

## **Key 2nd Term Energy Policy Challenges for President Obama**

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From December 4 through 8, I had an opportunity to visit Washington D.C. for discussions with U.S. government and think tank experts on the U.S. energy situation and policy trends. How will President Barack Obama manage energy policy over the next four years after his reelection in the United States that continues to make the world's most dynamic changes? As this question is attracting global attention, I would like to put in order key points that impressed me during the discussions in Washington.

During my Washington visit, the U.S. government released two important reports. One is a report on macroeconomic impacts of liquefied natural gas exports from the United States, as compiled by the National Employment Rights Authority under a contract with the Department of Energy. The other is an early release version of the 2013 Annual Energy Outlook by the Energy Information Administration. The two reports commonly indicate great U.S. interests in the natural gas issue. The former report directly addresses the impacts on the U.S. economy of LNG exports that are attracting great attention from Japan and other Asian countries, becoming one of the most important topics at my discussions with U.S. experts. As is well known, the report provides a model analysis of U.S. LNG exports' impacts on the U.S. economy under various scenarios and gives two key conclusions: (1) LNG exports will bring about a net gain for the U.S. economy under any scenario, and (2) the net gain will expand in line with export volume growth.

While LNG export project planners have attempted to take advantage of a large gap between low U.S. domestic gas prices and high prices in Asian and other foreign markets, consumers and other users of low-priced gas have been concerned that LNG exports could boost domestic prices to exert adverse effects on the U.S. economy. Therefore, the issue of LNG exports has loomed as a key energy policy challenge for the United States and President Barack Obama after his reelection. In this respect, the report endorsed positive effects of LNG exports and is expected to provide a key support for LNG export plans.

But the problem is not so simple. The report is expected to come under fire from gas users who are concerned that LNG exports could cause higher gas prices that could have adverse effects on their business operations. The DOE has subjected the report to public comments since its release. As rebuttals to the report emerge, domestic U.S. debate may grow over LNG exports, which may become a very important topic in future U.S. energy policy discussions.

How will the LNG export debate be settled? No optimism can be justified about the settlement. LNG export supporters see some constraints or limits on LNG exports and do not expect that all present LNG export plans totaling nearly 200 million tons of export capacity would be realized. In the recent discussions in Washington, some U.S. experts shared their views that the U.S. government may approve LNG exports case by case, while considering limiting total export volume and their impacts on domestic market. Given that LNG export approval will be given on a

case-by-case basis, the U.S. government is expected to take a prudent attitude toward approving individual LNG export projects while watching gas market conditions and prices.

Behind the LNG export issue are not only gas price hike fears and their adverse effects but also concerns about the future course of shale gas development. Furthermore, future oil prices are uncertain after high oil prices supported gas production growth even under very low gas prices. We must also pay attention to water pollution and other environmental problems in which interests have been growing. Irrespective of the facts regarding environmental problems, public opinions and perceptions about these problems have great impacts on energy issues. In this respect, one U.S. expert told me that attention should be paid to how "Promised Land," a Hollywood film due out late this year, would affect public opinion by taking up a relevant environmental problem.

Attracting my attention in my discussions with U.S. experts in Washington were frequent arguments about Alaskan gas development and potential LNG exports to Asia. Alaskan gas resources are losing their potential to supply gas to the lower 48 states as gas prices have plunged under the shale gas revolution. Present fundamental facts include a sharp decline in Alaskan oil and gas production. As far as LNG export approval is concerned, conditions in Alaska may be different from those in the Lower 48 states. How should Alaskan gas be viewed? A key point in my discussions with U.S. experts was that Alaskan gas would be of great significance to Japan and the rest of Asia. We may have to take note of Alaskan gas resources in considering the U.S. LNG export approval problem and future U.S. LNG supply.

Through the Washington discussions, I also understood the gas issue as one of key points regarding the EIA's early release version of the AEO 2013. As symbolized by the fact that gas has replaced coal rapidly as an electricity generation fuel under low gas prices, gas has increased its competitiveness dominantly. But the problem is whether this trend would continue long. In this respect, the EIA outlook projects that the gas price will remain at or below \$4 per million British thermal units until 2018, rise gradually later, and reach \$7.8 in 2040 in the reference case. Under the price assumption, natural gas demand is projected to remain firm mainly in the electricity generation sector. The demand is estimated to increase from 24.4 trillion cubic feet in 2011 to 29.5 trillion cubic feet in 2040. Natural gas is thus expected to become the only fossil fuel to expand its share of total primary energy demand (from 26% in 2011 to 28% in 2040).

But natural gas price changes are expected to bring about changes in coal demand. Coal demand is projected to continue falling under low gas prices until 2016, and level off and turn up later on relative price changes. Specifically, coal demand is estimated to expand from 999 million short tons in 2011 to 1,071 million short tons. A very interesting view given during the Washington discussions was that the present low gas prices and future changes will greatly influence renewable energy and nuclear power generation. In this sense, future spillover effects of the ongoing shale gas revolution are coupled with unconventional oil development and "U.S. Energy Independence" problems to account for the central position in U.S. energy problems and policy.

Since his reelection, President Obama has been considering replacing major cabinet members including the Secretary of DOE as well as the Secretaries of State, Defense and Treasury. Even though energy and other policy frameworks are likely to remain unchanged, we may have to closely watch priorities, problems and stances for new cabinet members. In analyzing the attention-attracting natural gas issue, we may have to pay attention to new senior U.S. officials engaging with energy policy.

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