Natural Gas Supply Outpacing Demand

Cambridge, MA (Business Wire) - The North American natural gas market is entering a new era in which supply is no longer constrained, according to a recent Cambridge Energy Research Associates (CERA) [1] multi-client study called *Rising to the Challenge: A Study of North American Gas Supply to 2018*.

Technology revolution unlocked unconventional gas resources, thereby dramatically changing market prospects. Demand, rather than supply, will be the challenge for the market going forward, which is currently accentuated by the economic crisis.

More specifically, the study concluded that the North American natural gas market can now be largely supplied by North American gas production.

The main driver of supply growth in the years ahead will undoubtedly be unconventional gas production, which has benefited disproportionately from technology. Domestic gas producers explored a variety of technologies to exploit the known unconventional resource base.

The success of these efforts became evident between 2007 and 2008, when production in the lower 48 United States grew rapidly - from a 2007 low of 49.8 billion cubic feet per day (bcf/d) in February to 56.7 in July 2008 - an increase of 6.9 bcf/d or almost 14 percent in just 17 months.

This achievement was realized even as a painful recession took hold. The research also surmised that future North American gas production will be limited primarily by demand, which is falling sharply due to the global economic crisis. The present market is struggling to absorb existing production - as reflected in contemporary pricing trends - therefore rendering new drilling in higher cost areas cost-inefficient.

"North American gas production is no longer opportunity-constrained," commented *Rising to the Challenge* author and CERA Senior Director Robert Ineson. "Resource-bearing shales and tight sands are extensive, and North America now has a sufficient inventory of drillable prospects to maintain or, if necessary, increase productive capacity for at least the next 10 years - even after the current recession becomes a memory."

The success of technology in unlocking unconventional resources also resulted in using higher-volume wells, according to the study. Combined with the effects of the recession, this means that the cost of new gas supplies will be lower for the immediate future.

However, as the economy rebounds, key commodity prices will rise again, driving new gas production unit costs up as well. The report also projected full-cycle unit costs to increase from a weighted average of $4.63 per thousand cubic feet (Mcf) in

2009 to $7.54 in 2018.

Given the increased productivity of unconventional wells, the study additionally inferred that it is unnecessary to increase drilling activity to maintain - or even scale up - production. After years of developing unconventional gas with long-lived production, in the aggregate, the average decline rate will fall.

This means, the study indicated, that a smaller quantity of new production is required to offset natural production declines. CERA expects production to increase, with dry gas productive capacity growing from an average of 53.5 bcf/d in 2009 to 60.6 in 2018 in the lower 48 United States, and from 15.8 bcf/d in 2009 to 19.6 in 2018 in Canada.

"The supply renaissance in North America will have global consequences. The development of unconventional gas is reshaping the outlook for natural gas supplies in North America with far-reaching significance for the industry, consumers and global gas business," warned Ineson.

"Growing North American production will decrease North Americas need for liquefied natural gas (LNG), triggering changes in projected LNG flows, while potentially affecting prices and project viability worldwide."

Moreover, the study deduced that LNG will remain competitive in North American markets, but more with high-cost conventional supplies than unconventional gas.

CERA developed the studys supply outlook based upon detailed gas field analyses, and then tested it using its North American gas market modeling capabilities to evaluate supply at the simulation level, which is integrated with CERAs market outlook.

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