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Ex-CIA chief: US should rethink Alaska gas line loan guarantee

"Good news about energy is rare."

So begins a sweeping essay on world natural gas markets by former CIA director John Deutch in the January/February issue of the journal Foreign Affairs.

Focusing on the rapid rise of unconventional gas production, particularly shale gas, Deutch contends we're approaching a revolution that will be "an unmitigated boon for consumers."

But for conventional oil and gas provinces such as Alaska, well, the news isn't so good.

"For years, major natural gas holders — such as Australia, Bolivia, Iran, Russia, Saudi Arabia, and the United States — anticipated a future of high, oil-linked gas prices," Deutch writes. "They invested in expensive LNG liquefaction facilities and pipeline projects. But now, these countries are facing a reduction of the value of the resource in the ground. A dramatic increase in the global availability of unconventional gas and lower natural gas prices could put these and other planned investments under water, although the effect will not be immediate because of long-term contracts."

Reconsider domestic policy

The United States, Deutch continues, now faces the need for domestic policy adjustments.

"Policies designed to stimulate the domestic supply of natural gas should be reconsidered. This includes the federal loan guarantee that Congress approved in 2004 for a proposed pipeline to transport Alaskan gas to the lower 48 states, since these states now have lower-cost sources of gas readily available."

All this, of course, is one man's opinion.

A recent study done for the State of Alaska by consulting firm Black & Veatch projected gas prices rising high enough by 2020 and beyond to possibly make a multibillion-dollar gas line viable.

But Deutch brings considerable credentials to the gas discussion. A former U.S. undersecretary of energy, he has advised several energy companies and helped with a 2010 study called "The Future of Natural Gas" from the Massachusetts Institute of Technology, where Deutch is a chemistry professor. He was CIA director from 1995-1996 during the Clinton presidency.

In his essay, Deutch cites the huge growth of shale gas estimates, notes that current U.S. shale gas production is about 10 billion cubic feet per day or 20 percent of domestic natural gas production, and says many other nations likely have shale plays of their own to exploit.

Cheap gas

He acknowledges the challenges with shale gas. "There are significant uncertainties about how much shale gas around the world can be produced economically," he writes, as well as fears that hydraulic fracturing to release the gas raises fears of water pollution.

But Deutch asserts that shale gas production today "tends to range from $2 to $3 per thousand cubic feet of gas — around one-half to one-third the production cost associated with new conventional gas wells in North America." Further, he adds, experience and technical advances are likely to drive down production costs even further.

With an expected expansion of LNG shipments and rapid development of cheap unconventional gas, the world's natural gas trade is headed toward a new era, Deutch argues. Gas will trade more on a global rather than a regional basis, and at a uniform price — like oil.

This means countries with lots of gas to export can expect to earn less off it, Deutch writes. Further, oil prices will fall as natural gas "acts as a substitute for oil."

The new landscape for gas, Deutch concludes, is good news for gas consumers everywhere.

—Wesley Loy