The Oil Drum
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Gas supplies continue to be negotiated

Posted by Heading Out on April 4, 2006 - 3:06pm
Topic: Supply/Production
Tags: china, natural gas, qatar, russia, turkmenistan, ukraine [list all tags]

With a couple of stories in the news this week, one's first inclination might be to think that we should stop worrying so much about immediate fuel supply problems. Consider the report that natural gas supplies are at the highest level since 1984. At a level of some 197 tcf, set against an annual production of around 18.3 tcf, this would appear to give us a reasonably good supply for over ten years. Unfortunately life is not that simple. As Dave pointed out our reserves are increasingly coming from unconventional sources. And as the OGJ article points out

> Production growth hasn't followed the increase in reserves, noted Chris McGill, AGA's managing director of policy analysis.
>
> "In 2005, over 27,000 gas wells were completed in the United States, which is the highest level of completions on record," he said. "However, most of these wells were drilled onshore in shale, tight sands, and coal seams, which are low-yield and slow-yield resources."

To a degree this is good news, since if the supply is, for geological reasons, produced over a longer time interval, it means that it will be around longer. On the other hand it does mean that if demand is sustained, then other means of supply will be needed. Which is, in part, why there is sustained pressure on Congress to open up more drilling access to the outer continental Shelf. Though the claims are a little hyped.

> "Despite record-level demand and prices, federal policies continue to drastically restrict exploration and development, drastically limit supply of domestic natural gas," said NAM President John Engler in a speech last week to the Economic Club of Pittsburgh. "And remember, natural gas is by and large a regional market -- unlike oil, we cannot ship in additional supplies from the Middle East or Russia to meet growing demand."

He appears not to have heard of LNG, a world resource that seems to be growing. While given that we don't have the resources yet to fill all the anticipated gap, BG has shipped 40 cargoes this year of which a third went to the US, and Europe and Japan were also strong customers. Increased profit came, however, as the Guardian reports, more from increased prices than from increased sales volumes.

> Analysts at Citigroup said the first-quarter performance of the LNG business was roughly double consensus expectations.

The question remains as to whether the production rates will be able to meet market demands, given that the Asian-Pacific demand continues to rise. Schlumberger reports

> About one quarter of Russia's gas exports will go to the Asia-Pacific region as of 2020, compared with about 5% now, and the proportion of Russian oil exports to the region will increase tenfold to 30% from 3%, Industry and Energy Minister Viktor Khristenko said Monday.
>
> Russian gas supplies to China may reach 68 billion cubic meters by that year, being pumped through two pipelines beginning in 2011, Viktor Khristenko said.

And Gazprom continues to expand its activities, with discussions now going on with Bolivia and Tajikistan. Perhaps this is not surprising given that

> Gazprom is the largest gas company in the world with an approximately 20% share of global gas production, controling almost 60% of Russia's gas reserves and producing about 90% of Russian gas, according to the company website.

(Actually that's a bit out of date the website now says 25% of world gas production.) Meanwhile possible partners for development of the Shtokman field are being interviewed prior to a decision within the next two weeks.

However, while supplies from Russia may still be questionable, the supply from Qatar appears to be becoming a little more assured. Qatargas 3 and 4 are now being developed to produce about 1.4 bcf per day of LNG equivalent, that will be supplied mainly to the US, with delivery from Q3 coming in 2009, and that from Q4 in 2010. However it should be remembered that the US need, by that time, will likely exceed 5 bcf per day, though this should supply more than 50% of that need. Incidentally the vessel cost alone for the project will be $2.5 billion.

Meanwhile, after getting a natural gas pipeline promised by Russia, and having got a pipeline for oil from Kazakhstan, China has now signed an agreement with Turkmenistan for a natural gas pipeline. Which is probably something that the government of Ukraine might worry about (if they didn't have enough domestic problems) given that the reduced price that they are supposed to get for Russian natural gas is predicated on blending cheaper Turkmen gas with the more expensive Russian gas. But if the Turkmen are now going to be selling their gas to China at perhaps world market prices .....

But don't forget that Russian gas lines to Europe still pass through Ukraine, and that if current political problems go away, the alternative Baltic Sea pipeline still won't be flowing gas into Germany until the next decade, leaving Western Europe, to a degree, still at the hands of the Ukrainians. Which may be bad news for the Italians and those in the UK.