Prices will justify NWT gas by 2020: National Energy Board

Natural gas prices in Canada are expected to strengthen enough to justify bringing gas to market from the Mackenzie Delta in the Northwest Territories by 2020, according to a National Energy Board study published Tuesday.

But if prices fail to persuade producers to bring Arctic gas on stream, Canada will become a net importer of gas by 2028, according to a 64-page report issued Tuesday called **Canada's Energy Future: Energy Supply and Demand Projections to 2035**.

Since the NEB's last supply and demand report in 2007 and update in 2009 (both forecasting until 2020), U.S. and Canadian shale gas production has dramatically changed the market, said project manager Abha Bargava. "There has been a tremendous increase in shale gas production, that's the new story in North America," she said. "What you see in this report is the production of shale gas is much higher than we had envisioned before."

The report notes that gas output in Canada fell 15 per cent from 2008 to 2010 because of natural declines as poor prices from the glut of gas discouraged conventional dry gas exploration.

It says that trend will continue through 2015, dropping Canadian production from 13.5 billion cubic feet per day in 2011 to 13.1 bcf/d, then output will begin to grow again in 2016, with tight and shale gas extraction driving production above record levels to 18 bcf/d by 2035, with about one bcf/d from the north.

The $16.2-billion Mackenzie Valley pipeline project was conditionally approved by government last year, but it remains in limbo as backers want Ottawa's help to float the project to bring gas from the Arctic Circle to Alberta.

Last summer, one of the partners, Shell Canada, announced it wanted to sell its stake.

Pius Rolheiser, spokesman for partner Imperial Oil, said the latest timeline put before the regulator more than a year ago showed gas being moved at the earliest by 2018, but that may not be realistic anymore.

"That obviously depends on an agreement with the federal government on a fiscal framework, which could trigger a decision to restaff the project team to resume the engineering work, to resume the permitting work - there are over 6,000 additional permits we need," he said.

In its reference case, the NEB assumes a 2035 West Texas Intermediate oil price of $115 US per barrel, a 2035 natural gas price of $8 US per million British thermal units and 2.3 per cent annual gross domestic product growth.

Researchers say Mackenzie gas is assumed to begin flowing in 2020 in the reference case, when gas is above $5.50 US per mmBTU, and in scenarios assuming high prices and economic growth, but doesn't get tapped until 2030 in the slow growth scenario and not at all in the low price case.

By 2035, crude oil production in Canada is expected to double from 2010 levels to six million barrels per day as growing investment triples bitumen output from northern Alberta, the report says.

"In 2035, oilsands account for nearly 85 per cent of production, compared to 54 per cent in 2010," it notes.

Nathan Lemphers, a senior policy analyst for the environmental Pembina Institute, said the forecast is too industry bullish, especially given the opposition-inspired delays in the Keystone XL pipeline to take oilsands to Texas.

Greg Stringham, a vice-president with the Canadian Association of Petroleum Producers, said the crude oil prediction matches and extends forward CAPP's most recent forecast through 2025 but agreed growth could run into transportation issues.

Bargava, however, explained the report doesn't deal with transportation; rather, it assumes that energy which can be economically produced will be delivered.

The NEB report says Canada will use more green energy and overall energy usage will grow at a slower pace over the next 25 years but Canadians will continue to use and produce energy that is predominantly from fossil fuels.

The share of biofuels in transportation will triple over the projected period, from 1.1 per cent to 3.3 per cent in 2035, while the share of renewablebased electricity generation increases from 62 per cent to 67 per cent.

Total end-use energy demand growth will slow to 1.3 per cent per year during the projection period, down from 1.4 per cent from 1990 to 2008, due to slowing population growth, higher energy prices, lower economic growth and enhanced efficiency and conservation programs, it said.