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Too Much of a Good Thing: Natural Gas Production Expected to Continue Growing, Holding Prices Low Through 2020

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Written by John Egan for Industrial Info Resources (Sugar Land, Texas)--North American natural gas production is projected to grow by 28% between 2014 and 2020, suggesting a prolonged period of low prices in an already oversupplied market, speakers told the 27th Annual Rocky Mountain Energy Summit in Denver.

North American natural gas production will grow by about 20.5 billion cubic feet per day (Bcf/d) between 2014 and 2020, and that projected gain would follow increased production of 13.6 Bcf/d between 2009 and 2014, Javier Diaz, manager for energy analysis and consulting for BENTEK Energy (Denver, Colorado), a unit of McGraw Hill Financial (NYSE:MHI) (New York, New York), told attendees at the conference, which was organized by the Colorado Oil & Gas Association (COGA) (Denver, Colorado). Currently, U.S. gas production is about 72 Bcf/d, he said.

Roughly 70% of expected production growth will take place in the Marcellus and Utica shales, which Diaz projected will add about 14.5 Bcf/d to the gas market by 2020. The Southeastern U.S. is expected to add about 2.5 Bcf/d by 2020, and Texas' production will rise by about 2.1 Bcf/d by then, he added.

During the 2014-2020 time frame, Diaz continued, North American gas demand will rise by about 9.9 Bcf/d, led by the Power Industry, which is expected to increase consumption by 5.4 Bcf/d by 2020. The BENTEK analyst said gas exports--both via pipeline to Mexico and overseas via liquefied natural gas (LNG) terminals--are critical if surging production is to be balanced by new demand. Diaz sees gas exports totaling 11.5 Bcf/d by 2020, outstripping expected domestic demand growth.

“Exports of gas will be needed to balance an over-supplied market,” Diaz told the COGA conference attendees. “Mexico demand growth is looking strong due to load growth and fuel oil conversions, combined with declining domestic production and falling LNG imports. But U.S. LNG exports are at risk as supply ramps up across the globe while demand growth remains in question.”

That's not what gas producers want to hear as they grind through another year of low prices caused by surging supply overtaking demand growth. Diaz did not offer a five-year price prediction for natural gas, but another conference speaker, Bob Gibb, associate director of the energy practice at Navigant Consulting Incorporated (NYSE:NCI) (Chicago, Illinois), did share his firm's price forecast. Gas at Henry Hub will sell for an average of about \$4.40 per million British thermal units (MMBtu) in 2020, measured in 2012 dollars, Gibb told the conference attendees. By 2025, gas at that hub will sell for an average of about \$5.25 per MMBtu, again measured in 2012 dollars.

One factor keeping gas prices from absolutely collapsing is the billions of dollars of pipelines being developed to bring gas from production to consumption. About 19 Bcf/d of new pipeline capacity is scheduled to be operating by 2017, and an additional 10 Bcf/d, currently in the planning stage, is expected to begin operating by 2018, Diaz said. By 2018:

- About 7.7 Bcf/d of new capacity is scheduled to take gas westward from the Marcellus and Utica shales.
- Another 5.9 Bcf/d of new pipeline capacity is scheduled to transport gas from those shale formations to the Southeast.
- 5.5 Bcf of new pipeline capacity is scheduled to begin operating in the Northeast, bringing gas from the Marcellus and Utica shales into New England and Atlantic Canada.

Navigant's Gibbs said he expected continued strong growth in production from the Marcellus and Utica shales will challenge gas from the Rockies. "The Rockies will continue to face competition from other substantial producing regions and may be limited to existing pipeline take-away capacity for some time," he commented. In fact, rather than moving east, as was widely assumed a few years ago, a growing percentage of gas from the Rocky Mountains is expected to find its way to the Pacific Northwest and Western Canada. Some of that gas could end up as LNG, exported from planned export terminals in British Columbia or Oregon.

But Gibbs noted that proposed LNG terminals in that area face steep competition. It can take more than four years to build an LNG export facility, and several such projects are already under construction in the U.S. And while global demand is expected to grow, Gibbs noted LNG demand growth is not limitless and there are numerous overseas projects seeking a slice of that market. The projects proposed for British Columbia may lose out on that export market because they began later than other projects.

"Not all LNG export projects will materialize," Gibbs said. "All things considered, Navigant estimates that ultimate total U.S. LNG exports will be in the range of 8-10 Bcf/d spread widely around the country and served from the Atlantic, Pacific and Gulf Coast regions." This estimate does not include exports from Alaska. The consulting firm projected that LNG exports from Canada will be about 2 Bcf/d.

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