



A few more thoughts on gas supply

Posted by [Heading Out](#) on April 18, 2006 - 6:17pm

Topic: [Supply/Production](#)

Tags: [lng](#) [[list all tags](#)]

There are two ways in which you can be supplied with natural gas, through pipelines or through tankers carrying the liquefied version (LNG). There is a very good summary of where we are with LNG in [the Energy Pulse](#) today. From giving some background for the increased demand, through some of the economics of the operation, it is well worth a visit. It should be read, however, in conjunction with the excellent post that [Dave wrote](#) on the same subject.

If I were to have a concern with the report it would be that it may understate both the need for the external supply, and the availability of that supply. As I have been trying to point out, Gazprom is moving fairly aggressively to take control of pipeline distributions of gas around its sphere of supply. One of the major alternative sources is going to be that supplied through the LNG tanker fleet. But, as with European pipeline gas, the value of long-term contracts in face of a tight market is going to be critical to having enough energy as the changes in climate make for harsher winters and hotter summers in different parts of the globe

The article cites the current situation

Net US gas imports equaled approximately 15% of all domestic demand, a figure that has remained relatively constant since 1999.

In 2004, net imports to the United States were 3.4 Tcf, which was an increase of 140 Bcf, or 4.3%, over the previous year. LNG imports grew 29%, to 652 Bcf. Net LNG imports grew to about 17% of overall net imports, up from 13% in 2003.

There were ten spot LNG cargo sales into the US during 2005, amounting to roughly 28 Bcf. These cargoes were not tied to any contract or swap arrangement. In 2005, spot sales were concluded with Cove Point, Elba Island and Energy Bridge.

The majority of spot purchases by US capacity holders are the result of supply interruptions or extended maintenance schedules on the regasification side of the chain. High natural gas prices in the US were not responsible for attracting these spot cargoes.

LNG diversions from the US in 2005 totaled approximately 64 Bcf. Most of these cargoes were diverted from their Lake Charles destination and sent to Spain which suffered from low hydro levels. Other Lake Charles cargoes were diverted to Elba Island.

It anticipates that US demand will grow by about 1.5 bcf over the next three years (which is a large tanker-load), but that also anticipates a sustained level of domestic production that may be hard to sustain, particularly if demand rises.

Interestingly if one goes to the [comments](#) one reads of the prognostications of our friends from CERA

I also attended all three days of the recent CERAWeek global energy confab in Houston. This article is replete with great data but I'm not sure it gets at the heart of the issue. The only practical way to evaluate the efficacy of LNG imports is to determine whether it can be delivered to US gas consumers faster and cheaper than domestic sources, of which this country still has plenty of reserves. At CERA, I heard several executives report that they can (and will) deliver gas from the Rockies, Canada, and west Texas for under \$3.00/million Btu. Thus, the economics of LNG imports and domestic unconventional sources are comparable.

To which there was this reply

EPRI's opinion is that gas prices will not be going down in the future, and that \$6/MBTU can be considered a "floor" price for gas (as delivered at the power plant). In theory, this price should be sufficient to make gas uncompetitive as a source of baseload power. LNG may be able to bring in some gas a cost of perhaps ~\$4, IMO, but I doubt the quantity brought in will be enough to drag the market price down to that level. Instead, the LNG terminal operators/investors will make that ~\$2 as profit, which will probably be necessary anyway given the large up-front capital costs and risks of such projects.

The recognition of a balance between supply and demand, and the dawning possibility of supply not being able to keep up, or to actually fall, is also beginning to be a little evident in the MSM this past week, since it appeared in a couple of newscasts that caught my attention as I flipped around the dial.



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](http://creativecommons.org/licenses/by-sa/3.0/).