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Trump Wants More Natural-Gas Exports and Lower Energy Prices. It's Going to Be Tricky.

Major gas basins are growing old, and the U.S. lacks the proper infrastructure to ferry molecules where they are needed

By Benoît Morenne Follow

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A drilling site in the Haynesville Shale. The Haynesville has been active since 2008, and companies there have exhausted most of their sweet spots. RORY DOYLE FOR THE WALL STREET JOURNAL

The U.S. is set to roughly double exports of natural gas in the next five years. Prices and volatility are poised to rise, too.

With the Trump administration's support, developers are forging ahead with plans to build a flurry of new terminals that liquefy and ship natural gas. President Trump has made LNG exports a cornerstone of his trade policies by tying deals to commitments to buy more U.S. energy.

The administration is calling on drillers not only to fuel these new facilities on top of existing plants, but also to help electrify the reshoring of industries, as well as to power giant data centers.

The hitch: Major gas basins are growing old, and the country lacks the proper infrastructure to ferry molecules where they are needed. The upshot is that American consumers and industries are likely to see higher natural-gas prices and more volatility in the coming years, analysts and executives say. That could be an issue for Trump, who has promised to cut energy prices in half.

"If you want to export all this LNG, if you want data sector growth, all the power demand growth, you're going to need higher prices," said Eugene Kim, an analyst at energy research firm Wood Mackenzie. "And that goes in contradiction to what Trump wants, which is lower energy."

An LNG export facility in Port Sulphur, La. KATHLEEN FLYNN/BLOOMBERG NEWS

Until now, an ever-growing supply of natural gas unleashed by the shale boom has more than absorbed domestic and foreign demand. Prices in the past decade—which saw the U.S. become the world's top LNG exporter—averaged about $3 per million British thermal units. That compares with nearly $6 in the aughts, when the U.S. burned about a third less natural gas than it does now, according to the U.S. Energy Information Administration.

The bounty has been a boon for consumers, petrochemical makers and other industries. Now, a slew of LNG terminals are under construction and set to siphon prodigious amounts of natural gas. The country in July shipped about 14 billion cubic feet of natural gas a day, according to the EIA; analysts say it is on track to export about 27 billion cubic feet a day by 2030.

Although the U.S. has plenty of cheap natural-gas reserves, the enormous fields of the Northeast lack pipelines to ferry more molecules south. The Permian Basin produces huge amounts of natural gas from oil wells, but companies there are perennially short on pipes to send the byproduct to markets.

As a result, LNG terminals have largely relied on the Haynesville Shale, a deep, high-pressured rock formation that spans East Texas and Louisiana, for their fuel. Output there has more than doubled in the past 10 years, and analysts say that the basin needs to increase production by roughly another third to provide about 40% of new LNG demand. They expect the Permian and other basins to fill the rest.

But the Haynesville has been active since 2008, and companies there have exhausted most of their sweet spots. They now have just over a year's worth of wells considered top-tier, about 614 drilling locations, according to Jimmy McNamara, an analyst at energy-analytics platform Enverus.

In recent months, energy executives have said the basin needs to see natural-gas prices increase to about $5 per million British thermal units to encourage producers to venture into less productive, more expensive areas. Prices currently hover around $3. The EIA recently said it expects them to increase to $4.10 in January, about 50 cents lower than it had previously forecast, which it attributed to higher-than-expected natural-gas production.

An LNG terminal under construction in Texas earlier this year. Developers have been forging ahead with plans to build new terminals that liquefy and ship natural gas. CALLAGHAN O'HARE/BLOOMBERG NEWS

Haynesville companies are being more timorous than before because they need to hit their returns on investment, lest they lose hard-won investors. Businesses for years overproduced and drilled themselves into bankruptcy; investors have since pressured them to rein in spending and return cash to shareholders via buybacks and dividends.

The companies have done about all that they can to get more from their shrinking catalogs of wells and keep spending in check. They are drilling and fracking longer wells faster, which saves them cash. But these gains are hitting their limits, and companies have few options to grow without running afoul of capital discipline, analysts say.

"If you have scarcity of resources, [and] you can't make it work any better, either financially or operationally, you need to wait for higher prices," said Tom Loughrey, president of analytics firm FLOW Partners.

If natural-gas prices were to hit $4, that would allow companies in the Haynesville to log acceptable returns for about two years, Loughrey estimates. Prices edging a dollar higher—about 22% above the 30-year average—would allow them to hit their return goals for about five years, he said.

Some natural-gas bosses worry that the export frenzy is going to collide with the industry's disciplined approach and that prices will jump as a result. Gordon Huddleston, president of privately held Aethon Energy Management, one of the largest drillers in the Haynesville, told analysts earlier this year that new pipelines were needed to bring supplies from elsewhere in the country and ease the pressure on the Haynesville.

"We want to see a stable, long-term price for the commodity," he said. "What we don't want to see is demand destruction because of price volatility."

Some natural-gas executives point out that volatility could cut both ways, which makes them wary of making hasty decisions. They worry that a potential glut of global LNG starting in two years could leave U.S. plants underused and molecules stranded at home, which would tank prices. Another unknown is the impact of lower oil prices on Permian crude production, and, by extension, the natural-gas output there.

Jared Champlin, chief executive of private Haynesville driller Roaring Fork Energy, said his company is in no rush to accelerate production. He said he has enough inventory to drill at the same cadence for the next 15 years, and he is aiming to capitalize on prices that he expects to swing between $3 and $7 per million British thermal units.

"I think the market can get ahead of itself really quickly," he said.

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