

October 27, 2014

[Condensate exports could dampen gas prices: CEO](#)

A decision by US officials to approve the export of large volumes of condensates from South Texas' Eagle Ford Shale could have the effect of depressing US natural gas prices, the CEO of a Dallas-based exploration-and-production company said this week.

Federal regulators and industry players are locked in a debate over whether and how much condensate - which chiefly is produced in association with gas and crude oil production -- can legally be shipped to overseas markets.

Earlier this year, the Department of Commerce allowed two companies to export lightly distilled condensate, which represents a slight change to a 40-year-old policy banning the export of crude oil.

Allowing US players to export condensate would spur even more drilling in the prolific Eagle Ford play, resulting in increased natural gas production, which in turn would drive domestic natural gas prices down, **Chris Faulkner**, CEO of **Breitling** Energy, said in an interview Wednesday, the same day he addressed a condensate conference in Houston.

"It's going to increase the amount of natural gas supply to the market, which may not be a great thing when you look at where the price is at, because you've got a ton of associated casinghead gas down here in the Eagle Ford," Faulkner said.

"When you're pulling the condensate out, you're going to increase the gas supply, and because we have good gathering systems, that natural gas supply will go into the market," he said. "I'm pretty bearish on my outlook for natural gas, because we've got so much supply coming into the market."

Faulkner, an outspoken advocate of the natural gas exploration-and-production industry, said the dramatic increase of condensate production in the Eagle Ford and other US shale plays has reignited a long-dormant discussion over US policy on condensate exports.

The Eagle Ford alone accounts for almost 90% of all US condensate production, he said.

From 2009-2012, condensate production grew about 54%, Faulkner said.

Consulting engineering firm Turner, Mason & Co. pegs US condensate production at 875,000 b/d this year and projects that volume to climb to 1.3 million b/d by the end of 2020.

The US has restricted the export of condensate, which it classifies as a grade of crude oil, from the Lower 48 states for almost 40 years. However, the law allows the export of distillate products, such as naphtha, kerosene and diesel, which are derived from condensate.

Earlier this year, the Commerce's Bureau of Industry and Security opened the door a crack for the export of condensate when it ruled that Pioneer Natural Resources and Enterprise Products Partners could export condensate that had been processed through a distillation tower.

About 10 companies have applied for similar export licenses, Faulkner said, adding that **Breitling** is going to apply for a license to export condensate out of South Texas, although he believes it remains more economical for the company to concentrate on the export of the distillate products.

"We're looking at exporting the components, naphtha, kerosene and diesel," Faulkner said.

He predicted that robust gas production from the Eagle Ford and other US shale gas basins would tend to keep a lid on natural gas prices over the next few years. In the near term, he forecast that prices would range from \$3-\$4/MMBtu, "with spikes for cold winters and hot summers."

For the longer term, Faulkner said gas prices will continue to stay below \$5/MMBtu.

"The supply/demand fundamentals for natural gas are broken," he said. "I think we're in a world of \$5 gas."

Faulkner said the \$5 mark is an important threshold for US gas prices, because at prices above that level, it becomes uneconomical to export gas in the form of LNG to Europe.

"That means Asia is the only destination for LNG cargoes from the US," he said. In addition, he said Europe represents a very small market for LNG compared with Asia.

"That means Asia's going to be the holy grail," Faulkner said.

He said much of the gas produced in the Eagle Ford shale is destined for export to Mexico. Platts unit Bentek Energy projects exports to Mexico to increase from 2.02 Bcf/d in 2014 to 3.52 Bcf/d in 2019.

Without the added demand for US-produced gas coming out of Mexico, "I think that natural gas would be even lower than \$3," Faulkner said.