

About Face



By John Harpole

A lot of heads turned last December as the Department of Energy (DOE) released the results of the long-awaited, twice-delayed and highly politicized report on U.S. liquefied natural gas (LNG) exports. After four years of what most energy industry analysts would describe as antagonistic rhetoric and regulations, the Obama administration pulled what a drill sergeant might call an “about face” on natural gas.

To nearly everyone’s surprise, the DOE report provided a compelling argument for pursuing LNG exports and articulated the economic benefits of an unstifled industry free to pursue opportunity abroad.

No one expected a pro-growth, pro-LNG recommendation out of the DOE. No one.

That includes at least three unlikely bedfellows—the U.S. chemical industry, the anti-fracking environmental lobby and most likely Russian President Vladimir Putin’s Gazprom.

Was this an about face or about saving face? Cynical speculation abounds as to the motivation and timing for such a monumental policy shift. Was its release delayed until after the election for fear of igniting a polarizing debate among Obama’s tried-and-true environmental constituency? One sardonic friend attributes the motivation to a sinister desire to create a higher gas-price environment, perhaps the only scenario in which renewables can survive.

But I digress. Perhaps the administration finally understands that we are sitting on a gold mine of shale gas. This mother lode of opportunity can create hundreds of thousands of jobs and billions of dollars of gross domestic product.

Whatever the reasons, U.S. LNG is apparently cleared for export and the implications are global. Gas is the fuel of the future, and worldwide markets are responding. LNG contracts in the Pacific basin are already transitioning from oil-indexed pricing to the New York Mercantile Exchange’s natural gas contract Henry Hub settlement prices. At this point in time, there is no agreed upon global pricing structure, but we can expect new pricing mechanisms as the LNG market gets flooded with new supplies of shale gas and its valuable byproducts. The fact that LNG pricing could be decoupled from oil pricing is truly astounding and speaks to the volume of gas discovered in North America. It is a new day.

Energy analysts estimate that the U.S. could conservatively export about 6 billion cubic feet (Bcf) per day. That’s the equivalent of about 8% of current U.S. gas production and 16% of global LNG production. That would place America among the ranks of the world’s largest LNG exporters, Australia and Qatar.

Last aboard

How is it that we are the last to join the LNG export bandwagon?

There are significant competitive plans in motion—and under construction—for major hubs in Australia (nine projects), western Canada (three), East Africa and expansions in Qatar. U.S. LNG developers must be able to act now, or they will fall behind in the highly competitive global LNG market.

As discussed in January’s *Midstream Business*, developers have committed to a multitude of new Australian projects based on giant discoveries in conventional basins, unconventional shale deposits and coal-seam gas. As a result, Australia’s productive gas capacity is expected to more than quadruple in the next decade.

Asia-Pacific’s current 19 Bcf per day of LNG demand is supplied by LNG tankers from Australia, Indonesia, Malaysia and Qatar. Committed export projects will increase capacity to 27 Bcf per day and uncommitted projects bring total Asia-Pacific supply capacity to 50 Bcf/per day. However, projected demand is only 30 Bcf per day in 2020.

Add it all up and we have the makings of a global LNG bubble. Indeed, many LNG analysts are forecasting a supply glut by 2017, meaning uncommitted projects may be cancelled or delayed until demand catches up.

Is this recent U.S. regulatory policy “about face” too late? Can U.S. producers lock in 20-year contracts during this window of opportunity? All the more reason to demand an immediate DOE regulatory green light for LNG exports as a result of the report.

The geopolitical implications cannot be understated. Cheap and abundant gas should improve the quality of life in many countries. The potential calming effect on aggressive states whose regimes are largely funded by oil and gas revenues is immense. The Gas Exporting Country Forum (also known as “gas OPEC”) would be irrelevant and the Organization for Petroleum Exporting Countries’ own influence, too, would be clearly curtailed. Russia’s Gazprom should lose its stranglehold on European demand. U.S. ingenuity invented cheap gas. We produce shale gas cheaper, better, faster and smarter than any other country in the world. That claim is easily supported by the current \$10- to -\$12 price differential between the U.S. and Asia, and the \$8 price differential between the U.S. and Europe.

What a clean energy solution this could be for the world, with humble thanks to American ingenuity. ■

John Harpole is senior advisor to Midstream Business, founder and president of Mercator Energy LLC and a board member of the Western Energy Alliance, Colorado Oil and Gas Association, Leadership Program of the Rockies, University of Colorado’s Global Energy Management Program and Energy Outreach Colorado.