

# Building up Gas

## KELLIHER CALLS FOR EXPANDED PRODUCTION

By Martin Rosenberg

THE WORLDWIDE CAPACITY for natural gas liquefaction must be significantly expanded to accommodate growing global natural gas demand, says Joseph Kelliher, chairman of the Federal Energy Regulatory Commission.

During peak demand this past winter, existing LNG facilities in the United States imported less gas than normal. That was because demand and price soared in other parts of the world, drawing away supplies that would have otherwise come to our shores, Kelliher said.

"The world has twice the capacity to import LNG as it has to make LNG," said Kelliher. Production capability must be addressed as the United States and other countries expand their LNG infrastructure, Kelliher told *EnergyBiz* in an exclusive interview in his office earlier this year.

**energybiz:** How would you describe the domestic natural gas market?

**KELLIHER:** We produce roughly 85 percent of what we need domestically. Domestic production has been relatively flat in recent years, and the thing that surprises people is that the Canadian production has been relatively flat as well.

**energybiz:** Canada plays a pivotal backup role.

**KELLIHER:** There's almost been an unspoken assumption in the United States. When it comes to natural gas, whatever we don't produce, we'll be able to get from Canada. That no longer seems to be the case. We need LNG imports, and we ultimately need the Alaska gas pipeline.

**energybiz:** How fast is our LNG capacity increasing?

**KELLIHER:** The commission has done a very good job in acting efficiently on LNG import terminal applications. We have approved quadrupling of our LNG import capability. Our current capacity is about four billion cubic feet a day. We've approved an addition of eight projects totaling 15 billion cubic feet, bringing it from four to 19.

**energybiz:** By what time period did you do that?

**KELLIHER:** Of those eight new LNG import terminals, five are under construction. Furthermore, we can increase imports because the current facilities are not being used to capacity. LNG imports have declined since the hurricanes. About the time of the 2005

hurricanes we were importing about 50 percent of our capacity. The most recent data I've seen suggests that they were operating at less than 40 percent capacity. So as the winter went on, the use of our LNG import facilities fell off.

**energybiz:** Why would that be? Wouldn't added LNG imports have helped moderate natural gas prices?

**KELLIHER:** It's because we have to compete with foreign demand. LNG comes to this country either by long-term contract or in spot shipments. We've been losing out on a lot of spot shipments to Europe. If prices are higher elsewhere, that's where the spot shipments are going to go.

**energybiz:** And that kicks prices up here.

**KELLIHER:** Right, because supply, which we might have otherwise gotten, is diverted.

**energybiz:** So that's going to be the scenario going forward?

**KELLIHER:** We're going to have more competition. We have to encourage the development of liquefaction abroad to increase LNG supplies. LNG import facilities are operating at about 50 percent capacity worldwide. The world has twice the capacity to import LNG as it has to make LNG. That gives developers of the liquefaction facilities more choices when it comes to what markets they prefer to use.

**energybiz:** How can we achieve greater price stability?

**KELLIHER:** If our LNG import facilities operate more on the spot basis, then we have to worry about what the price is in Spain — or elsewhere — today. If we want high LNG imports, then we would be better served if gas utilities and others were to enter into long-term purchase contracts.

**energybiz:** Are investors willing to put capital into natural gas infrastructure?

**KELLIHER:** Yes. We're seeing a very robust investment in pipelines. Kinder Morgan recently secured shipper commitments for the Rockies Express, which is about a 1,500-mile long project that would run from Wyoming to Ohio. We've seen a lot of projects to increase the take-away capacity from the Rockies.



Joseph T. Kelliher

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#### WEST VIRGINIA LEGISLATORS IRKED

Seven West Virginia legislators have asked state regulators to look into natural gas rate hikes.

"There is no reason for utilities to have raised their prices by more than 87 percent in less than five years when the general inflation rate has gone up only 11 percent," one legislator, Sally Susman said, according to the *Associated Press*. "We want the PSC to investigate why the utilities have misled West Virginians by blaming their monstrous increases on Hurricane Katrina."

Regulators said that local residents saw home heating bills rise 20 percent this winter, compared to last, the steepest hike in three decades.