

News

Natural gas prices likely to remain depressed: expert

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The US electric generation fleet's natural gas demand is likely to grow to 15.9 Tcf/year by 2030, but surging renewables and global LNG liquefaction capacity may mute any uplift to natural gas prices, a Texas economist said Thursday.

In 2015, power generation consumed 9.7 Tcf of natural gas, according to the US Energy Information Administration.

Gurcan Gulen, senior economist at the University of Texas Bureau of Economic Geology Center for Energy Economics, made a presentation entitled "Going through another cycle: implications for the power sector and Texas economy" at a Gulf Coast Power Association luncheon in Houston Texas.

In that presentation, Gulen noted that the four nongovernmental organizations and large companies such as Microsoft and Google parent Alphabet announced on May 12 the formation of a Renewable Energy Buyers Alliance to deploy 60 GW of new corporate renewable energy capacity by 2025.

"If we think the natural gas prices are going to be low, so we build a lot of natural gas generation, and we have a lot of renewables on the market, so it doesn't need natural gas generation, what's going to happen to natural gas prices?" Gulen said. "They're going to tank further."

LNG not likely to stabilize US natural gas prices

Natural gas market participants are asking whether US LNG exports "can play a balancing role" to keep US natural gas prices at a sustainable level, Gulen said, adding, "I don't think so."

The natural gas industry "shot itself in the foot by overproducing" while natural gas demand has not kept up, Gulen said.

The US has approved a half-dozen LNG projects for exports to countries that do not have free trade agreements with the US, including several European and East Asian countries, but the delivered cost of US LNG to those sites is around \$7/MMBtu, while other countries, such as Australia, have also developed large LNG plants and can sell for about \$4/MMBtu, he said.

"Demand growth is anybody's guess," Gulen said.

For example, Japan has been resuming operation of its nuclear plants and buying more coal, and China's economic growth has been less robust over the past year.

"If China starts slowing down, that's going to have a multiplier effect on the global economy," Gulen said. "LNG is going to be in excess condition for the next several years."

Oil and gas cycle bears similarities to mid-1980s

The current oil and natural gas market is in a cycle similar to that experienced in the mid-1980s, which resulted in widespread layoffs and consolidation in the industry, Gulen said.

"You'll hear people say, 'This time is different,'" Gulen said. "That's the kind of language we always hear in the industry."

Globally, the oil and gas industry has laid off more than 300,000 people, of whom 50,000 to 60,000 are in Houston alone, he said.

But the situation is somewhat different in the Houston Ship Channel area, where downstream petrochemical activity has picked up, while western Houston's "Energy Corridor" of exploration and production companies, tool manufacturers and services has been hit hard by low oil and natural gas prices since November 2014, Gulen said.

"The industry is in trouble, especially if you're a dry gas producer," he said. "We have been expecting a lot of merger-and-acquisition activity."

But Gulen cited three deals that illustrate how those expectations have not been fulfilled. Royal Dutch Shell closed on the acquisition of BG Group on February 15, but the merger of Halliburton and Baker Hughes ended after the US Department of Justice sued to stop the acquisition. Meanwhile, the \$32.6-billion Energy Transfer Partners-Williams Companies' deal is in doubt.

"Companies are in trouble, and what they are asking for their assets is a lot higher than buyers are willing to pay," Gulen said. "As we go through a round of bankruptcies, we are going to see some rationalization of these assets changing hands."

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