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Global Demand Squeezing Natural Gas Supply

By CLIFFORD KRAUSS

CAMERON PARISH, La. — The cost of a gallon of gas gets all the headlines, but the natural gas that will heat many American homes next winter is going up in price as fast or faster.

That fact makes the scene in the languid, alligator-infested marshland here in coastal Louisiana all the more remarkable.

Only a month after Cheniere Energy inaugurated its $1.4 billion liquefied natural gas terminal here, an empty supertanker sat in its berth with no place to go while workers painted empty storage tanks.

The nearly idle terminal is a monument to a stalled experiment, one that was supposed to import so much L.N.G. from around the world that homes would be heated and factories humming at bargain prices.

But now L.N.G. shipments to the United States are slowing to a trickle, and Cheniere and other companies have dropped plans to build more terminals.

A longstanding assumption of American energy policy has been that natural gas would be plentiful abroad, and therefore readily available for importation, as production falls off in North America, where many fields are tapped out.

But some experts are starting to question that idea, saying natural gas could be subject to the same explosion in overseas demand that has made oil so expensive.

As it is, the supertankers that were supposed to deliver cargoes of gas from Africa and the Middle East to the United States are taking them to places like Spain and Japan instead, pushing up gas prices and depleting the nation's stockpiles as the hurricane season approaches.

"A few years ago people looked at L.N.G. as a solution to North America's gas needs," said Nikos Tsafos, an analyst with PCF Energy, a consulting firm. "But today we see that there is less L.N.G. around than people expected, and there is more competition for that L.N.G. from markets that are willing to pay more than the United States."

Not long ago, Cheniere was a darling of Wall Street. It was widely praised for having the vision to plan four new liquefied gas terminals around the Gulf of Mexico to connect the country with supplies of natural gas from places like Nigeria and Egypt, gas once considered so worthless it was burned off.

Now the company's stock price has sunk from $40 to just over $5 since last fall.

“The question that people ask is if L.N.G. doesn’t come to the United States for another year or two or three, what is going to happen to Cheniere,” acknowledged Charif Souki, the chief executive officer of the company.

While natural gas prices in the United States have spiked to over $11.80 per thousand cubic feet from $7.50 at the beginning of the year, the price that gas producers can draw in many other countries in the world is several dollars higher. All they need are terminals in producing countries that can chill natural gas to minus 260 degrees Fahrenheit for shipping across oceans and terminals in consuming countries that can regasify cargoes.

Just about the only place where demand for L.N.G. seems not to be growing is the United States, an abrupt shift from expectations as little as one year ago.

The Sabine Pass terminal was part of an estimated $7 billion construction of eight new L.N.G. receiving terminals being built around the Gulf of Mexico and the Atlantic Coast over the last five years to guarantee plentiful domestic supplies. With imports about 40 percent of the level of a year ago, and national receiving terminal capacity poised to double this year, the excess construction of import capacity has alarmed industry executives.

However the executives predict that it is only a matter of time before the white elephants begin to look like a more robust breed. They say American gas suppliers will eventually be willing to pay the higher world prices on the spot market, especially if a gas shortage ensues after a punishing hurricane season or frigid winter.

They also predict future American consumption of natural gas is poised to increase because of hardening opposition to building new coal-fired electricity generating plants and delays in new nuclear plants. “Over time, we will need to start importing more gas,” said Darcel L. Hulse, president of Sempra LNG, a division of Sempra Energy, which is building receiving terminals in Mexico and Louisiana. “We will not have enough.”

That was the thinking that spurred the L.N.G. expansion in the United States in the first place. At the beginning of the decade, government officials and energy experts predicted a decline in domestic natural gas production as conventional fields on-shore and in the Gulf of Mexico declined. Companies like Cheniere, Sempra Energy and Exxon Mobil began snapping up coastal land and requesting regulatory approval for scores of terminals. Several other terminals were taken out of mothballs and expanded.

But recently domestic natural gas production has been stronger than expected and events abroad have drawn L.N.G. from the United States to countries that needed it more.

Last July an earthquake in Japan forced the closing of the Kashiwazaki-Kariwa nuclear power plant, which in turn has forced Japanese utilities to import huge amounts of L.N.G.

World L.N.G. supplies grew even more scarce because of a persistent drought in Spain that has crimped that country’s hydroelectric capacity, forcing the Spanish to increase L.N.G. imports.

Prices in Asia and Europe have soared, as producers have sold more supply on the spot market where prices are higher than those in traditional long term contracts.

World demand for natural gas has grown about 2.6 percent a year over the last decade, but in Asia, the Middle East, Latin America and Africa it has averaged 7 percent over the same period, according to a recent UBS report. Growth in the developing world is expected to be supported in the years ahead by a construction boom in refineries and power and petrochemical plants.

Supplies of L.N.G. are going to grow in the next few years, but experts say they will not be enough to satisfy the growing demand. Liquefaction plant projects that prepare the gas for shipping in producing nations like Nigeria and Russia are being delayed and even shelved because of political turbulence, cost overruns and increasing domestic demand for gas in their own countries. Production in one major terminal in Indonesia is sliding because of a declining field, and production in another in Norway is facing mechanical difficulties.

With L.N.G. providing only about 3 percent of total American natural gas consumption in recent years, the fall in L.N.G. imports has made few headlines. But some experts say those responsible for importing gas are making a mistake by not buying more L.N.G. at current prices.

They warn that the failure to import more L.N.G. is leaving natural gas reserves precariously low should the country be hit by a harsh hurricane season or cold winter. They say low L.N.G. imports have helped push American natural prices higher, just not high enough to match the prices of Europe and Asia whose ability to produce and store gas is far inferior to the United States.

Andrew D. Grams, head of North American power and gas trading at Deutsche Bank, said the United States may eventually pay dearly for not importing more L.N.G. now. He calculated that given the reduced L.N.G. imports and expected energy use through the summer, the country will have only 3.1 trillion cubic feet of gas in storage at the end of October — almost 1 trillion cubic feet below full storage.

“Under a normal scenario, that’s just barely enough to get through winter,” Mr. Grams said. “It doesn’t take a rocket scientist to figure out that we may not get enough L.N.G. supply in the United States unless our pricing structure becomes more competitive with the rest of the world.”

Natural gas, unlike oil, is still a regional commodity and its price is only loosely connected to world oil benchmark prices. But L.N.G. has tied regional markets closer, and the arc of natural gas prices appears to be following close behind oil in recent months because of tightening L.N.G. supplies.

The same increases in the prices of steel and other materials and shortages in labor that are making it more expensive to explore for oil are making L.N.G. development more costly too. Meanwhile, countries that produce oil and gas like Libya and Algeria are replacing their oil-powered electricity plants with natural gas-burning plants. That way, they are able to export more oil, which costs less to ship than L.N.G.

“The value of gas to you is what people are willing to pay for the oil you are exporting,” said Don Hertzmark, a consultant who has advised several oil companies on L.N.G. projects. “At that point, the gas is worth a lot of money.”

Nevertheless hopes for L.N.G. still survive here. The secretary of energy, Samuel W. Bodman, and a Cajun zydeco band came last month to celebrate the opening of the Sabine Pass terminal, and a tanker delivered L.N.G. from Nigeria for testing purposes.

Workers are testing generators and painting and building five huge storage tanks, each capable of providing a full day's supply of gas for Louisiana. Tugboat crews are practicing for any future cargo arrivals.

"I know the L.N.G. will come and we'll make a profit on this," said Darron Granger, a Cheniere senior vice president. "I just can't say when."