



## NEWS

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For Immediate Release: Thursday, Sept. 19, 2002

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### NGSA Expects Upward Pressure in the Natural Gas Market this Winter

(Washington, D.C.) ... The Natural Gas Supply Association (NGSA) today released its *Second Annual Winter Outlook: Winter Season 2002-2003* outlining its expectations for this winter's natural gas market conditions and highlighting long-term supply issues concerning its membership.

Bill Transier, Chairman of NGSA and Executive Vice President and CFO of Ocean Energy, said, "While no one can accurately predict the price of natural gas in a competitive wellhead market, NGSA expects upward pressure in the natural gas market this winter season that could lead to higher wellhead prices."

NGSA's *Natural Gas Winter Outlook: Winter Heating Season 2002-03* reviewed five key factors, the *economy, weather, demand, storage* and *supply* that can impact the natural gas market; in addition, NGSA reviewed unknown factors, or "wildcards," that can also move prices.

Transier continued, "Our analysis reveals that the strengthening economy, increased demand and declining production will put upward pressure on the natural gas market this winter," added Transier. "The good news is that storage is at an all time high, helping to mitigate this year's decreased production numbers and to moderate prices against possible fluctuations in the market."

While NGSA does not forecast prices, the Energy Information Administration (EIA), the statistical arm of the Department of Energy, forecasts winter wellhead prices at \$3.20/Mcf. As a result, NGSA expects upward pressure on the retail price of natural gas as well (retail prices include transportation and distribution costs).

"Specifically, the organization's analysis reveals the following:

- ↑ *Economy:* According to DRI-WEFA, an economic information company, the U.S. economy is rebounding from the post 9-11 slump of last winter, strengthening demand for natural gas. That improvement is expected to up upward pressure on the natural gas market.

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- *Weather:* The National Oceanic Atmospheric Administration (NOAA) is predicting a slightly warmer than normal winter, but colder than last year. While weather forecasting is like commodity market price forecasting – highly unpredictable – NGSAs projects a flat impact on demand.
- ↑ *Demand:* Natural gas demand is projected to be up by almost 7 percent in all sectors (Residential, Commercial, Electric and Industrial) this winter over last winter. While residential-commercial is expected to be the largest demand increase due to heating needs, NGSAs expects a 67 percent growth in natural gas fired electric capacity additions from last year. This demand forecast leads to upward pressure on the market.
- *Storage:* Storage is expected to be at an all time high by the end of the traditional injection season (November 1), putting downward pressure on the natural gas market. Storage helps to mitigate against possible price fluctuations and to add to winter supply.
- ↑ *Supply:* Production is down this year according to Energy and Environmental Analysis (EEA). EEA projects that the dry marketed gas production rate has fallen approximately 1.5 Billion Cubic Feet/Day (Bcf/d) from the first quarter of last year, but has stabilized and is expected to remain relatively constant through the first quarter of next year. The decrease in production is putting upward pressure on the market.

“Overall, upward pressures are expected to outweigh downward pressures this winter, but there are always “wildcard” factors that can move the market either direction,” continued Transier. “There is the possibility of a war with Iraq that could increase oil prices and move natural gas prices upward as well. Terrorism in North America could have a similar effect on the economy as 9-11, decreasing demand. Similarly, a double-dip recession could decrease demand. Lastly, there is always the weather factor – the strength or weakness of El Nino – which could be the most influential pressure on natural gas demand, and therefore prices, this winter.

This year’s Winter Outlook by NGSAs includes one major shift from last year’s outlook. The organization now believes there is only adequate supply of natural gas as compared to its previous position that supply was ample or abundant.

“Access to supply is becoming an increasing concern among producers because of increasing demand and decreasing production,” explained Transier. “The access issue includes not only areas that are off limits to drilling but also to outdated permitting procedures that restrict the availability of property for development. The natural gas industry continues to demonstrate its ability to explore for and produce natural gas in an environmentally responsible way. Decision makers must recognize that and act now to ensure the long-term availability of natural gas at reasonable prices.”

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