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LNG Exports An Opportunity The Country Must Not Fumble

AUSTIN, TX.–For the better part of a decade, only the second component of the supply/demand equation appears likely to move the needle on natural gas prices, and although new industrial and power generation applications may contribute slightly, liquefied natural gas exports offer a growth possibility that is several orders of magnitude greater.

Haynes and Boone LLP Senior Energy Adviser Andrew D. Weissman made that case to the Texas Independent Producers & Royalty Owners Association at the group's 67th Annual Convention, Feb. 26-28 at the Sheraton Hotel Downtown Austin.

Weissman advised natural gas producers to make the case for LNG exports not only to elected officials, but also to regulators before the industry's window of opportunity could close. "This is an absolutely critical time," he intoned. "To a large degree, the future of every company in this room is going to be decided over the course of the next 12 months or so.

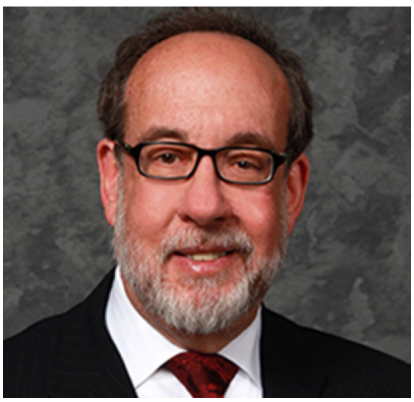
"The battle in Washington over LNG is going to be the single most important factor that determines your success during most of the next decade," he continued. "It is a real fight on two fronts. Part of it is before Congress and part of it is a legal/regulatory issue before the U.S. Department of Energy."

LNG As The Key

According to Weissman, staggering supply growth from the shale gas revolution has pre-empted significant price hikes for the foreseeable future. Numerous outlets are projected to increase their gas use, he said, but they are unlikely to nudge prices much because U.S. gas supply is so abundant.

"There is nothing comparable to LNG exports in scale," he remarked and pointed to comments the American Petroleum Institute had filed with the U.S. Department of Energy. "The comments API filed with DOE said all the industrial projects that had been announced in the Gulf of Mexico would increase demand only by about 330 million cubic feet a day. A major LNG project can be as much as 2 billion cubic feet a day–roughly six or seven times greater."

For another illustration, Weissman pointed to his experience helping the Denver area transition its electric generation from coal to natural gas plants a few years ago. "That is 1,000 megawatts of generation–enough to serve a city of 1 million people–and it still is only an increase of 150 MMcf/d," he noted. "New England relies almost entirely on natural gas and nuclear for electricity. New York relies 50 percent on natural gas for electricity. The total use of natural gas in that entire section of the country for power generation is 2 Bcf/d. It is the equivalent of one LNG project."



The country's abundant natural gas supply will moderate any price impacts from liquefied natural gas exports, assures Haynes and Boone's Andrew Weissman. According to Weissman, supporters of LNG exports must make the case not only to Congress, but also to the U.S. Department of Energy.

Therefore, he urged the industry not to underestimate the relatively speedy opportunity offered by even a handful of LNG export projects. "Everyone probably has seen articles that suggest there likely will be only three-four LNG projects," Weissman remarked. "That may be right, but if it is, that still is more than the total increase in power sector demand during the past decade. It is a totally different order of magnitude."

Moreover, he added, the United States possesses a genuine opportunity to obtain a much larger share of the global market. Weissman noted that more than two dozen LNG export facilities had been proposed in the United States, the combined capacity of which would exceed 30 Bcf/d. "I do not expect anyone believes we will see 30 Bcf/d of LNG exports, but it is a huge potential market," he described. "That should be part of our focus when we try to convey the size of this opportunity."

The Hold Up

Weissman noted that Cheniere Energy's

Sabine Pass facility under construction in Cameron Parish, La., was the only project that already had federal approval to export LNG. The primary glitches that could prevent other facilities from obtaining their own permits, he said, lay with opponents who mostly had an inadequate perception of the big picture. Weissman urged people in the industry to help others understand the stakes.

Manufacturers have proven particularly skeptical, he said, noting that some major manufacturers had launched a website called America's Energy Advantage to discourage LNG exports in the belief they would weaken U.S. manufacturing and economic growth. He pointed out that the coalition behind the website had commissioned a poll that showed 87 percent of Americans supported their position.

He recalled that the combination of greater power sector demand and tight supplies during much of the 2000s often drove prices through demand destruction. "Prices had to rise hard to drive more price sensitive users out of the market," Weissman detailed. "End-users remember that vividly because it drove down industrial demand tremendously. It cost the manufacturing industry hundreds of thousands of jobs, and it also increased power prices by tens of millions of dollars. It is fairly recent history as far as end-users are concerned, so they are still afraid this is going to happen again."

While some industry representatives have endeavored to convince Congress that LNG exports will boost the U.S. economy far more than they will inhibit it, he said less conspicuous proceedings at the DOE were equally important. "I am particularly concerned that we are (not) fighting the battle as well as we need to before DOE," he acknowledged. "You cannot export LNG to most countries without getting a DOE export permit that is subject to various requirements. In particular, you have to be able to show it is in the public interest."

DOE has made it clear it intends to evaluate that, Weissman indicated, and he noted that even when it issued Sabine Pass' export permit, the agency alluded to uncertainty about consumer impacts and said it could revoke the permit if U.S. energy costs rose significantly. DOE also reported it would not issue additional permits until it had thoroughly evaluated how large-scale LNG exports could influence U.S. energy costs.

Unfortunately, Weissman held, there are significant shortcomings with much of the analysis conducted both by and on behalf of DOE. Although a 2012 study NERA Economic Consulting conducted for the department's Energy Information Administration shows net economic benefits to the United States under every LNG export scenario it considered, Weissman said it still understated the upside considerably.

"In every scenario it looked at, that analysis actually showed a loss of U.S. wages that were barely offset by increases in royalty and other payments to mineral owners," he elaborated. "It also basically ignored the whole LNG industry's practice of entering into long-term contracts."

Time is short, Weissman implied, but better research should be able to prove definitively that export impacts on U.S. gas prices would be moderate. Otherwise, he warned, LNG terminals other than Sabine pass are unlikely to go forward.

"It is relevant legally, but it also is relevant politically," he emphasized. "If we can show the DOE that impacts will be minimal, that will help a lot on the political side. And every time we try to convince a power producer to burn more natural gas or an industrial user to build a new facility, we should give people the confidence that supplies are sufficient so that they do not fear prices are going to escalate prohibitively." ❒