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LNG: FERC Approves Sabine Pass Export Terminal; Confirms Positive Outlook

FERC approval of the continental United States' first LNG export terminal came a few days ahead of schedule. Yesterday after market close, the Federal Energy Regulatory Commission (FERC) approved Cheniere Energy's (LNG) Sabine Pass liquefaction application (docket # CP11-72-000) to site, construct, and operate liquefaction and export capacity at the company's existing (import/regasification/storage) terminal in Cameron Parish, Louisiana. The project will have liquefaction capacity of 2.2 billion cubic feet, or 16 million tons per annum (mtpa). FERC Commissioners are due to discuss (among multiple agenda items) Sabine Pass at a **meeting scheduled for this Thursday at 10:00 a.m. ET in Washington**, though the discussion would appear to be merely a formality at this point (yesterday's order was expressed as unanimous – it did not note dissention by any of the FERC Commissioners). Requests for a "re-hearing" before FERC may yet be made by Sierra Club, Gulf Coast Environmental Labor Coalition (GCELC), and other opponents named in yesterday's order, but these typically relate to specific issues and do not often challenge overall project timelines. Ultimately, we believe Cheniere's liquefaction project at Sabine Pass is on solid regulatory footing for the foreseeable future. We remain bullish on prospects for LNG exports over the long term as a component of Washington's holistic initiative to facilitate increased and sustained natural gas demand to offset recent years' shale gas production growth. Limited approval of **other export terminals proposed to FERC** (e.g. Freeport, Corpus Christi, Lake Charles, etc.) may reasonably be expected in the coming years, and could be impacted by the outcome of the 2012 Presidential elections.

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FERC Acknowledges Consumer and Environmental Concerns in Approval Order. Yesterday's FERC approval order confirms the findings in FERC staff's December 28 Environmental Assessment (EA), and will require adherence to the 55 environmental mitigation conditions identified in the EA. FERC Commissioners confirmed their view that the project is "not inconsistent with the public interest," and reiterated the Energy Department's (DOE) earlier expressed view that "natural gas production associated with exports in the Sabine Pass application will result in increased production that could be used for domestic requirements if market conditions warrant such use, and this will tend to enhance U.S. domestic energy security … [Also], several other tangible benefits are likely to follow from the requested authorization, including increased economic activity and job creation, support for continued natural gas exploration, and increased tax revenues." Cheniere had previously secured export authorization from DOE for free trade agreement (FTA) and non-FTA countries (September 7, 2010 and May 20, 2011, respectively). At an event in Washington last week, Deputy Energy Secretary Daniel Poneman addressed concerns of global gas market "price convergence" and the risk that a robust uptake of LNG exports could adversely affect the input costs of inland manufacturing interests and other residential, commercial, and industrial end-use consumers. The Department's statistical arm, the Energy Information Administration (EIA), is engaged in an extensive study of the potential price increases attributable to various natural gas export scenarios, as EIA's fairly linear conventional forecasting model fails to account for certain real world dynamics. Separately, Rep. Ed Markey (D-Massachusetts), Sen. Ron Wyden (D-Oregon), and other lawmakers have put forth legislation to "suspend approval of LNG export terminals" until at least 2025, though we do not anticipate such proposals will gain momentum. As we wrote in our April 12 LNG report, we think the above-mentioned concern with LNG export ramifications will manifest itself in a cautious approach to LNG export terminal approvals – perhaps only a handful at first – to ensure the U.S. does not "trade away" its natural gas-derived competitive advantages.

Authorizing LNG Exports Seems to 'Fit' Washington's Natural Gas Narrative. Natural gas has dipped below $2/Mcf a few times this month; gas was last at these levels in 2002. As we have written previously, it seems Washington is staging a holistic strategy to facilitate increased and sustained natural gas demand, primarily to offset recent years' rapid shale gas production growth that brought a supply glut and depressed prevailing prices. The strategy includes broader applications in the power generation and transportation fuel contexts, as well as initiatives to facilitate U.S.-produced gas' access to the global gas market (e.g. boosting liquefaction capacity for purposes of eventual LNG exports from U.S. shores). Recent events include EPA's issuance of proposed greenhouse gas regulations for new power plants, setting emissions thresholds at a point that implicitly encourages the construction of natural gas-fired (rather than coal-fired) generating units. While we expect near-term sentiment risk for shale gas operators stemming from EPA's forthcoming "diesel" definition, ongoing state-level litigation, and other matters, we have long-anticipated a positive FERC outcome on the LNG exports front, as well as varied investment opportunities tied to long-haul natural gas truck incentives.

RISKS

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