



NEWS

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Winter Weather Could Mean Another Bumpy Ride in Wholesale Natural Gas Markets

(Washington, D.C.) ... Natural gas customers are facing a second straight heating season of potentially tight supplies in natural gas markets, according to a study released today by the Natural Gas Supply Association (NGSA).

“Certainly, fears of a major upheaval in the marketplace have eased due to the very strong recovery this summer of natural gas inventories, but that doesn’t mean we’re out of the woods in terms of supply costs,” said NGSA Chairman William L. Transier, who outlined the association’s third annual Winter Outlook.

Although the association does not project actual cost figures for wholesale or retail markets, the NGSA analysis, based on publicly reported data, anticipates about the same degree of pressure as last heating season on the key components of the supply-demand equation: weather, the economy, storage and production.

“That means the scenario has changed very little from last winter, when we experienced a dramatic increase in both consumer demand and average wholesale costs, due to colder temperatures than the prior heating season,” Transier said. “The competitive market remains very vulnerable to the severity of the weather and the price volatility that a colder winter can bring.”

Transier also pointed out that, even though storage is likely to reach levels that are 99 percent of the average peak for the last five years, that supply will re-enter the market this winter at higher-than-previous summer costs. To date, the injection season average of published spot market prices at Henry Hub is about \$5.28 per million British thermal units.

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In its analysis, NGSAs is relying on National Oceanic and Atmospheric Administration forecasts for a near-normal heating season, with continued strong demand for home heating in Mid-Atlantic, Northeast and upper Midwest regions. Despite a strengthening economy, industrial demand is expected to be off somewhat, as manufacturers respond to the tight market conditions by conserving, suspending production or switching fuels.

“Producers are responding aggressively to these ongoing market demands,” said Transier, citing an independent estimate of season-to-season increases in both drilling rigs and well completions. “However, it’s clear that we are working a lot harder just to maintain a steady supply. Even with these increases, production is expected to remain almost flat, about 50.6 billion cubic feet per day (Bcf/d).”

As in previous winters, additional heating season demand will be met by Canadian and liquefied natural gas (LNG) imports. Although natural gas from Canada is expected to be down slightly due to accelerating decline rates among existing wells, as in the U.S., that will be partially off-set by an anticipated increase in LNG shipments from overseas.

“We are encouraged that Congress may soon pass a comprehensive energy bill, but it will not ease our long-term market constraints,” Transier said. “More than 50 percent of the nation’s undiscovered natural gas lies beneath non-park government lands. An estimated 225 trillion cubic feet of natural gas is prohibited from entering the market because of drilling moratoriums or extensive and costly permitting requirements.”

“In the short run, policymakers must rely on the market for the most productive responses during the coming winter,” he said. “NGSA remains committed, however, to focusing lawmakers and the Federal Energy Regulatory Commission on long-term supply solutions to ensure an adequate, reliable and cost-effective supply of this clean-burning fuel for our nation’s consumers.”

NGSA 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.