NEWS

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NGSA's Natural Gas Winter Outlook Proves Strong for Consumers

Washington, D.C. -- "Compared to last year, consumers are likely to see the benefit of lower natural gas commodity prices in their winter bills," said R. Skip Horvath, President of the Natural Gas Supply Association (NGSA). "At a time when the country is feeling uncertain about the direction of our economy and national security, consumers can rest assured that the natural gas industry is well equipped for the winter heating season."

NGSA's *Natural Gas Winter Outlook: Winter Heating Season 2001-02* is the association's first annual outlook of winter natural gas prices. The analysis undertaken reviewed five key elements that affect the natural gas market; in addition, NGSA reviewed unknown factors, or "wildcards" that also could move the market.

Horvath continued, "Our analysis reveals a dramatically different natural gas market than this time last year, when we were expecting and experienced, a rough winter heating season. While the fundamentals that drive the natural gas market all pointed toward higher prices last year, this year's fundamentals reveal a much improved scenario for this winter's consumers:

- "The *economy* is weak, greatly slowing demand for natural gas. In fact, since the tragic events of September 11, we updated our analysis to reflect that the industrial demand we expected to come online is now delayed.

- "Last year's *weather* produced record cold in November and December, driving prices up on the natural gas spot market. This year, although we're expecting cold weather in the Northeast and Midwest regions that may be volatile at times, it is expected to be within the normal range.

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- *"Production* is up. Producers did what they said they were going to do last year and produced more natural gas. This year, production is up a full Bcf (Billion Cubic Feet) per day, which is enough to heat 4.3 million more homes a day than last year, helping to decrease price pressure on the market.

  However, it is important to note that prices are at their lowest point since April 1999, a date in our industry that marks the end of our last very low price cycle. As a result, we are seeing a decrease in the rig count as capital is being reallocated to reflect market conditions.

- *Demand* is flat and would be down, except for the vast amount of electric generation coming online this year, helping to make up for the lost demand from industrial, commercial and residential customers. Industrial customers are being hit hard by the weakened economy, impacting demand for natural gas. For example, if cars are not being manufactured, steel usage declines, representing 10 percent of industrial natural gas demand. The use of chemicals, which may decline as well, such as coatings for automobiles, represents 38 percent of industrial natural gas demand.

- Unlike last year at this time, *storage* is almost full, helping to protect consumers against the volatility of the natural gas spot market. In fact, forecasters are predicting that we will end the storage season (November 1) this year at capacity with 500 Bcf of natural gas more than last year."

  Horvath continued, "The fundamentals that move the natural gas market paint a very good picture for consumers this year. However, we have to consider market wildcards, things we cannot predict, such as escalation of our military preparedness, and how these circumstances affect the market. A competitive market has only been in place since 1993, after the Persian Gulf War, which leaves us with little experience for comparison.

  "Last year we said let the natural gas market works. This year's winter outlook demonstrates that the competitive production market does work. Therefore, I would like to emphasize that a competitive natural gas market that creates price signals for the industry based on supply and demand is the best market for consumers. Since the inception of a competitive market, consumers have saved some $600 billion."

  "Finally," Horvath concluded, "The good news is consumers will reap the benefits this year of increased production and strong storage injections. Although wildcards do exist, for the short-term at least, we do not expect sustained price volatility. In the long run, in order to overcome a fundamental tightness of supply, we must still overcome barriers to exploration and production to ensure a robust natural gas supply."

NGSA represents integrated and independent companies that produce and market the majority of the natural gas produced in the United States. NGSA is actively involved in pursuing regulatory and legislative issues that affect the association's members. Established in 1965, NGSA encourages expanded use of natural gas and supports regulatory and legislative actions that foster competitive markets.

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