

INTERVIEW WITH MICHAEL SMITH

CHAIRMAN AND CEO OF **FREEPORT LNG**

Since Mitchell Energy achieved the first economical shale fracture in 1998 using slick-water fracturing, natural gas from shale has been the fastest growing contributor to total primary energy in the United States. And for many players in the gas industry, like Freeport LNG's CEO Michael Smith, the shale gas revolution came at a time when other resources were dwindling too fast for comfort. In fact, the shale gas revolution has such potential that, according to some, it could increase technically recoverable natural gas resources by almost 50%.

And it's been a real whirlwind ever since. At the beginning of this century, shale gas provided only 1% of U.S. natural gas production but, a decade later in 2010, it was over 20% and the U.S. government's Energy Information Administration predicts that by 2035, 46% of the United States' natural gas supply will come from shale gas. Both corporate America and the government see it as a win-win situation. The Obama administration believes that increased shale gas development, and the displacement of coal burning, will help reduce greenhouse gas emissions.



Michael Smith, man a Freeport





The Prospector was fortunate enough to catch up with Michael Smith and get an inside-look at the now thirteen-year-old Freeport LNG, a company that designed, built and now operates a world-class LNG receiving and regasification terminal in Freeport, Texas.

Could you start off by talking a little bit about yourself, highlighting some of your career achievements and successes?



I've been in the energy business for 33 years. I was in the exploration and production business for the first 20 years. In 1981, I started a company with a \$10,000 investment and sold it in 2001 for \$410 million. It was a good run. The first fifteen years I spent in the Rocky Mountains, primarily in the DJ Basin in the Wattenberg Field. The last five years were spent in the shallow waters of the Gulf of Mexico. After I sold the company, I took a year off. However, I soon felt

that the United States was going to be short natural gas based on the decline curves I was seeing in the shallow waters of the Gulf of Mexico, which represented 23 percent of the U.S. production at the time. I really felt that the shallow waters would deplete quickly and that gas prices would become very high.

Could you explain how Freeport LNG became a player in efforts to export liquefied natural gas?

I was presented an opportunity to do an LNG import terminal, the first one in the United States in over 20 years. That's when we formed Freeport LNG to build the regasification facility. We signed up some A-rated investment-grade companies like ConocoPhillips and Dow Chemical Company for 20-year contracts. Based on their contracts, which were take-or-pay, we built the facility. It unfortunately never ended up being used for its intended purpose because the shale gas revolution changed the world. Instead of declining production, the United States became a country of dramatically increased domestic supply. U.S. production has gone from 50 Bcf per day to over 80 Bcf per day. It's been an amazing turnaround. So, we decided to build an export facility, which is currently under construction, to take advantage of this surging source of natural gas.

With closing on financing, Freeport LNG has now completed all milestones and issued a full notice to the EPC Contractors to proceed with constructing the three-train Freeport LNG liquefaction project. Please talk more about the satisfaction this brings to you and the team involved.

Well, it's a tremendous milestone to get all three trains financed and have them all under construction—especially to have train three completed so promptly after trains one and two. The development process took far longer than it should have due to regulatory delays but we finally got the first two trains done at the end of November 2014. We were hopeful we could have train three in construction by the end of June 2015, but we did it before the end of April which is just fantastic. Closing train three that quickly allows us to have a more efficient construction schedule and allows us to bring train three online earlier than otherwise.

Could you highlight your relationship with the EPC contractor (a joint venture among CB&I, Zachry Industrial and Chiyoda International Corporation)? Why did you decide to go with these three companies?

CB&I has extensive experience in the LNG business and Zachry Industrial is the largest civil contractor in the Gulf Coast region. We have a tremendous amount of

faith and experience working with them. By bringing in Chiyoda International, who has the most experience engineering and building LNG plants around the world, it really rounds out a super team for us at Freeport LNG. It allows us to sleep at night knowing things are going to be built on time and on budget.

So, how do you manage a \$13-billion construction project?

Number one, you get the right contracting group with an EPC contract that is ironclad—like what we have. That requires the EPC contractor to have no outs on delivering us the product on time and on budget. Number two, you develop a world-class owners' rep team, which we call the project management team, who oversee EPC contractor. Our management team consists of approximately 120 professionals, engineers and safety



Control Room





3D model aerial view from dock to liquefied trains



Liquefaction Facility



personnel who have built many LNG terminals and facilities throughout their careers and around the world. Then you should be in pretty good shape because you're building in the Gulf of Mexico where there is a vast supply of skilled workers.

The Obama administration this month delivered another natural gas export license to Cheniere Energy's proposed liquefaction terminal in Corpus Christi, how does this affect Freeport LNG?

It doesn't really affect Freeport LNG. Our first three trains are completely sold out. We have pre-filed with the Federal Energy Regulatory Commission for a fourth train and we will be looking for customers for that train. In Corpus Christi, Cheniere started construction on two trains in a three-train project. They could start construction on their third train anytime they get the customers. So we are in competition with Cheniere's Corpus Christi facility as well as their plant at Sabine Pass where they have a sixth train that is unsold. It's just another competitor, a good competitor, for customers for our fourth train. But other than that, it really doesn't affect us. We believe that the Gulf of Mexico has a deep enough labor pool that it won't affect our contractor's or our own labor needs. Overall, I would say it's good for the industry.

