

LNG Exports Will Soon Commence

A question I'm often asked is how the business prospects of many MLPs will respond permanently to lower prices for oil and gas, perhaps lower than where they are today.

From a high level, markets often appear vulnerable to a correction. This is especially true with the S&P500. You rarely hear anyone simply say the market looks cheap, and in fact it's easy to find reasons to worry. Today it's rising rates and the threat of Grexit, but there's always something to worry about. And if there isn't, then you can worry about complacency. For me, the solution is to look at individual companies, because while the market outlook can be uncertain, the prospects for (fill in the blank) corporation often appear far more tangible and clear than for the broader averages.

The same is true with MLPs. Prices have fallen along with the energy sector. So look at Cheniere Energy and their LNG export facilities at Sabine Pass, LA and Corpus Christie, TX. It may seem quaint to remember, but not that many years ago the U.S. was preparing to import LNG. The two abovementioned facilities were built for that reason, until the boom in domestic natural gas production led to a glut and rendered the economic assumptions underlying imports no longer valid.

So the facilities were switched to export LNG instead. This is not a trivial task. Natural gas has to be compressed and cooled to around -256 degrees Fahrenheit before being piped into the large spherical tanks you see on LNG tankers. Handling LNG is far harder than crude oil, and the regulatory oversight is substantial as you might imagine. An accident at an LNG terminal would be a spectacular sight as long as viewed from many miles away.

Cheniere's CEO Charif Souki has a substantially bigger risk appetite than ours, as I've written before (see U.S. Natural Gas Terms of Trade Continue to Shift) but he is close to starting operations at the first LNG export facility in the lower 48 states. The relevance to MLPs of this milestone is that the natural gas that Cheniere will export has to be transported to their terminals via pipeline and stored prior to processing and loading onto LNG tankers. Two important infrastructure providers are Kinder Morgan (KMI) and Williams Companies (WMB). KMI announced plans to provide pipeline capacity and storage for Cheniere's Corpus Christie facility back in December.

WMB will be expanding its Transco pipeline network, an enormous connection of pipelines and supporting infrastructure running down the eastern U.S. from the north east to Texas. Last year they announced they'd be building Gulf Trace which will bring natural gas from the Marcellus Shale in Pennsylvania down to the Sabine Pass LNG export terminal and from there to foreign customers.

The question of whether low commodity prices are good for energy infrastructure is not one that can be answered with a simple "yes" or "no". The LNG export projects provide an example of how the domestic energy business is exploiting opportunities from low domestic prices.

We are invested in KMI and WMB.