



NEWS

Contact: Melissa Marion mmarion@ngsa.org

Phone: (202) 326-9300

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Customers Facing a Mixed Bag of Natural Gas Costs this Heating Season

(Washington)... With a tight balance between natural gas supply and demand continuing for a third straight year, heating customers and other users are in for a mixed bag of energy costs this winter, according to an assessment today by the Natural Gas Supply Association (NGSA).

"This winter, demand is expected to increase across all sectors. On the flip-side, domestic production is down slightly from last winter, caused largely by a steeper decline rate for maturing fields. Producers are working harder to compensate by significantly increasing their drilling activity, but this tight market could really impact customer bills in some regions, particularly during extreme weather," said NGSA Chairman Joseph A. Blount, president of Unocal Midstream and Trade, who presented the association's fourth annual Winter Outlook during a media briefing.

"It's not that we are running out of natural gas. But new discoveries are getting smaller at the same time that our increasingly mature existing fields are enduring steeper production declines," Blount said. "So we are drilling more wells to produce the same amount of gas, which increases costs. As a nation and industry, we need access to more of the natural gas-rich government lands where drilling is currently highly restricted or off limits entirely."

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

"Healthy storage is absolutely key as we enter the heating season. Fortunately, this year we are anticipating natural gas storage to be at a near-record-high fill before the withdrawal season begins in November, the welcome outcome of a relatively mild summer. However, because the gas placed in storage this year cost more to produce, when it re-enters the market this winter, it will do so at higher-than-previous costs," Blount cautioned. To date, the injection season average of published spot market prices at Henry Hub is about \$5.80 per million

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British thermal units (MMBtu), compared to last winter's average of \$5.16/MMBtu.

According to the analysis, the weather can be the largest single factor affecting demand and customer bills, and it is also the most difficult to predict. The National Oceanographic and Atmospheric Administration's (NOAA) projections for a colder-than-normal winter in the East and a warmer-than-normal winter in the West could cause customers around the country to see more regional differences this year in terms of home heating bills and other energy costs.

Another factor affecting demand is the economy. According to data from the economic forecasting firm Global Insight, an expanding economy – with anticipated GDP growth, declining unemployment and relatively low inflation – is expected to increase demand across all sectors, with the biggest change forecast in the manufacturing sector, up 5.3 percent this winter compared to last winter.

However, U.S. production this winter is projected to be down slightly, from 50.0 billion cubic feet per day (Bcf/d) last winter to 49.7 Bcf/d, despite an expected substantial increase in drilling activity. Annual well completions are projected to increase from 20,624 to 24,000, and the rig count is forecast to increase from 874 to 1,024. Nonetheless, this increased drilling activity alone is not expected to meet growing demand.

Imports must rise to help meet the domestic production shortfall. This winter, Canadian imports are expected to increase 11 percent from last winter, and LNG imports are expected to increase to 2.2 Bcf/d from 1.6 Bcf/d last winter.

"The bottom line is that we need more access to all forms of natural gas supply," Blount said. "We need to increase domestic production by lifting government moratoria on non-park, federal lands rich in natural gas. We also need comprehensive energy legislation that will allow for the construction of an Alaska pipeline to bring down the Arctic gas already discovered, while we simultaneously stimulate additional lower-48 production and LNG development."

"Without this additional supply as part of our nation's energy portfolio, consumers will continue to be at risk for increasing price volatility and higher weather-related costs overall," he said.

NGSA represents integrated and independent companies that produce and market natural gas 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.