market players. While IOCs may bring intense lobbying and country-level strategy, NOCs and regional players can benefit from a more nuanced understanding of the stakeholder landscape and core value drivers.

Gas Strategies value

Our clients value our partnership in the structuring, development and marketing of LNG projects because we bring an intimate understanding of the market and the considerations made by LNG buyers as well as project financiers. Our people have stood in your shoes and continue to do so as advisors to a diverse range of LNG projects around the world, bringing understanding of the role and requirements of all stakeholders necessary to make a successful project development. We have to date supported clients on seven FLNG projects, several of which have already reached FID, and have further engagements 'in flight'.