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Canadian Natural Gas: Production and Price

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The peak oil discussion makes us forget that regional production peaks are also possible for natural gas. Canada is the third largest producer of natural gas World with a production of 188 bcm, ahead of Iran and its 111.9 bcm and behind Russia (607.4 bcm) and the United States (546 bcm), which are also the two Primary consumers.

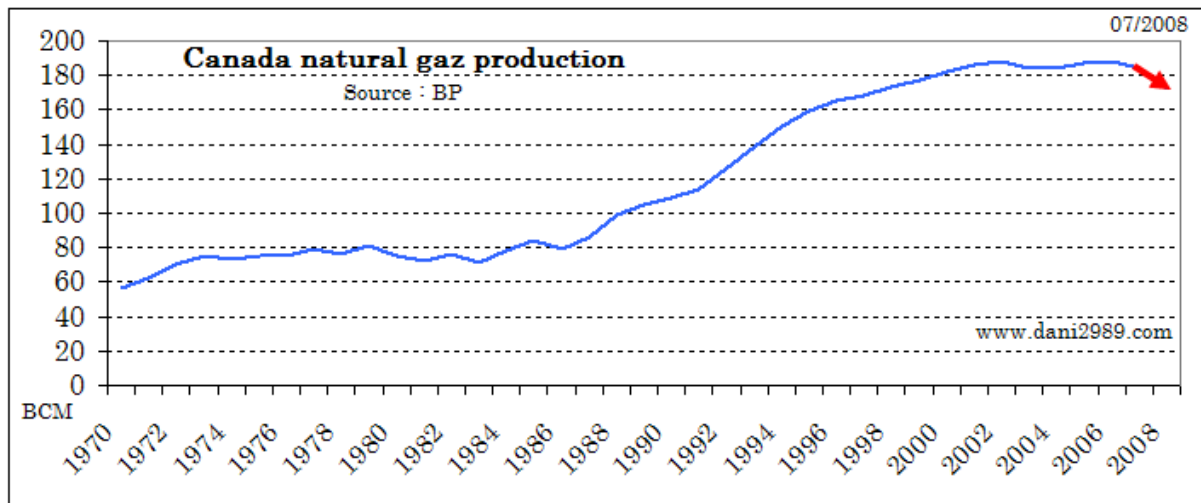
The balance between production and natural gas prices in North America depends on the surplus production of natural gas from Canada, it must bridge the production deficit of the United States.

The production of natural gas from Canada

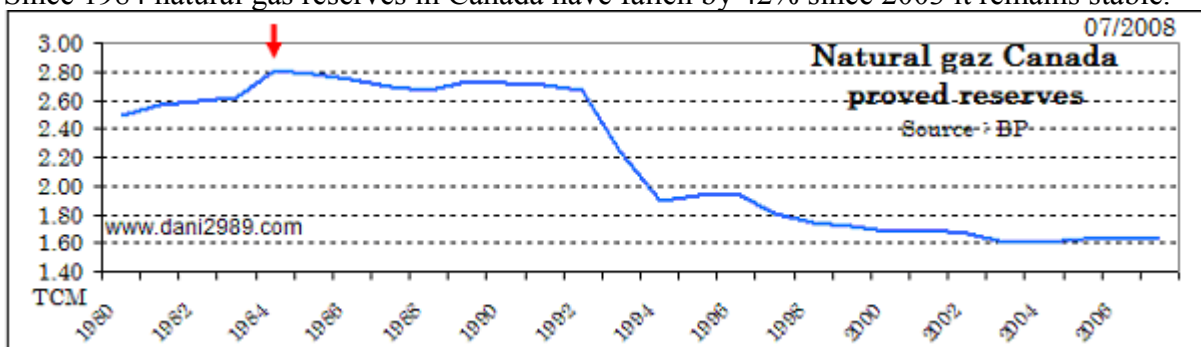
From 1987 to 2001, the Canadian production of natural gas has increased continuously from 80 to 180 billion cubic meters of gas.

From 2001 to 2006, production has stagnated between 186 and 188 billion cubic meters of natural gas.

In 2007, production of natural gas from Canada experienced a slight decrease of 2.5%. A decrease of 7 to 15% is possible by 2009 according to the National Energy Board of Canada.



