

US participants face uncertain outlook



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New projections on long-term demand for LNG in the market's effective consumer of last resort show loss of market share to unconventional gas.

LNG demand in the US is set to grow modestly over the upcoming decade if bullish shale gas production predictions materialise, market participants said earlier this month at both the CWC LNG Americas summit in San Antonio, Texas, US, and at the SMi LNG 2010 conference in London.

According to official figures from the US Energy Information Administration (EIA), the body of the US government that conducts independent forecasts, domestic natural gas production is seen to grow from 20.6 trillion cubic feet (tcf) in 2008 to 23.3tcf in 2035 due to increased shale gas production. The Washington-based Center for Strategic and International Studies sees shale gas production increasing from 10 billion cubic feet per day (bcf/day) to 25bcf/day between 2010 and 2020, with Marcellus, Haynesville and Barnett being the main plays. According to the EIA, total US natural gas imports could nearly halve over the next 20 years if the most bullish shale gas production projections materialise.

Industry sources said the main caveats to the current shale-influenced US LNG outlook are: additional demand resulting from trading opportunities on an oversupplied spot market in the Atlantic Basin, lower-than-expected flows of Canadian and Mexican gas into the US, and lower-than-expected shale gas production in the US resulting from low Henry Hub prices. On the policy side, shale's challenges include new US climate-change

policies leading to higher-than-expected substitution of coal with gas in the power sector, regulatory obstacles and an adverse public opinion to shale gas.

"North America will need LNG. The question is how much," BP Americas director of marketing and origination David Steely said. The company expects US LNG imports to fall under 1bcf/day in 2011, around 8% of the country's present installed regasification capacity. BP projects demand to rise slowly, to around 1.5bcf/day by 2015–2016, dipping slightly in the latter part of the decade. In this scenario, BP assumes US demand for natural gas will increase due to climate-change policies.

Stream's commercial director Alberto Alvarez sees higher demand potential for the US. Quoting a study from Wood Mackenzie consultants, Alvarez said the company expects demand will rise from around 10m tonnes or LNG in 2009 to under 20m tonnes in 2015, receding in 2020 to a lower level than in 2009. Alvarez argued shale gas will curb North America's LNG demand to a point by the end of the decade when it would fall behind Latin America's as market share of gas in the southern continent's power generation mix increases and regasification infrastructure comes online.

Pipeline imports could dry up
LNG imports could be bolstered by lower than expected decrease in availability of pipeline

“ By 2020, North America's LNG demand could fall behind Latin America's ”

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gas from traditional suppliers Canada and Mexico, or reduced further in the opposite scenario, according to participants.

According to the latest projection from the EIA released in December, total net pipeline imports of natural gas from Canada and Mexico into the US would decline from 2.7tcf in 2008 to 0.9tcf in 2030. This is an upward revision of the earlier annual forecast that factors in new shale gas projects into Canada that could supply the US. The previous forecast saw the US evolving into a net gas exporter to Canada in 2030.

According to the EIA, from 2020 onwards Canadian gas import volumes will be in line with LNG imports.

Mexican natural gas imports would be offset by growing exports, eventually reaching 1bcf/day by 2030, the agency wrote. This view opposes the Mexican government's energy arm Secretaría de Energía, which sees gas exports into the US increasing (see GLM 8 January 2010). According to the Mexican government, the country will become for the first time a net exporter in 2012 with annual net exports rising progressively to 450mcf/day in 2014 and revert to being a net gas importer by 2019.

Spot market - surplus tension

Opportunistic spot purchase of LNG in a depressed Atlantic Basin market could have a cumulative bullish effect on US LNG imported volumes, sources said.

"The Middle Eastern LNG overflow and growing Atlantic supply will outpace demand by an increasingly wide margin," Chris Goncalves, director of Washington-based Navigant consultancy, said. "Overall, the flood of new LNG supply available in the Atlantic will significantly outpace LNG demand growth and yield a substantial and growing LNG surplus," Goncalves added.

According to Navigant, total available supply of LNG in the Atlantic basin, factoring in unused Asian production, would rise from 139Gm³ in 2010 to 295Gm³ in 2020. Atlantic Basin demand would rise less steeply the same period, from 108Gm³ in 2010 to 168Gm³ in 2020. Navigant predicts an Atlantic Basin LNG surplus to more than quadruple, from 31Gm³ in 2010, to 127Gm³ in 2020.

Such inflow could have a negative effect on LNG spot prices, opening opportunities for US buyers to acquire spot LNG at below the cost of shale gas. The opening of the Panama Canal to smaller LNG carriers in 2014 will create more arbitrage opportunities for US buyers.

Shale price – a known unknown

Predicting shale gas production is a particularly complex exercise due to the industry's exposure to short term gas prices and the relatively short life span of shale extraction wells; hence production revisions will affect the country's LNG import outlook.

Sources agreed some shale gas reserves

are commercially competitive at a price range of \$4–6/MMBtu, a level in competition with current and historic spot LNG price in the Atlantic Basin. However according to shale gas producers, the question is how much shale gas can be extracted within this price range. "If US gas prices are between the \$3.75–6/MMBtu range, it will take 65% of our shale gas reserves off the picture," Chris George, strategic planning analyst at Southwestern Energy said.

Merrill Lynch/Bank of America's forecast for the same period is within the \$5–8/MMBtu range. According to Keith Barnett, director of strategic analysis at Merrill Lynch Commodities, this will generate "sufficient drilling to battle LNG for market share at a price over \$5/MMBtu."

The "GFY" factor

Negative public opinion could become an obstacle for the development of shale gas production in the US, potentially undercutting production forecasts, sources agreed.

Unlike the opposition to LNG terminals, which essentially bases its case on visual pollution, shale gas opponents have voiced public health issues. Their main concern is the potential contamination of ground water resources from certain chemicals used in the fracking liquid. This issue was recently in the US media when a green party candidate reportedly told an energy company aiming to buy acreage in his land to "go frack yourself". More importantly, a court in New York ruled recently against exploration in the part of the Marcellus basin located within the New York state jurisdiction.

"Delay and uncertainty increases development time and costs and ultimately can kill projects," said Dean Girdis, president of Downeast LNG. "Try getting financing if you risk your financiers' water supply."

Gas-friendly policies

A potential support factor to LNG demand in the US could derive from new government carbon reduction targets which would stimulate gas-fired generation to the detriment of coal-fired generation, participants said.

"A significant energy and climate policy breakthrough in Washington could increase US LNG demand by 40Gm³ to 80Gm³ or more by 2020," Goncalves said. According to the consultant, influencers in Washington have realised carbon reduction policies will require a larger share of natural gas in the energy mix in addition to renewables and nuclear power than previously thought.

The verdict

The industry generally believes LNG demand in North America will continue to grow, despite the effect of shale gas production. Long term demand forecasts have a track record of not materialising and should be viewed accordingly.

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