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Competition for Gas Heats Up
Cools U.S. Plans

Most of the nation's natural gas import capacity remains idle even though all over the United States heat bills soar and natural gas prices are flaming toward new heights.

The United State's four onshore terminals are importing half the total volume of natural gas they can handle because buyers are being belligerently outbid by Asia and Europe for the sparse available cargo.

This means imports are not an answer to the United States market and natural gas prices are likely to stay high (and vulnerable to weather catastrophes) for years to come. Building more terminals just won't matter if there's no supply to fill them.

Martin Houston, president of North American operations for BG Group PLC - the largest importer of liquefied natural gas (LNG) in the United States, says continued competition for import LNG will certainly continue "through the end of the decade."

Natural gas prices have increased five times since the beginning of the new millennium to near records for both nominal and inflation-adjusted terms. In early December, 2005, those prices hit an inflation-adjusted record of $15.38 BTUs, but dropped quickly after a warm holiday prediction a few weeks later.

According to the Census Bureau, nearly 60% of the United State's 110 million households use natural gas to heat their homes, and in 2005, homeowners spent 38% more to heat their home than in previous years. Comparatively, home heating oil users spent 21% more.

Other primary uses of natural gas is to generate electricity, produce plastics and fertilizers. With a strengthening economy and a keener interest in cleaner-burning fuel usage, demand for natural gas has grown and become a necessary resource.

As a result of the high prices of imported natural gas, big producers are seeking ways to boost North American production. In early December, 2005, ConocoPhillips offered to pay $35.6 billion for the acquisition of Burlington Resources Inc. (whose North American gas reserves constitutes 80% of assets) resulting in one of the largest energy acquisitions in recent years.

Even still, imports are still very important to maintaining the level of natural gas consumption of the United States as North American wells are aging and boosting production has been difficult to maintain demand. With the apparent plateauing of domestic production it was expected to be able to purchase supplemental imports from the Middle East and Africa where supplies are in such excess they are sometimes never brought to market and flared off.

Transportation of natural gas is a complicated process requiring the gas to be cooled into liquid form for shipping – this dramatically increased the volume of the product and requires the additional process of reheating to its natural gaseous state when received at the terminals.

The current import situation started in the beginning of 2000 when, while production was level, prices spiked and industry officials (alongside the government) started to push increasing supply.

The industry began reopening old LNG terminals and made proposals for building several new ones. Backed by the Bush administration, the government streamlined the regulatory process. Companies attempted to persuade communities to allow them to build new terminals in their vicinities and after several federal reviews the new terminals began to be built.

In theory, "If we build it, they will come." The 'it' was the LNG terminals; the 'they' was LNG sellers. But instead a global shortage had developed due to overseas competition of aggressively developing countries who were also building new terminals.

Today there are enough LNG terminals around the world to hold over 40 billion cubic feet a day, but only enough supply to fill 20 billion cubic feet a day according to the Federal Energy Regulatory Commission.

Naturally, with demand double that of supply availability, prices are aggressively negotiated and increasing at record levels. According to PIRA Energy Group, a New York consultant, an extreme example of occurred in November, 2005 when a tanker from Nigeria paused for a week in the Gulf of Mexico while the prices soared then redirected toward Spain to unload as they were willing to pay $2 to $3 more per million BTUs than the Gulf Coast spot prices.

The differences between oil and gas markets are becoming quite prevalent. Oil can be easily transported and sold into a finely honed global market whereas natural gas is difficult to transport by any means other than pipeline and LNG prices can vary widely from region to region depending on the weather and demand.

The international LNG spot-market trade is in its infancy; until the early 2000s, consumers acquired natural gas through a handful of regional pipeline hubs. These regional hubs created geographically isolated markets and nations such as Japan and South Korea who have little or no domestic natural gas reserves relied on purchasing under the conditions of unbreakable long-term contracts.

Simple geography has put the United States at an import disadvantage. Europe is closer to West Africa, the Middle East and the Mediterranean which makes transportation costs lower.

Top it all off with European buyers willingness to pay high enough prices to lure even Trinidad suppliers (who are geographically closer to the United States) to their ports, according to Waterbourne LNG, a Commercial Services Co. weekly publication, which, in 2005, created a landmark occurrence of Caribbean LNG crossing the Atlantic to pursue higher prices.

The United States is also the new kid on the LNG imports block and a little kid at that. "The larger buyers, the ones with a long history of being in the business and making consistent purchases, are now in the position where they need more," says Rick Grant, president and chief executive a Suez LNG, a subsidiary of French utility company Suez SA that operates an LNG terminal near Boston. "And because of the relationships, they can compete very aggressively in the market for the cargoes that become available."

Officials with in the United States government still believe the building of new terminals will attract more imports and the fruits of these labors are expected to start bearing in 2008 when an anticipated increase in global supplies are expected to enable the formulation of long-term supply contracts that will reduce the United State's dependence on volatile spot market prices.

"We are 25% of the natural gas market world-wide," says J. Mark Robinson, director of FERC's Office of Energy Projects. "We are the big market. On an individual cargo, you might get outbid by Spain, but if you want long-term monetization of your reserves, I think the U.S. is the place to do that."

Source: Wall Street Journal

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