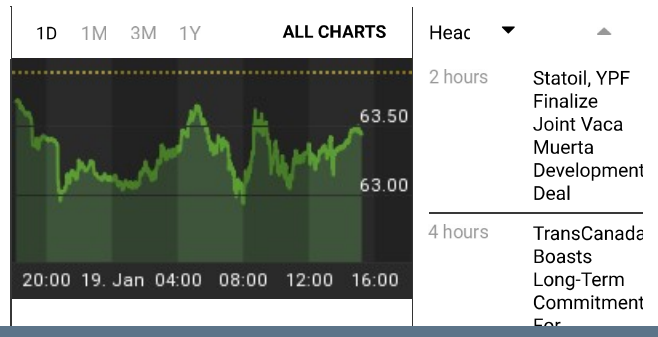




All Prices	OPEC Blends	Canadian Blends	U.S. Blends	
WTI CRUDE ▼	63.43 ▼ -0.46	-0.72%	LOUISIANA LIGHT ▼	68.56 ▼ -0.24 -0.35%
BRENT CRUDE ▼	68.75 ▼ -0.56	-0.81%	BONNY LIGHT ▼	69.70 ▲ +0.14 +0.20%
NATURAL GAS ▼	2.941 ▼ -0.047	-1.57%	MEXICAN BASKET ▼	59.03 ▲ +0.34 +0.58%
MARS US ▼	64.40 ▼ -0.07	-0.11%	NATURAL GAS ▼	2.941 ▼ -0.047 -1.57%



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The U.S. LNG Boom Could Be About To Stall

By [Alan Mammoser](#) - Oct 17, 2017, 3:00 PM CDT



While speaking before industry executives last June, United States President Donald Trump asserted that he had “ended the war on coal” and that America would be “dominant” in energy. But where does this all stand now?

Much of the Trump administration’s hope for achieving dominance requires increasing exports of liquid natural gas (LNG) from six new liquefaction and export facilities. One of these, Cheniere Energy’s Sabine Pass plant in Louisiana, is now being expanded, while the rest are approved and scheduled to be completed in the next three years.

When they’re all in service, they’ll be able to export about 9bn cubic feet of gas a day, which is about 12 per cent of U.S. natural gas production. Meanwhile, investors are looking at a second wave of about 20 more proposed U.S.-based LNG plants, backed by large portfolio players including ExxonMobil and Royal Dutch Shell.

However, it’s unclear whether any of these proposed projects will be able to reach final investment decision (FID) and

get built in the coming years. If more are not built, then long-term US LNG export growth will likely stall after 2020. The Trump administration's deregulatory push will do little to affect this. Much more important factors will be whether global LNG prices will stabilize and then rise in the mid-2020s, and whether LNG developers can act on that likelihood now.

LNG's New Big Three

There's little doubt that the surge in U.S. natural gas production over the past 15 years has laid the basis for the US to emerge as a major LNG exporter. According to a recent report by the International Energy Agency (IEA), *Gas 2017; Analysis and Forecasts to 2022*, LNG's share of the international trade in natural gas will increase to about 38% during this period (versus cross-border pipeline). The U.S. and Australia will lead this huge addition to global LNG export capacity.

According to the report, in five years, Australia will have the world's largest LNG export capacity (almost 120 bcm per year). The U.S. and Qatar will be nearly tied for second, each with approximately 105 bcm per year in export capacity. Come 2022, the three countries will have about half of global LNG export capacity.

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The IEA estimates that U.S. exports will soar to 82 bcm by 2022 (note: the U.S. exported just 5 bcm of natural gas in 2016). The liquefaction facilities coming on-line in the next 2-3 years include several that have been converted from regasification import plants. They include the previously mentioned expansion of the Sabine Pass plant in Louisiana, another Cheniere facility in Corpus Christi, Texas, Dominion Energy's Cove Point project in Maryland, Kinder Morgan's Elba Island LNG export facility in Georgia, the Freeport LNG Development, L.P. facility near Galveston, Texas, and Cameron LNG's facilities near St. Charles, Louisiana.

