The Demise of Joint Marketing and Rise of Equity LNG?

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Joint project sales has been the traditional LNG model

- Original commercial structure of the North West Shelf Project illustrates the joint LNG sales model
  - Structured such that the LNG produced by the Joint Venture (JV) was marketed by the JV as a single seller with multiple buyers.
  - Lifting in SPAs – no separate agreement
  - Balancing in joint account management
With the emergence of equity lifting, inventory allocation was required as a separate link in the value chain

- For an integrated LNG project with equity lifting a third party is established to act as the controller for allocating cargoes
  - This is typically done by an administrator known as a Lifting Coordinator (LC).

- Separate lifting and balancing agreement

[Diagram: Equity LNG Lifting Structure]
In equity lifting the lifting coordinator acts as an intermediary between the project and lifters

- Managing the allocation of inventory in an LNG equity lifting structure is critical to govern the behaviors of equity lifters in the JV
  - Smaller JVPs in particular want to understand when their cargoes will be available to manage their cash flow.
LNG cargoes are allocated to the equity lifter as its inventory position builds up over time

- In equity offtake a lifter becomes eligible to pick up its LNG cargo when it has built up an entitlement to do so
  - The Annual Delivery Program (ADP) allocation is modeled by the LC prior to the lifting year and each equity lifter is issued an ADP for their equity volumes.
Multiple feedgas suppliers in the value chain brings added complexity to equity lifting and balancing

- In this scenario upstream and downstream balancing agreements must be consistent
  - Full hydrocarbon accounting required to balance the input and output of physical inventory
  - SPAs that the equity lifters have and associated ship chartering agreements need to be consistent and back-to-back.

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**Equity LNG Lifting With Multiple Upstream Sources**

- Separate lifting agreement, upstream balancing and downstream balancing agreements
Capacity holders at US tolling facilities who were new to the US market faced a steep learning curve

- LNG offtakers in tolling facilities must secure gas supplies and pipeline capacity to deliver the gas equivalent to their LNG capacity holding if they want to lift the volumes.
- Newcomers to the US market who acquired capacity in LNG tolling facilities were faced with the challenge of either:
  - Setting up an internal organisation to manage risk, gas procurement and trading, pipeline capacity procurement and trading as well as in some cases, power procurement and trading; or
  - Outsourcing this function to a third party for a management fee.

Tolling Facility Lifting Structure

- Separate lifting and scheduling agreement
- Upstream gas and gas pipeline capacity procurement the role of the offtaker
  - A coordination/cooperation agreement between offtakers also may be needed to manage gas deliveries to the Liquefaction facility.
Tollers at a US LNG tolling facilities face some of the same challenges as equity lifters at integrated projects

- The main commercial difference for tolling capacity holders in the US to equity lifters at integrated projects lies upstream of the liquefaction facility
  - In a US tolling facility, other than maintaining and operating the facility, the main task of the operator is to manage the LNG lifting and scheduling process
  - Vessels are allocated lifting slots and if a vessel arrives before or during its slot, it can berth.
Equity lifting for LNG is a proven commercial model but will not chosen for all future projects

• The establishment of equity LNG lifting has solved certain commercial challenges that can exist among JVPs in the LNG industry
  – It has allowed equity holders to have control over their own LNG volumes and has enabled projects to move forward that may have otherwise been delayed due to conflicts around marketing preferences, timing of bringing new LNG to market and/or diverging corporate strategy around LNG portfolio management

• Equity LNG lifting has made life a little more complicated for buyers and sellers in the Asia Pacific region
  – However, it has placed even greater importance on the coordination of shipping and inventory management

• In the right set of commercial and JVP circumstances equity LNG lifting makes sense and is now a proven business model for integrated LNG projects.