

# Gas producers don't fear glut from shale wells

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Published on Thursday, Nov. 19, 2009 12:00AM EST

Worries that vast reserves of shale natural gas NG-FT production are overwhelming demand are overblown, say two industry executives who argue that shale's effect on the industry needs to be re-evaluated.

For the past year, many energy sector observers have warned that the rapid development of new shale resources will upend the economics of the natural gas business. Shale resources take more effort to extract than traditional natural gas plays but cost less to produce because they are so plentiful.

But an executive at a major U.S. shale gas producer now says development of the massive new gas pools will be dampened by extraordinary decline rates, since a shale well loses about 75 per cent of its output within the first year. Shale projects also face extensive regulatory, environmental and other obstacles. These factors will force prices to respond to the much higher cost of producing older-style reserves, said Richard Moorman, the manager of strategic analysis for Southwestern Energy Co., a quick-growing U.S. shale gas producer.

"So many analysts are just swamped in the negativity that ... shale has been so successful that we have too much gas," he told a Calgary conference organized by the Canadian Society for Unconventional Gas yesterday.

"I don't believe it. ... I believe that the United States has tremendous shale reserves, but that they're being given way too much credit."

Natural gas prices have not rebounded as strongly as oil, in part because of supply glut fears prompted by new research that estimates shale reserves have increased the amount of recoverable gas in the U.S. to nearly a century's worth of current demand.

Scepticism over shale, however, is shared by the owner of the continent's largest natural gas pipeline network. In an interview yesterday, TransCanada Corp. chief executive officer Hal Kvisle said new shale resources are large enough to elbow out foreign gas imports, but not enough to obviate the need for two Arctic pipelines that his company is pursuing.

Most observers believe those two lines, which would gain access to costlier reserves, will not be needed thanks to the growth in shale gas. Mr. Kvisle disagreed.

"We are ecstatic about the development of shale gas, not because it will have an impact on Mackenzie - or even Alaska, for that matter - but because ... we probably will only need to import seven or eight billion cubic feet a day of liquefied natural gas," he said.

Because the output from gas wells falls so quickly - the overall average annual decline is 20 per cent - North America will need to find and bring online 75 billion cubic feet (bcf) of daily gas production over the next five years. That leaves plenty of room for Arctic gas, he said.

"One bcf a day out of the Mackenzie is almost neither here nor there," he said.

The major shale regions in the U.S. have only added five bcf of daily production over the past 3½ years, Mr. Moorman said. Shale currently provides about 11 per cent of U.S. demand.

Shale supplies "can't save the United States from needing other sources of gas," he said. "We need vertical wells, and they cost more. So we need higher prices."

Vertical wells are those used by conventional gas producers. Shale is tapped using horizontal wells. Most conventional gas need prices of around \$7 (U.S.) for 1,000 cubic feet to be profitable. That's roughly two-thirds higher than they are today.