

Mr. Matthew K. Schatzman, President & CEO, NextDecade Corporation (NASDAQ: NEXT)

The Second Wave of U.S. LNG: Cost and Gas Supply Advantages

Thank you, Gavin, for the kind introduction. I would like to thank CWC for organizing this important event here in Beijing, and – of course – I would like to thank our friends in the energy industry of the People’s Republic of China for hosting all of us.

Ladies and gentlemen, if investment in new liquefaction capacity is not made in the very near future, global LNG demand – including from China – will exceed available supply by as much as 150 mtpa by 2025.

By our estimates, approximately one-third of this 150 mtpa shortfall could be supplied by planned LNG projects outside of North America.

This leaves approximately 100 mtpa of new liquefaction capacity that must be developed and built in North America. We believe most of this new capacity will be built on the Gulf Coast of the United States.

The U.S. is rapidly emerging as an increasingly important player in the global LNG market. By the end of 2019, U.S. sourced LNG could represent approximately 19% of available supply. By 2025, this figure could grow to approximately 32% of available supply.

We are in the early stages of a prolonged period of structural demand growth in LNG. In 2017, the global LNG market had grown to 290 mtpa, or by nearly 19% since 2015. We now have more than three dozen countries importing LNG around the globe.

New and emerging markets have already begun to change the landscape. Lower LNG costs, coupled with the evolution of Floating Storage and Regasification Units, have expedited LNG market penetration.

Air quality concerns are driving government policies favoring LNG and renewables. These environmental policies are driving LNG demand for power generation, residential heating and cooking, and process heat. In fact, clean-burning natural gas emits half as much carbon dioxide as compared to coal used for power generation, and only 10% of harmful particulates.

And lastly, certain countries that have historically supported their own natural gas needs are experiencing rapid declines in their domestic resources.

Last year, in China alone, LNG demand grew by nearly 50%. We project Chinese demand could exceed 80 mtpa by 2025, making it the largest LNG market in the world. Likewise, the United States will emerge as the world’s largest supplier of LNG in the same timeframe.

So, why is the United States ideally positioned to become the largest supplier of LNG to world markets? Here are two reasons:

One is cost. The United States has among the lowest costs to build new liquefaction capacity of anywhere in the world. The U.S. has a skilled workforce currently completing the first wave of U.S. LNG projects that is well-equipped to support the next wave of U.S. LNG development.

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The second is the availability of gas supply. The United States has a significant potential resource advantage over other geographies. U.S. production has transformed rapidly in recent years.

Technical advancements associated with hydraulic fracturing have improved well productivity and total resource availability. Over the past 12-18 months, one producing area, in particular, has garnered significant attention and capital – the Permian Basin.

The Permian Basin is located in West Texas and southeastern New Mexico. Currently, about half of active U.S. rigs are in the Basin, up from just 20% in 2014. The two most prolific component basins within the Permian are the Delaware and the Midland. They hold vast hydrocarbon resources that rival the largest reserve bases in the world – including Qatar and Saudi Arabia.

The production economics of the Midland and Delaware are driven by the production of oil – not by natural gas. Like many oil plays, there is a significant amount of natural gas associated with the production of this oil. However, unlike some areas that allow the gas to be flared to reap the economic benefit of the oil, the States of Texas and New Mexico prohibit long-term flaring of natural gas.

So how will these producers continue to produce oil? Under these conditions, Permian producers must find a market for the associated natural gas to enable oil production. This, in turn, drives down the break-even economics of the natural gas to extremely low levels.

In fact, this drives down the break-even economics to levels below \$0.

We believe the Permian Basin holds nearly 500 Tcf of natural gas at break-evens below \$0. This assumes oil prices at \$60 per barrel.

The Permian Basin could supply more than 50 years of gas at break-evens below \$0, even if natural gas production in the Permian grows to more than 25 Bcf/d, enough to feed multiple incremental LNG projects along the Texas Gulf Coast.

This is a staggering revelation that, when combined with other major resource basins in the U.S., creates an incredibly competitive gas supply picture for the United States. This also represents a major opportunity for LNG buyers transacting with U.S. second wave projects, especially projects located on the Texas Gulf Coast.

The Permian Basin is approximately 400 miles from the Texas Gulf Coast, requiring incremental pipeline capacity to bring the gas to market. Building pipelines in Texas, especially along routes in the southern part of the State, is easier to execute and tends to be more cost effective than in any other part of the U.S. This is driven by the favorable state regulatory regime, relatively flat topography, and low population density.

So, what should buyers expect from U.S. projects?

As we established earlier, there is ample global LNG demand to support multiple second wave projects out of the U.S. That being said, there are four key competitive advantages on which U.S. LNG buyers should focus:

Number One: Experience. Developing and delivering an LNG project requires tremendous expertise. The strongest developers in the U.S. have experience developing, marketing, building, and operating LNG projects around the world.

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Number Two: Low Cost. Customers should look for a project that offers low engineering, procurement, and construction costs. This will ensure the project's competitiveness and attract an array of buyers and enable a final investment decision.

Number Three: Lower Risk. Customers focused on buying from a reliable LNG source should prioritize U.S. projects that are utilizing proven technology. This translates into lower completion and operating risk. Equally important is the LNG project's economic viability at less than full-scale development. The ideal project is one that can be cost-competitive in every phase of development.

Number Four: Optimal Location. The U.S. has an abundance of low-cost natural gas. The lowest cost gas is found in the Permian Basin, and LNG projects closest to the Permian – those on the Texas Gulf Coast – can offer access to the most competitive gas supply to future LNG customers.

Our company, NextDecade Corporation, is developing the 27 mtpa Rio Grande LNG project in South Texas.

NextDecade has an experienced leadership team with years of experience developing, marketing, building, and operating LNG projects around the world.

NextDecade's Rio Grande LNG project has an EPC cost of \$490 per ton, one of the lowest EPC costs in the industry.

The Rio Grande LNG project is cost-competitive in every phase of development, with the ability to take a final investment decision on as few as two trains, or 9 mtpa.

And the Rio Grande LNG project is optimally located in proximity to the Permian Basin.

Because of our proximity to the Permian Basin, we believe we can offer LNG to customers free-on-board at about \$3 per MMBtu – not including liquefaction fees, and without the need for our customers to invest billions of dollars in the upstream and midstream sectors in order to achieve these \$3 FOB economics.

And because of our other competitive advantages, we believe Chinese and other Asian markets will receive LNG from our Rio Grande project – including liquefaction fees and shipping costs – at prices between \$7 and \$8 per MMBtu.

At NextDecade, we look forward to facilitating access – for our Chinese customers and those from other countries – to some of the lowest cost, largest, and most reliable gas supplies in the world.

It was a true pleasure to deliver remarks to all of you this morning. Thank you again for having me.

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