With pipelines tied up, US LNG exports expected to lead gas demand growth

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Theme Energy

U.S. exports of natural gas will be the dominant source of new demand as challenges to pipeline construction prevent additional supply from reaching domestic markets in the Northeast and West.

"For the first time, we are no longer isolated," Rich Redash, head of global gas planning for S&P Global Platts, said on a June 10 market fundamentals panel at the LDC Gas Forum Northeast in Boston. "We are part of the global market."

Exports will take the form of either LNG cargoes carried by tankers from U.S. terminals to Europe, Asia and other destinations or pipeline flows to Mexico.

Gas liquefaction and export operations will exert a strong pull, Redash said. LNG exports have increased since Cheniere Energy Inc.'s first cargo in February 2016. The U.S. now has four LNG terminals in operation, developers have committed to other North American projects, and there will likely be more final investment decisions by the end of the year. Energy industry observers expect the nation's LNG export capacity to reach the equivalent of 9 Bcf/d by the end of 2019. This summer, gas demand of 82.1 Bcf/d, an increase of 2.5 Bcf/d from the same period of 2018, will be led by LNG exports, according to a Natural Gas Supply Association forecast.

Demand growth from power and industrial gas consumers, especially in the Northeast and West, has been "like watching paint dry," Redash said. There are some opportunities for growth in the Northeast, but Redash said "the upside is dimming" because of political and environmental opposition to fossil fuel use in general and pipelines in particular.

Applications to build gas transportation infrastructure reached a peak in 2018 at the Federal Energy Regulatory Commission but have slowed to a trickle. Court challenges by environmental groups and regulatory action by New York and other

states have stopped the construction of several pipeline projects that had received FERC approval. In a "last mile problem," Redash said, few Northeast pipeline projects have been able to connect supply with demand, which has helped limit Northeast production growth.

There are gas transportation constraints in other areas of the country, such as in the Permian Basin in Texas, where the gas industry moved too slowly to keep up with production. Observers have said they expect one pipeline, the Gulf Coast Express Pipeline LLC project backed by Kinder Morgan Inc., DCP Midstream LP and others, to enter service in the third quarter, but others will not go into service for a year or two.

In a keynote earlier that morning, Craig Stevens, a spokesman for the pro-business group Grow America's Infrastructure Now who served in the administration of President George W. Bush, said pipelines have become a key battleground for anti-fossil fuel groups. He said such protest activity is "the new normal." He advised the pipeline industry to consolidate its communication efforts and treat all projects as related. He suggested pipeline companies engage local regulators and community leaders early and budget 1-2% of a project's cost for public affairs and "community engagement" efforts, such as support for fire departments and kids' sports leagues.

Redash said market perceptions of a huge U.S. gas resource base — "we're just scratching the surface" — and transportation constraints have contributed to a long slide in the prices of NYMEX gas futures, from $5/MMBtu to $3/MMbtu. The market has not accounted for the possibility of more transportation constraints, and the forward curve discourages investments in new pipeline construction, he said. He did not expect the prices to clear the $3 range until 2026 at the earliest, when LNG exports should be in full gear.

LCM Commodities partner and head of research Ekrem Esmen said new technology, including the application of data science, would help gas producers get the most of shale, suggesting that the U.S. resource base will stay strong.