

Client Alert

February 2013

DOE Expected to Act on LNG Exports in 1Q 2013

Recent developments

On January 24, 2013, the initial public comment period ended for the report on LNG exports released last month by the DOE (LNG Export Study). Comments in favor of exports cited economic benefits, while opponents generally focused on environmental concerns and the potential for higher domestic natural gas prices with resulting harm to the manufacturing sector. Reply comments, regarding matters addressed in the initial public comments, are currently being accepted until February 25, 2013. After the reply comment period closes, the DOE is to consider the LNG Export Study and the public comments when it begins acting on the pending applications for authority to export to non-FTA countries, including Japan, on a case-by-case basis.

Pangea LNG project seeks export authority

One additional project in the U.S. recently filed an application with the DOE for approval to export LNG to non-FTA countries. This brings the total number of pending non-FTA applications to sixteen.

On December 19, 2012, Pangea LNG (North America) Holdings, LLC (Pangea), an affiliate of a major South Korea-based shipbuilder, applied for authorization to export up to 8 mtpa from its proposed terminal to be located at the Port of Corpus Christi, in Ingleside, Texas. Pangea's application is set to be considered after the other pending non-FTA applications, as set forth in the table below.

Summary of pending non-FTA long-term export authority applications

Order of precedence	Company (Location)	Quantity
1	Freeport LNG (Texas)	9 mtpa
2	Lake Charles Exports (Louisiana)	15 mtpa
3	Dominion Cove Point LNG (Maryland)	7.82 mtpa
4	Freeport LNG (Texas)	9 mtpa
5	Cameron LNG (Louisiana)	12 mtpa
6	Jordan Cove Energy (Oregon)	6 mtpa
7	Oregon LNG (Oregon)	9.6 mtpa
8	Cheniere Marketing, LLC (Texas)	15 mtpa
9	Excelerate Liquefaction Solutions I, LLC (Texas)	10 mtpa
10	Carib Energy (Florida / Texas)	0.06 mtpa
11	Gulf Coast LNG Export (Texas)	18 mtpa
12	Southern LNG Co, L.L.C. (Georgia)	4.0 mtpa
13	Gulf LNG Liquefaction Co, LLC (Mississippi)	11.5 mtpa
14	CE FLNG, LLC (Louisiana)	8 mtpa
15	Golden Pass Products (Texas)	15.6 mtpa
16	Pangea LNG (North America) Holdings, LLC (Texas)	8 mtpa

Total signs Henry Hub-linked LNG deal

On December 17, 2012, Cheniere announced the signing of an LNG SPA between its affiliate, Sabine Pass Liquefaction, and Total Gas & Power North America (Total), under which Total agreed to purchase approximately 2 mtpa of LNG from the Sabine Pass LNG terminal in Louisiana. The purchase price for the 20-year deal is reportedly indexed to the monthly Henry Hub price, plus a fixed component.

This deal is another step towards LNG exports from the U.S. becoming a reality (for potential effects on existing LNG SPAs, see our [November 2012 Client Alert](#)). Sabine Pass has a head start on other U.S. LNG terminals with pending non-FTA applications, having obtained non-FTA export authority in 2011. Construction of the first two liquefaction trains at Sabine Pass began last year, and the export facility is planned to commence operations in late 2015.

What is Henry Hub?

The Henry Hub is a natural gas pipeline junction in Louisiana where more than 12 pipelines interconnect, serving markets in various regions of the U.S. It is owned and operated by Sabine Pipe Line LLC, a subsidiary of Chevron (NYSE: CVX).

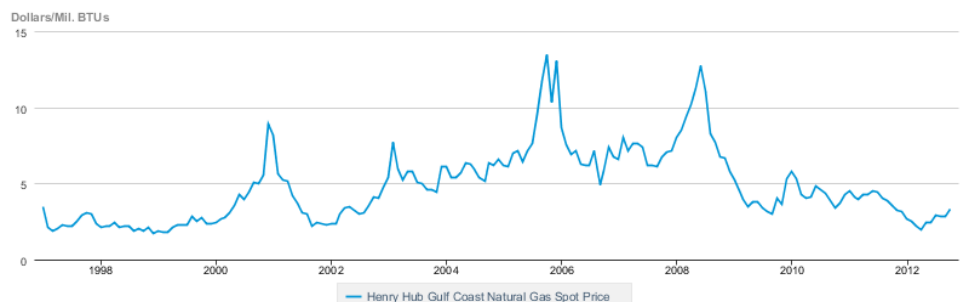
Spot and future prices at Henry Hub are widely used benchmark prices for the U.S. natural gas market.

The Henry Hub also serves as the delivery point for natural gas futures contracts traded on the New York Mercantile Exchange (NYMEX).

Hedging price volatility

U.S. natural gas prices tend to be volatile and driven by weather-related demand. Winter is the peak demand period, and disruptive weather events, such as hurricanes, can also cause price spikes.

Henry Hub Gulf Coast Natural Gas Spot Price



Source: U.S. Energy Information Administration

Various tools are used by market participants to manage price volatility, including physical and financial hedging tools.

Physical hedging tools

Storage is one of the physical hedging tools. For example, gas purchased in the summer is stored and withdrawn in the winter to avoid having to buy quantities on the winter spot market.

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Another physical hedging tool is the use of fixed price physical delivery contracts, or, more commonly in the U.S., an indexed contract where the price is tied to a published price index.

Financial hedging tools

Financial hedging tools, which do not involve the physical exchange of gas, include futures, swaps, options, and weather derivatives.

Henry Hub futures and options

Henry Hub natural gas futures (NYMEX: NG) are standardized contracts in units of 10,000 MMBtu of gas, based on delivery at the Henry Hub. NG futures can be bought or sold for delivery of gas in the future. Most trading is for delivery ranging from one to 36 months forward. The final settlement price is determined three business days prior to the first calendar day of the delivery month.

Options are also available for NG futures. The holder of an NG call option has the right but not the obligation to buy a futures contract for a certain future month at a predetermined "strike" price.

The market for NG futures is highly liquid, with daily volume averaging over 350,000 contracts per day in 2012.

METI plans to establish the world's first LNG futures market

The idea of an LNG futures market for Japan was first floated by the Ministry of Economy Trade and Industry (METI) in September 2012 during the LNG Producer-Consumer Conference in Tokyo. In November, METI announced it will hold a series of discussions with private sector representatives aiming to establish the world's first LNG futures market by 2014. The most recent session in this series was held on January 30, 2013.

Possible methods for settling futures contracts on METI's proposed LNG futures market include cash settlement or physical delivery. If the proposed market becomes active, this may help establish a price index reflecting market supply and demand, and reduce the price disparity between Japan and other regions of the world.

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