Don't Count on Dereg

Ironically, a long-term expansion of U.S. LNG exports beyond 2022 may have to occur in spite of, not because of, Mr. Trump's 'energy dominance' policies.

"When the Trump Administration adopted the narrative of 'energy dominance', it was emphasizing trends that were actually already underway," says Tim Boersma, Senior Research Scholar at Columbia University's Center on Global Energy Policy. Boersma notes that it was during President Obama's tenure that crude oil production doubled and natural gas production skyrocketed. All six of the LNG export facilities currently underway were approved and financed during the Obama years.

Now, by seeking to undo the Clean Power Plan, which has reinforced existing market trends toward natural gas and alternative non-carbon sources, Trump may slow the decline of coal but weaken the market for gas. His approach could have unintended consequences.

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"It was assumed that after 2020 the Clean Power Plan would be a big boon to natural gas, that it would be a key driver

of additional incremental consumption of gas in the power sector,” says Boersma. “If the CPP is in fact axed and replaced with something less ambitious, it will likely slow the replacement of coal facilities with natural gas. One could argue, however, that this would make more gas available for export. We don’t know how it will play out yet,” he adds.

Boersma thinks that President Trump’s deregulation push will do little to boost LNG much. “At the end of the day, international and domestic prices will determine what amounts of natural gas in the form of LNG will find their way into the international market,” he says.

A Second Wave Coming?

While the unprecedented increase in U.S. LNG capacity should result in impressive export growth over the next five years, it may not result in continuing long-term increases in LNG exports. Export growth after 2020 will depend much more on price than on deregulation.

A major impediment is the looming glut of LNG in all major regions. Prices are lower now than when the six U.S. projects were first financed, and low prices will likely remain into the early 2020s. This condition may partially or entirely limit the construction of a hoped-for second wave of LNG facilities in the US. That, in turn, could constrain long-term export growth as market conditions eventually tighten.

The IEA report foresees a tighter market by the mid-2020s, with demand expanding as many smaller countries enter the market for LNG. If demand growth continues as expected, and absent much new investment, at some point prices will rise. But it’s uncertain whether investors, including LNG importers, will back new U.S. projects in the near future to push long-term export growth.

Jason Bordoff and Akos Losz, researchers at Columbia University’s Center on Global Energy Policy, have carefully studied and evaluated the prospects for U.S. LNG. In their November 2016 report, “If You Build It Will They Come? The Competitiveness of US LNG in Overseas Markets”, they argue that the variable cost of U.S. LNG will sometimes be likely to exceed the price of LNG available in growing amounts on spot markets in Europe and Asia. This will cause the six new facilities to sometimes lay idle.

The researchers see ways in which the emergence of U.S. LNG has already transformed global market dynamics, and how this transformation can work to U.S. exporters’ advantage. One way that the rising U.S. presence is changing the marketplace is in the more flexible nature of contracts. Buyers of U.S. LNG don’t have destination restrictions and enjoy the right to leave cargo or lift it according to prices on spot markets. This flexibility and historically low shipping costs will let U.S. LNG compete effectively with spot natural gas prices, even in the current environment of low spot market prices.

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“Sabine Pass cargos have ended up around the world,” says Tim Boersma. “I can foresee a future scenario where gas bound for Rotterdam could be rerouted mid-ocean to, for example, Morocco or another destination.”

Despite such advantages, Bordoff and Losz express concern that the next wave of LNG projects may not get underway in the near future. If global spot market prices remain persistently low during the next few years, then the six U.S. facilities may suffer low or highly variable utilization, causing losses to offtaker investors. In this environment, it will be difficult to gain commitments for new projects.

Some developers looking at long-term demand trends think that by 2022–23 global demand will again exceed supply to push up prices. For example, ExxonMobil now plans to add liquefaction export facilities to its Golden Pass LNG import facility in Texas. To keep the U.S. LNG export boom going beyond 2020, this and other projects will need to reach FID soon, as it requires approximately two years to develop an LNG export project.

By Alan Mammoser for Oilprice.com

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