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New England Energy Alliance: Update on the Region's Need for LNG

A year ago, the New England Council published a report on “The Economic Imperative for Additional LNG Supplies in New England”. The report concluded that more LNG facilities are needed in New England before 2010 to meet increasing demand for natural gas and to avert shortages.

A similar, but more urgent, conclusion was reached by the Analysis Group of Boston in a report for the New England Energy Alliance late last year entitled “New England Energy Infrastructure – Adequacy Assessment and Policy Review”. The Alliance report concluded that natural gas supply/delivery shortages in the region may occur as early as 2007 without additional natural gas supply sources and delivery capacity.

These findings come as no surprise. The “warning flag” regarding the need for additional supplies of natural gas had been raised by both federal and state officials as early as 2003. However, the findings do serve as important reminders that new LNG infrastructure located in New England is the most realistic near-term option for bringing in substantially more natural gas supplies into the region and needs to be the centerpiece of a viable energy strategy going forward.

The lack of LNG infrastructure development is not due to a lack of proposed LNG projects – numerous proposals to develop LNG terminals in New England have been announced and are currently being processed by federal regulators. The reason these projects have been proposed is that the need for LNG is well recognized and documented and project proponents are willing to invest to satisfy these market needs. The need is urgent and policy makers should avoid calls for new studies and regional approaches that may delay critical regulatory decisions. Siting processes and authority are well established: what is needed now is timely decision making to ensure that natural gas is available and affordable so the region's economic competitiveness and quality of life are sustained.

Used in New England for decades, LNG currently provides nearly 20% of the region's annual consumption of natural gas, increasing to over 30% during winter peak demand periods. LNG augments natural gas supplies that are needed to heat over 2 million residences and 240,000 businesses in New England and generate 42% of the region's electricity.

Reliance on Canada to meet regional LNG needs may appear to help, as some have suggested, but it should not be considered a substitute for facilities in New England given the added cost of transportation and Canada's own growing demand for natural gas to meet growth and environmental requirements. Recent setbacks in the development of Canadian LNG projects suggest that these commercial considerations do matter, especially to LNG suppliers who have many choices as to where they will sell their product.

Delays in decision-making could be costly. The New England Council's report noted that the economic consequences of a 2-year delay in natural gas system infrastructure construction planned for the region – pipeline or LNG – could cost New Englanders approximately \$3 billion by 2010 in higher natural gas prices. The price of natural gas in New England has already almost doubled over the past several years which has increased the cost of electricity by at least \$500 million per year since 2001 and has substantially increased costs for heating homes and businesses as well as for manufacturing.

Given the lead time to permit and construct new LNG infrastructure facilities, actions deferred or undertaken now will significantly influence the region's economy for years to come. The time to review and approve LNG projects is now – a position the New England Energy Alliance is advocating to ensure that sufficient new LNG infrastructure will be built in time to avoid shortages.

A copy of the Council's report is also available on the Alliance's web site – www.newenglandenergyalliance.org. If you would like additional information please don't hesitate to contact us at cgustin@newenglandenergyalliance.org.