

Canada's LNG Export is Another Gamechanger

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Introduction

As LNG Canada shipped out its first LNG cargo at the end of June, the author has encountered with the following questions: "How is Canadian LNG expected to be priced? Is it going to be linked to Canadian market hub prices, such as the AECO hub? Have there been any announcements of term sale contracts specifically mentioning anything on the matter?"

Canadian LNG, from projects like LNG Canada, is expected to be priced in a way that leverages the relatively low cost of natural gas in Western Canada, including linking the sale prices, at least partially, to Canadian market hub prices. The new linkage is likely to add further advantages to Canada's LNG supply by providing competitive LNG prices and further diversification of LNG pricing, in addition to the proximity and less complicated routes of LNG transportation to the Asian LNG market. LNG Canada is the first large-scale LNG export project on the West Coast of North America, in case the first Alaska Kenai project in 1969 is now categorised as a small-scale LNG project.

1 Canadian LNG Pricing and Linkage to AECO:

- 1.1 AECO Hub Linkage: This is a key differentiating factor for Canadian LNG, including the LNG Canada project. Rather than being indexed to the U.S. Henry Hub price (the primary benchmark for U.S. natural gas) or the traditional indexes as oil prices, Canadian LNG volumes are expected to price their exports, at least partially or largely, with a linkage to the AECO (Alberta Energy Company) hub price.
- 1.2 Advantage of AECO Pricing: The AECO hub in Alberta has historically seen lower natural gas prices compared to Henry Hub due to being a major supply basin with extensive production and storage capabilities, coupled with historical pipeline constraints for getting gas to larger markets. This is especially true after gas flows from Canada to the United States have stopped growing with domestic gas production in the United States increasing in this century. The price differential makes AECO-indexed LNG attractive to buyers.
- 1.3 Arbitrage Opportunity: One of the core pricing strategies for Canadian LNG projects is to capitalize on the arbitrage between the low domestic natural gas prices in Western Canada and international LNG prices. In fact, this strategy is common among different LNG export projects around the world.

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- 1.4 Global Market Linkage: While the upstream gas cost might be AECO-indexed, the ultimate delivered price of Canadian LNG should still be influenced by global LNG market dynamics, including demand in Asia, supply from other major exporters, and transportation costs. Buyers will likely seek a blend of indexation (e.g., AECO, crude oil prices (JCC¹ or Brent), or a combination) to manage price fluctuation risks.

