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Client interview: Responding to a changing energy world

By Mark Mallett, Senior Vice President, Operations & Projects, Freeport LNG

Fifteen years ago, the USA was shaping up to import a lot of liquefied natural gas (LNG) to meet a growing domestic natural gas demand. But as Mark Mallett, Senior Vice President, Operations & Projects at Freeport LNG, notes, the shale gas revolution forced a major change in how his business operates, from import to export.

Mark is quite upfront in that the company was initially a 'pop-up': "The business was started in 2002 to take advantage of a clear market opportunity. The USA required natural gas but the reserves simply weren't there. So the intention was to set up an LNG receiving and regasification terminal in Texas to handle the imports we were sure the country would need."

By the time the business started operating in 2008, the picture had changed. With the shale gas revolution, the USA – and particularly Texas – suddenly found itself with huge, previously untapped resources of natural gas. The company had to make a 180-degree turn, from import to export while retaining its commercial stability.

The combination of stability and flexibility made all the difference: "Our commercial structure is based around long-term agreements. They were designed to insulate us from the vagaries of global gas prices but have also served us well in providing the solid backbone the business needed as it transformed," says Mark.

Freeport LNG has traditionally taken a conservative approach to commercial realities and aims, as Mark puts it, "to provide a service for a fee".

Even with the advent of shale gas, it has retained those long-term, 20-year contracts without ever actually needing to turn LNG imports back into natural gas.

Now, Freeport LNG is focusing on new customers with similarly structured commercial contracts that revolve around gas liquefaction and export instead. Turner & Townsend is working with Freeport LNG on the construction of three trains of liquefaction infrastructure at the existing terminal, with a fourth currently in the planning stage. The first three trains will provide nominal export capacity of approximately 15 million metric tonnes per annum (mtpa) of LNG.

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Mark observes that the USA model has helped his business remain agile: "We aren't a producer and don't own any gas reserves ourselves, so we don't face as much country and commercial risk as the liquefaction businesses that do own the gas in places like Qatar or Australia. We can be creative and cost-effective in our structure, so our employees on the commercial side are all in-

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house while those on the project side, such as project controls and services, are primarily outsourced to partners such as Turner & Townsend.



"Our founder prefers this as it lets us take a conservative, careful approach to our commercial endeavours while a flexible attitude elsewhere. The mature energy market in the USA means we don't need to build oil and gas extraction infrastructure or be an owner of natural resources. We can sit in our niche and be an expert in the one thing we do."

The energy industry in the USA is, of course, highly regulated. Mark believes Freeport LNG's combination of smaller-business responsiveness and big-company know-how allows it to do well in that environment: "I was at ConocoPhillips for 20 years, having joined straight from college, and was seconded to Freeport LNG in 2004 before joining the now-independent company full-time in 2008.

"It's about having the structure and stability to make good decisions, which we get from our commercial approach and our relationships with vendors and regulators."

"There are a lot of people here with similar backgrounds, so we have a wealth of expertise in how to run big projects and how to hopefully avoid the dumb mistakes. We also have people who've dealt with issues and risks all their careers, so we can respond well to unexpected challenges. Not to mention we have the expertise of our business partners to draw upon. We have the commercial stability of a large company but the reaction speed of a much smaller one.

"In addition, working within such a highly regulated industry means that organisations like FERC (the Federal Energy Regulatory Commission) exist to ensure everything we do is based on a solid foundation."



This 'best of both worlds' approach may be one of the most important elements of the company's success. Mark notes: "It's about having the structure and stability to make good decisions, which we get from our commercial approach and our relationships with vendors and regulators. We can take the best from our experience of big projects, like how to manage safety risks well, but at the same time we're able to cut away a lot of the unnecessary red tape."

As a result of its responsiveness to a drastically changing market, Freeport LNG has been able to switch its business model by 180 degrees from an importer to an exporter of natural gas. It has also been able to combine big-company thinking around key areas like third party assessments with key outsource partnerships.

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As Mark says, "We have been successful in finding good engineers and construction supervisors, but 'finding a guy' for things like project controls can be trickier if you're not a global business with a constant stream of construction programmes. Our partners, have those resources and can be highly flexible in how they're provided. That fits our company ethos exactly and allows us to focus on what we're good at. Freeport LNG has one clearly defined purpose and we want to be sure it's done right every time."



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With 97 offices in 41 countries, we draw on our extensive global and industry experience to manage risk while maximising value and performance during the construction and operation of our clients' assets.

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