

**Oral Remarks by Skip Horvath,
President and CEO, Natural Gas Supply Association**

**Before the House Subcommittee on Energy and Air Quality
“Winter Outlook 2005-2006”**

November 2, 2005

- Good afternoon, Mr. Chairman and members of the subcommittee. My name is Skip Horvath and I am the president and CEO of the Natural Gas Supply Association (NGSA). Today, I am testifying on behalf of the major natural gas producers and marketers comprising our association. Thank you for the opportunity to participate in this timely forum.
- Before I begin, I'd like to commend this Congress for a successful bipartisan campaign to advance our national energy policy. Although it is still much too soon to quantify all of the benefits of the Energy Policy Act of 2005 (EPACT), it is undoubtedly providing ongoing economic incentives and signals supporting some of these subsequent supply announcements by a number of NGSA-member companies. Here are some examples.
- First, on Sept. 2, **Shell** Western LNG and Russia's Gazprom announced the first shipment of Gazprom-owned LNG into the US market, entering via Cove Point, Maryland.
- Next, **Anadarko Petroleum Corp. and Chevron Corp.** recently announced an agreement to participate in drilling four deepwater Gulf of Mexico prospects and, on Sept. 26, Anadarko also announced its overall plan to secure the necessary drilling rigs to execute its six-year, \$659 million deepwater strategy.
- Then, on Oct. 10, **Chevron Corp.** followed with an announcement that it is proceeding with a \$900 million joint development of the Blind Faith Field, also in the deepwater Gulf. The field will be developed using a semi-submersible production facility, with first production expected during the first half of 2008.
- In addition, on Oct. 13, **BP** announced it will invest up to \$2.2 billion to double production from its acreage in the Wamsutter gas field in the Rockies region of the U.S. The Wamsutter project is part of a projected 10-year, \$15 billion investment program BP plans for its North American onshore operations.
- In the Barnett Shale field in North Texas, Devon expects to increase production to 590 million cubic feet equivalent per day by year-end 2005, and 630 million per day by year-end 2006. In addition, Devon has

- initiated an encouraging core-area horizontal infill pilot program. It projects that it will ultimately drill as many as 350 additional horizontal infill wells.
- In terms of new technology, another critical form of investment, **Exxon Mobil Corp.** announced just yesterday that its drilling organization has developed an optimization process that consistently reduces the time required to drill oil and gas wells by up to 35 percent.
 - Also last week, on Oct. 27, **Marathon Oil Corp.** announced plans to pursue a \$2.2 billion expansion of its 245,000-barrel per day Garyville, Louisiana, refinery. It also expects completion soon of its Detroit Refinery's \$300 million expansion and clean-fuels project.
 - We would also be remiss if we did not also mention several-years worth of some 40 North American LNG import terminal proposals now being put forward by both NGSAs and Center for LNG members.
 - While it is not possible to attribute these developments directly to EPACT, Congress is, to be commended for providing the legislative certainty and economic incentives that are contributing to these developments, and many more like them by all of the nation's 6,000 natural gas producers during the months ahead.
 - Altogether, an independent projection earlier this year pegs expanding upstream capital expenditures for 2005 at nearly \$66 Billion (see attached chart).
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NGSA's WINTER OUTLOOK

- Now that I've shown you some of the strides the industry has taken to bring new supply to market in the wake of new comprehensive energy legislation, I'd like to focus on the big-picture market prognosis for natural gas this winter.
- As you know, recent hurricanes wreaked unprecedented damage to natural gas supply. The impact of the hurricanes was devastating in terms of natural gas production in the Gulf of Mexico, and these shut-ins are exacerbating the tight natural gas supply and demand balance in the United States.
- We share legitimate concerns about regional natural gas constraints that could impact customers, particularly during peak days this heating season. However, we differentiate between a political problem – which we think is likely – and an operational problem causing firm-service curtailments, which we think is unlikely.
- In our 5th annual Winter Outlook released Sept. 28, we project upward pressure on wholesale natural gas prices as a result of relatively flat production, hurricane-related production losses, and an increase, relative to last winter, in seasonal heating demand in the residential and commercial sectors.

- However, we remain confident that urgent efforts by producers and the industry are focused on ensuring adequacy and reliability this winter. For example, storage inventories continue to be above the five-year average, already hitting more than 3.1 trillion cubic feet (Tcf). Coupled with the 60 billion cubic feet per day (Bcf/d) in projected domestic and imported production, storage inventory levels should be more than adequate to serve U.S. firm-service demand requirements under at least normal weather conditions this winter.
- While producers and the industry as a whole continue to work around the clock to ease potential constraints, customers can also play a critical role this winter; end-use conservation will be a big help this heating season in offsetting the price impact of production losses.
- We hope that this hurricane season serves as a national wake-up call with regard to natural gas and overall energy policy; promoting the use of clean-burning natural gas should be coupled with access to new supplies to help fuel growing demand.
- It is in our national interest to continue to expand supply resources, both to help stimulate economic expansion and to reduce air pollution, creating a more secure energy future for America. Without additional and diversified sources of supply, the market will continue to be at risk for disruptions like Katrina and Rita, and the higher costs that inevitably result.
- Thank you, Mr. Chairman, for this opportunity to outline our assessment of the challenges we face this critical heating season.

ADDENDUM TO
ORAL CONGRESSIONAL TESTIMONY OF R. SKIP HORVATH,
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