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Cheniere's 20-Year Gas Deal Brings U.S. Export Terminal Closer

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By Todd White

Nov. 22 (Bloomberg) -- Cheniere Energy Inc. signed a second natural-gas supply contract in three weeks, boosting its chances of building the first export terminal in the continental U.S.

Gas Natural SDG SA of Spain agreed to load 3.5 million metric tons of liquefied natural gas a year from Houston-based Cheniere's proposed Sabine Pass terminal in Louisiana for 20 years beginning in 2017, the companies said in statements after the market closed in the U.S. Cheniere rose as much as 12 percent in Frankfurt trading.

Production from shale fields has made the U.S. the world's largest gas producer and seen prices collapse 75 percent from 2008's highs, opening the prospect of ship-bound exports.

Yesterday's deal, following a 20-year contract with BG Group Plc, may ensure cash-strapped Cheniere gets financing to build the first phase of its $7.2 billion Sabine export terminal, Societe General said.

"Cheniere now has an incentive to build it as fast as possible," said Thierry Bros, a senior analyst for European gas and LNG at Societe Generale in Paris. "The banks will now have secured cash flow" to repay debt on the export facility.

Cheniere fell 1.9 percent to $11.48 a share in the U.S. yesterday before the news, which it called "another milestone" for Sabine. The 7 million metric-ton capacity target was met for exports, "which is expected to support the construction" of the first two export lines at the facility, Cheniere said in its statement.

Becoming Exporter

Cheniere, which originally built Sabine Pass as an import terminal, is looking to switch direction to meet Asian and European demand for imported gas. U.K.-based BG announced its contract on Oct. 26, which pushed up Cheniere's shares 69 percent that day. Standard & Poor's last month said that deal by itself probably wasn't enough to stave off a cash crunch at Cheniere that threatens its ability to continue paying interest to bondholders.

Bros said it was unlikely that the U.S. Department of Energy would try to reverse its permit for Cheniere for political considerations. That's because the pricing used in the Gas Natural deal is fixed to the Henry Hub benchmark, which is low and decoupled from oil. As a result, a rocketing crude price in the future won't tempt U.S. gas producers to stop supplying the domestic market, he said.

"BG and Gas Natural are going to buy LNG under a U.S.

price, and sell it under an oil-linked price in Asia,” Bros said. “The price in the U.S. currently is too low, even below production costs right now, and these two contracts may only raise it a little,” Bros said today in an interview.

Cash Flow

Cheniere won’t default because it will refinance its debt before a May payment is due, Chief Executive Officer Charif Souki said in an Oct. 31 interview.

The Sabine Pass terminal is set to be the first new North American export project since 1969, when exports from the Kenai terminal in Alaska started.

The contract is a landmark for both companies. Gas Natural, the biggest gas supplier in Spain and Latin America, has never imported from the U.S. and said it hopes to use its nine LNG tankers to deliver the fuel as well to Pacific destinations once the Panama Canal is expanded.

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