

## Analysis: Bender Sees Natural Gas as Larger Piece of Energy Pie in 2011

Rigzone Staff 1/13/2011

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Austin-based energy consulting firm Bender Consulting forecasts that natural gas will increase in importance and will claim a larger piece of the "energy pie" in the U.S., driven primarily by the supermajors' appetite for stable, proven reserves and the U.S. government's push for greater energy independence.

In its forecast of key trends released Tuesday, Bender also forecasted that the U.S. government will incentivize infrastructure technology that leverages natural gas as a transportation and energy fuel source; that natural gas prices will stabilize toward the second half of the year, but remain on the lower price curve, driven by excess supply; and that gas will put extreme economic pressure on alternative energies. Wind and solar will survive, but algae will become unviable.

There currently isn't any significant discussion regarding infrastructure to support gas as a transportation and energy fuel source. However, Bender anticipates that broad analysis of what infrastructure is possible — and government incentives to develop technology such as cars, homes, machinery, power plants. Much more infrastructure is need to transport and leverage gas, including pipelines.

"In other words, the technology will shift to meet the fuel source. And the government will sponsor/support/incentivize this," said Jonathan Dison, managing director and Oil & Gas Practice lead for Bender. "It will start in 2011 — and increase over the next 5 years. But 2010/2011 was the year of 'acknowledging' the potential of natural gas...again driven by the fact that it is local, clean and accessible."

## Short-Term Outlook for U.S. Gas

The U.S. Energy Information Administration (EIA) reported in its Short-Term Energy Outlook on Tuesday that it expects total U.S. natural gas consumption to decline by 0.9 percent in 2011. Projected residential and commercial consumption fall by about 2.7 percent in 2011 partly because of the forecast of 1.3 percent fewer heating degree-days during the winter months this year compared with last year, but also because of recent changes in the way EIA collects and reports natural gas consumption.

Forecast natural gas consumption in the electric power sector falls by 1.0 percent in 2011 because of the forecast return to near-normal summer weather compared with the very warm summer last year. Forecast cooling degree-days fall by 16 percent, from 1,468 in 2010 to 1,234 in 2011. Only industrial sector natural gas consumption rises in 2011, by 1.1 percent, because of the 1.2 percent increase in the natural-gas-weighted industrial production index.

Total marketed natural gas production increased significantly in 2010, by an estimated 2.4 Bcf/d, or 4.1 percent. Declines in production of 0.07 Bcf/d and 0.46 Bcf/d in Alaska and the Gulf of Mexico, respectively, were offset by a 2.9 Bcf/d increase in lower-48 onshore production. EIA expects average total production to fall by 0.3 percent in 2011. The latest EIA data for monthly natural gas production, which are for October 2010, showed a slight decline in the lower-48 states from the previous month. EIA expects this gradual decline to continue throughout 2011 because of a falling drilling rig count in response to lower prices.

The number of rigs drilling for natural gas reported by Baker Hughes Inc. increased from a low of 665 in July 2009 to 973 in April 2010. Over the following 6 months the natural gas rig count stayed relatively unchanged, but in the last several weeks the rig count has fallen and ended December 2010 at 919 rigs, a level not seen since February 2010. The large price difference between petroleum liquids and natural gas on an energy-equivalent basis contributes to an expected shift towards drilling for liquids.

EIA anticipates that total natural gas consumption grows by 1.6 percent in 2012 to 66.5 Bcf/d. While projected commercial and residential consumption decline by a slight 0.2 percent from 2011 to 2012, the electric power and industrial sectors drive growth with projected increases of 3.6 and 1.6 percent, respectively.

The projected decline in production in 2011 and increase in natural gas consumption in 2012 contribute to a strengthening of natural gas prices late in this year and next. As natural gas prices begin to rise, forecast production rebounds in 2012, growing by 2.2 percent. Projected total marketed production averages 64.2 Bcf/d in December 2012 compared with 62.3 Bcf/d and 60.6 Bcf/d in December 2010 and December 2011, respectively.

