Renewables, LNG capacity growth to mute US gas price strength: economist

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

In the most recent year for which complete data is available, 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's 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.

In that presentation, Gulen noted that four non-governmental organizations and large companies such as Microsoft and Google parent company 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.

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"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."

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

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

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

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

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."

The current oil and 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.

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

"The industry is in trouble, especially if you're dry gas producers," 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 Equity-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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