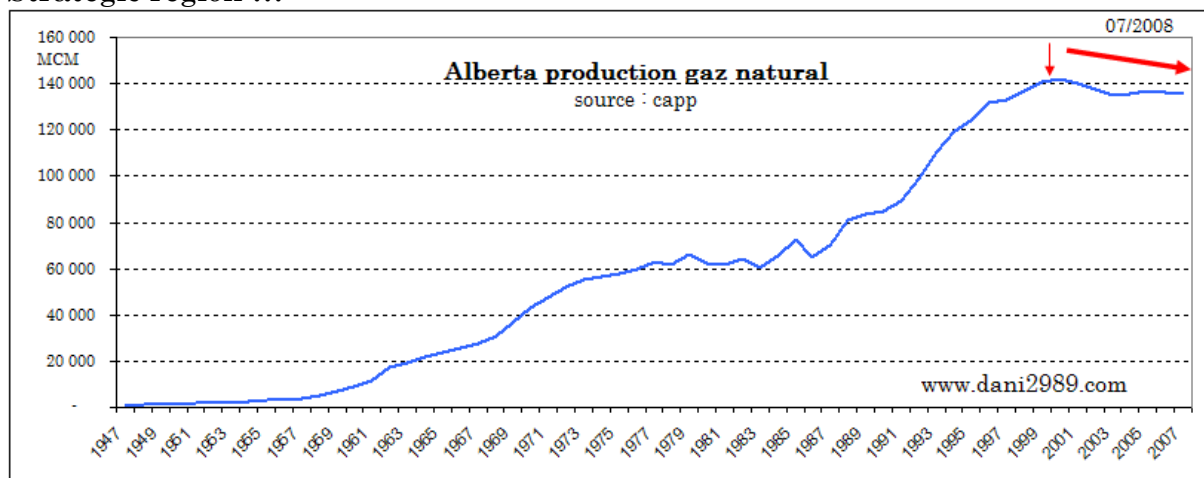
Since 1984 natural gas reserves in Canada have fallen by 42% since 2003 it remains stable.



Alberta and natural gas

As we have seen in the study on natural gas production in North America, the balance between supply and demand in North America is based on the surplus production of Canada. The production of Canada, in large part, depends on gas production in Alberta. Alberta produced 135,734 million cubic meters of gas in 2007, which is 81% of the natural gas production in Canada. It owns 70% of gas reserves of Canada. The natural gas production in British Columbia represents 13% of the production of Canada with Saskatchewan a tiny 3.7%.

Expenditures for equipment for gas and oil have tripled in the region of Alberta and the number of gas wells in operation has almost doubled in 8 years. Despite this production and natural gas reserves have declined since 2000 in this Strategic region ...



Increase in investments, drilling and natural gas prices

During the period of stagnation in production of natural gas since 2001, investments in search of natural gas and oil have tripled.

The number of companies drilling for natural gas assets has doubled. The minimum price of natural gas has tripled over the same period.

The natural gas sector in Canada has undergone a period of strong investment and exploration activity and this is a very important reason for the increase in natural gas prices. Despite all these positive factors, natural gas production has stagnated, then declined in 2007 and is likely to fall further in 2008.

To sum it up, participants are spending vastly more money to drill, while producing, at best, the same amount of gas...

To maintain the production of natural gas in North America, high prices for natural gas are critical. Without the incentive of profit, the search for more gas dries up. Today, it takes more drilling, ever more complex and profound, higher costs and painfully expensive capital expenditures to simply maintain the production of natural gas. The high price levels save production in the short term, but they may not be enough in the long term to prevent the fall of production in North America. Over time, the excess production of Canadian natural gas relative to the USA begins to diminish. The decline in production in the region of Alberta in Canada upsets the balance between supply and demand in North America (USA, Canada, Mexico). For those who think that electricity can replace natural gas, know that 45% of electricity generating capacity in the U.S. are gas-fired power plants and that 96% of new installed capacity are gas-fired...

Aggravating discovery and production of natural gas in Canada, oil sands projects attract some capital that previous was allocated to natural gas. Adding insult to injury, natural gas is consumed in the production of oil from oil sands. This ironic loop impedes the financing while increasing the pressure on demand...

The problem of the natural gas market in North America is the remoteness of the areas of production. There are no pipelines with Russia, West Africa or the Middle East, and to transport the gas there are no other solutions than Natural Gas Liquefied (LNG) and LNG...

As I wrote 3 years ago, gas prices will continue to climb in North America. The LNG, or coalbed methane exploration in the Far North will develop only with higher prices for gas. You read everywhere that speculation and winters too cold are responsible for rising gas prices, and as for oil structural causes will be ignored in favour of cyclical explanations more or less sensible.

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