Ferguson: Energy Matters

April 13, 2007

Does California Need LNG?

On April 9 the California State Lands Commission turned down a new liquefied natural gas terminal off the Oxnard coast. The project, proposed by the Australian mining conglomerate BHP Billiton, would have been the first liquefied natural gas terminal on the West Coast.

Did California reject liquefied natural gas in general or just this particular project? Because the state doesn't have an energy policy, who knows?

In the wake of the 2-1 decision by the Commission, a reporter called to ask if California "needs" liquefied natural gas. After reminding him that the state's gas system is just a part of the larger North American network, I fell back on the lame response that the answer depends on what your definition of "need" is.

Natural gas prices are high despite record amounts of gas remaining in storage, even at the end of the heating season. Futures contracts for the next 12 months average over $8.50/MMBtu.

Do these prices indicate California needs liquefied natural gas? Perhaps.

On the other hand, the downward trend in U.S. gas consumption continues. U.S. gas use has declined every year since 2002, although last year's numbers also reflect the disruption caused by the 2005 hurricanes.

Does soft demand mean California *doesn't* need liquefied natural gas? Perhaps.

As you can tell, I don't know if California "needs" liquefied natural gas or not. The degree of need depends on how serious the state is about global warming and whether it plans to reduce the use of fossil fuels.

In other words, what the state really needs is an energy plan.

If California is planning to reduce its use of natural gas to limit climate change, then the state probably does not need an LNG terminal. If the state needs more gas, it needs liquefied natural gas.

But which is it?

The problem is that despite the passage of AB 32, the "California Global Warming Solutions Act of 2006," California has no energy plan. Neither the State Lands Commission nor developers like BHP Billiton know what AB 32 means for natural gas.

The plain language of AB 32 establishes a goal for the state to reduce greenhouse gas emissions, the most important of which is carbon dioxide from fossil fuels. One might think this is a clear indication that California intends to reduce its use of fuels like natural gas. Alas, nothing from Sacramento is ever that clear.

AB 32 left plenty of wiggle room. For example, mandatory measures to reduce greenhouse gas emissions must be "cost effective," whatever that means.

Even more confusing is the potential use of offsets to avoid action. The state, with the governor's support, is hell-bent on establishing a carbon credit trading system. The prevailing attitude seems to be that carbon credit trading will obviate the need to make tough decisions about the use of fossil fuels. As one wag put it, "Everybody wants to go to heaven, but no one wants to die."

It is incomprehensible to me that California can be talking grandly about global warming solutions while remaining clueless about the implications for energy supplies. The naïve notion that "market mechanisms" can solve global warming without having to confront the thorny problem of energy consumption and supplies is utter foolishness.

Global warming is not caused by the tooth fairy or the Easter bunny. The primary cause is the burning of fossil fuels to supply energy. If California is serious about global warming—and I continue to hope that it is—it needs to develop a coherent energy plan to guide decisions that enable the state to reach its goals. The role that liquefied natural gas and other energy resources will play in the state's future would be spelled out in such a plan.

The present muddle will continue for many years while lobbyists argue about what AB 32 means for energy use.

In the meantime, does California need liquefied natural gas? In the absence of an energy plan, who can possibly know?

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