Closing Bell

The Glacial Pace Of LNG Exports

By John Harpole

For the third time in 18 months, the U.S. Department of Energy (DOE) has changed the rules for the licensing of U.S. LNG export facilities to non-Free Trade Agreement (non-FTA) countries.

Is there a message here?

If so, have the right people considered the potential geopolitical impact on our allies, Russia's Gazprom, on U.S. unemployment figures, on industry applicants and on investors and customers?

Does the DOE really plan to accelerate and expedite its effort directed at non-FTA LNG export requests? Most industry stakeholders think not.

In 1977, the U.S. Congress formed the DOE to deal with "this energy shortage and our increasing dependence on foreign energy supplies [which] present a serious threat to the national security of the United States." Fortunately, since that time, the U.S. has become an energy superpower. But will we share the wealth?

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Signals to allies

Essentially, the DOE has made a process change that 1) eliminates the current practice of issuing conditional orders; and 2) will no longer process applications based on the queue established in December 2012. DOE has also proposed basing the sequence in which it issues final decisions on an environmental review process required under the National Environmental Policy Act (NEPA).

The timing of the DOE's rule change is profoundly dysfunctional, considering events in Ukraine and Russia's near-monopoly position in supplying gas to most of Europe.

Unpredictable suppliers create unpredictable markets. That harsh reality will be underscored this coming winter in Ukraine. What value is there in being an energy superpower unless that power is projected outward and delivered to energy-starved allies and potential allies?

The irony of the DOE's recent action may be found in the administrative clash of expectations and realities; however, this winter it will be much more personal for Ukrainians.

Granted, U.S. shale gas won't resolve Europe's energy issues overnight, but additional U.S. regulations and delays will dash any hope for near-term energy competition.

The DOE has granted LNG exports at a glacial pace. The American Petroleum Institute concurs and said as much in comments to the DOE:

"DOE has managed to review non-FTA applications at an anemic rate of about one per quarter since the Order of Precedence (issued Dec. 5, 2012) was established and has reviewed only about one-fifth of the total applications submitted. At this rate … DOE would have completed its reviews sometime after 2020—an unjustifiable and absurd result."

Global demand for gas is expected to increase between 18 billion cubic feet per day (Bcf/d) and 38 Bcf/d by 2025. ICF International expects worldwide liquefaction capacity outside the U.S. to expand by nearly 50 Bcf/d by 2025. Current U.S. export projects at the DOE account for deliveries of about 35 Bcf/d of LNG. According to ICF, "With projections of world demand for LNG ranging from 50 [Bcf/d] to 65 Bcf/d by 2025, global LNG supply may exceed demand."

Employment numbers

The Achilles heel for any significant growth in U.S. natural gas demand is quite simply related to U.S. LNG exports. A growth in LNG demand means a growth in industry employment.

The inevitable question: Will significant exports impact U.S. prices?

In 2013, the U.S. consumed 26 trillion cubic feet (Tcf) of gas. According to the Potential Gas Committee at the U.S. Energy Information Administration and Massachusetts Institute of Technology, the most recent range of technically recoverable U.S. reserves (using current technology) is from 2,200 Tcf to 3,500 Tcf. Based on those numbers, it's hard to imagine a dramatic price increase for U.S. consumers.

Until the DOE can show us a downside to these exports, it's time for the people in that department to start doing their jobs, and maybe save some Ukrainians along the way. ■

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