Uploading and Loading arms





The Excelsior
at Berth

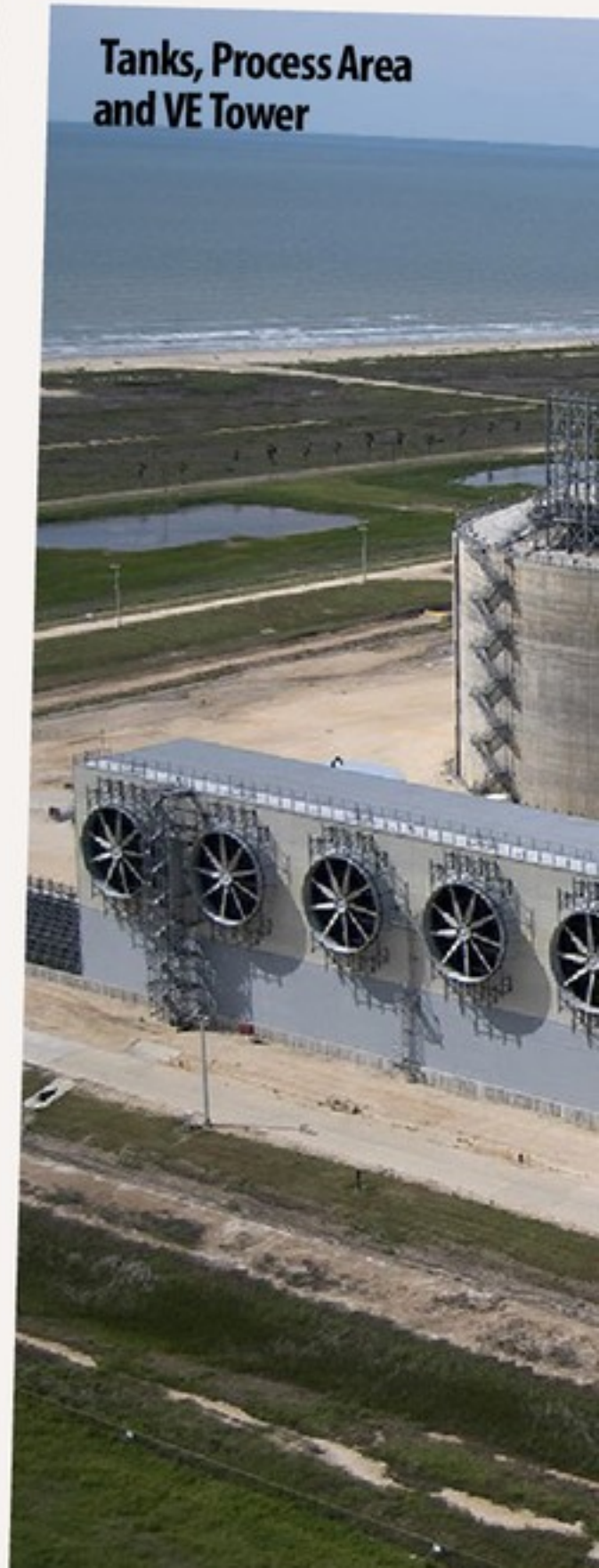
Freeport LNG recently announced the intention to add a 4th train of liquefaction. Please highlight the core reasons behind this decision and include comments on some of the benefits?

We believe that the demand is still there for us to get the customers. With so much infrastructure already in place, I would hope that train four would be our most economical train.

What are your opinions on the recent merger of Shell/BG?

I find it very interesting. It certainly suggests that despite current oil prices, Shell views U.S. LNG as being a very important asset as that was a major portion of the acquisition. It's two good companies getting together.

Tanks, Process Area
and VE Tower





Do you think we'll see more of these sorts of developments in the industry?

Those mergers are hard to do. I am sure there are a number of big guys looking, but there have been very few asset acquisitions despite the current environment because there is so much capital out there. The companies that would have normally sold in a distressed time have had access to that capital.

Where do you see the future of the U.S. gas and oil industry?

I think the future potential of the U.S.



Liquefaction Facility



gas and oil business is enormous. We have a tremendous resource and we're still in the early innings of the game when you think about it. We're in 2015, but seven years ago we had almost no shale gas and shale oil in the United States. The technology continues to get more refined and with better recoveries, lower decline rates for less cost, every year. The U.S. oil patch is in an age of renaissance.

Do you see there being a rapid growth in the LNG market over the next decade?

Well, I'm not an economist. I don't like to make projections. But I believe world-wide demand for gas in the form of LNG will continue to grow as it has for the last 20 years and the market is just going to get bigger and bigger. In the next decade,



if U.S. LNG exports hit 12-15 Bcf per day, that's a huge piece of the worldwide market and it will be a huge amount of revenue for the United States. There will be hundreds of million of dollars of economic benefit in developing LNG exports.

Where do you see Freeport LNG being at the end of this decade?

We're going to be a very, very big company. We'll be exporting over 2 Bcf

per day for our customers, and with a fourth train almost finished, we'll be close to taking the export volume to 2.8 Bcf per day. We'll be a very significant company. We would be a very large MLP if we decided to go the public route.

And do you think you will go that route?

We will explore all avenues to maximize the value for our investors. ▲