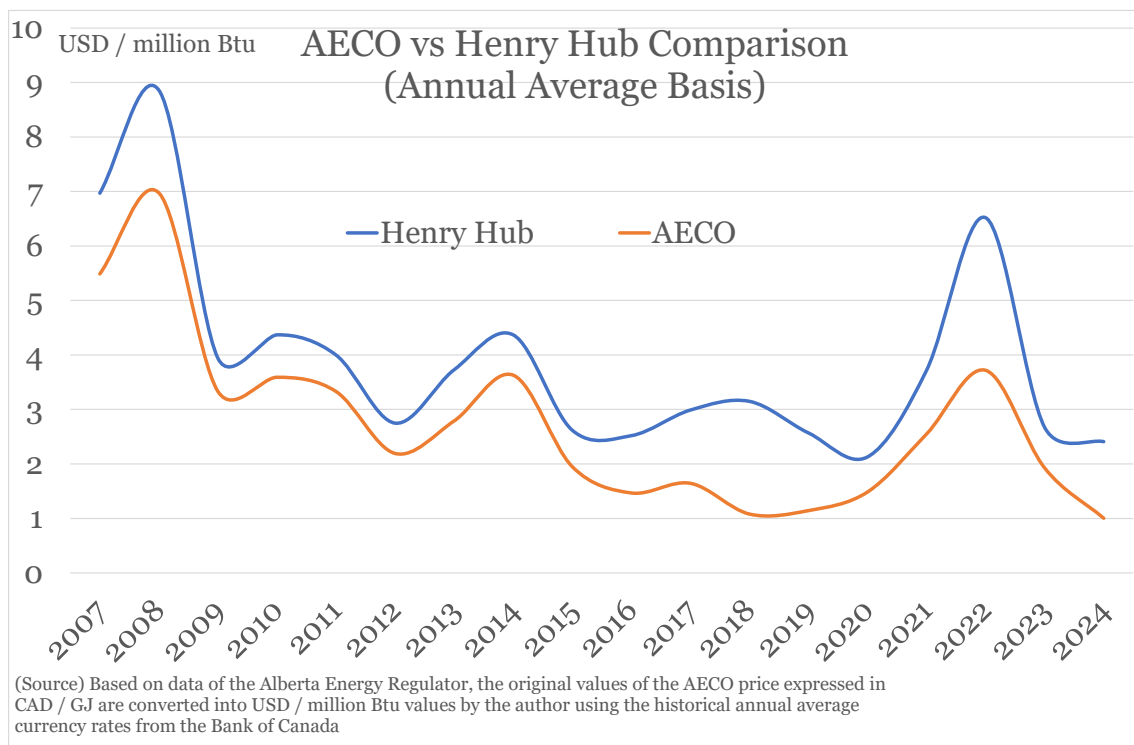


Figure 1: AECO and Henry Hub Historical Changes (Annual Average Prices)

- 2 Announcements and Statements Specifically Mentioning AECO Linkage:
 - 2.1 There have been specific and notable announcements regarding AECO indexation in term sale contracts.
 - 2.2 A 10-year LNG supply agreement between PETRONAS (a major partner in LNG Canada) and China's CNOOC announced in 2021 was said to be indexed to a combination of the Brent crude oil and the AECO indices. The announcement highlighted this as reflecting "the markets' receptiveness and recognition of AECO indexed LNG into the world's largest LNG market."²

¹ Japan Crude Cocktail, the average of Japan's crude oil import prices, mostly on monthly basis.

² Petronas announcements:

"PETRONAS Strikes The First AECO-Indexed LNG Deal" 2021 Media Release - 7 May - "... PETRONAS LNG Ltd (PLL) introduced the Canada Alberta Energy Company (AECO) index as a new LNG price indexation to its customers following the sale of a spot LNG cargo from Bintulu, Malaysia, to a buyer in Far

- 2.3 Shell, the lead partner in LNG Canada, has stated that buyers are attracted to the LNG Canada project because it uses the AECO price index as a benchmark, which is lower than the Henry Hub price³.

3 Impact of Coastal GasLink Pipeline:

- 3.1 The Coastal GasLink (CGL) pipeline is crucial for the LNG Canada project, as it transports natural gas from the Montney region in northeastern British Columbia to the liquefaction facility in Kitimat, B.C. Without the pipeline, the ability to capitalize on AECO's lower prices for export would be limited.
- 3.2 The CGL pipeline helps to alleviate some of the historical "basis differentials" where AECO prices were discounted relative to Henry Hub due to ample supply against insufficient takeaway capacity. By providing a new, direct outlet for Canadian gas to global markets, it helps support AECO prices and can reduce their volatility. While the long-term impact on AECO pricing might be complex, the sheer volume of Canadian gas production could maintain downward pressure on local prices.
- 3.3 The Coastal GasLink pipeline has experienced cost overruns⁴, which adds to the overall cost of the delivered LNG. These higher pipeline tolls could partially offset the advantage of the cheaper AECO gas for the LNG projects.

Having said that, Canadian LNG is designed to be competitive by leveraging competitive and clean gas production, as well as advantageous marine transportation to the Asian LNG consuming markets. With the comparatively lower natural gas prices at the AECO hub, the AECO-indexed pricing strategy is being introduced and implemented. Addition of this project in the Asia Pacific LNG market has a significant impact.

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East for August 2021 delivery."

<https://www.petronas.com/media/media-releases/petronas-strikes-first-aeco-indexed-lng-deal>

"PETRONAS and CNOOC Sign 10-Year LNG Supply Agreement" 2021 Media Release - 7 Jul - "... This long-term supply agreement also includes supply from LNG Canada when the facility commences its operations by middle of the decade. The deal is for 2.2 million tonnes per annum (MTPA) for a 10-year period, indexed to a combination of the Brent and Alberta Energy Company (AECO) indices."

<https://www.petronas.com/media/media-releases/petronas-and-cnooc-sign-10-year-lng-supply-agreement>

³ "Shell CEO Says Local Price Index Makes LNG Canada Project Attractive" (By Reuters, June 16, 2025)

<https://money.usnews.com/investing/news/articles/2025-06-16/shell-ceo-says-local-price-index-makes-lng-canada-project-attractive>

⁴ "TC Energy provides Coastal GasLink Project update" 1 February 2023,

<https://www.tcenergy.com/announcements/2023/2023-02-01-tc-energy-provides-coastal-gaslink-project-update/>

"Coastal GasLink announces commercial in-service" 19 November 2024,

<https://www.coastalgaslink.com/whats-new/news-stories/2024/2024-11-19-cgl-announces-commercial-in-service/>