



NEWS

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Summer Natural Gas Markets to Remain Tight, NGSA Says

(Washington)... Projected warmer-than-normal weather, a strengthening economy and flat production are likely to be the cause of any higher natural gas costs as we enter yet another summer of tight natural gas markets, according to an analysis released today by the Natural Gas Supply Association (NGSA).

“Last year, the National Petroleum Council (NPC) warned that without significant change to the tight balance between supply and demand, wholesale natural gas customers would continue to see weather-related volatility – and that is precisely what’s coming to pass,” said Joseph Blount, NGSA chairman and president of Unocal Midstream and Trade. “Consistent with the NPC’s findings, overall market costs are also likely to trend upward throughout this cooling season, peaking during the hottest days of the year.”

Although NGSA does not project wholesale or retail prices, an association analysis, publicly reported data and competitive market fundamentals indicate upward pressure this cooling season based on several factors, including: weather, the economy, and additional demand increases in specific market sectors. Storage and production, two other key components, are expected to apply somewhat less pressure this summer – but probably not enough to offset a wave of higher overall energy costs among competing fuels.

Although producers are drilling at a three-year high – with more than 1,000 rigs now operating in the U.S. – they face the challenge of extracting natural gas from mature supply regions where output is naturally declining.

“Producers are responding to increased demand, but we are working harder and harder just to keep production levels constant,” said Blount. “We are focused right now on getting as much natural gas to market as possible, and putting enough in storage to meet the upcoming winter months with sufficient supply. Unfortunately, though, there is little short-term relief ahead for customers.”

This year, the U.S. has been experiencing a surge in economic growth – an increase in gross domestic product (GDP), a decrease in the unemployment rate

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and increased industrial production, with the rate of inflation as measured by the consumer price index, staying relatively flat. While these are all promising economic indicators, it will also mean greater summer-to-summer price pressure.

According to an NGSAs-commissioned forecast by Energy Ventures Analysis, overall demand will increase as much as 3 percent, up to 51 billion cubic feet per day (Bcf/d) this summer from 49.5 Bcf/d last summer. Demand from the power generation sector, in particular, is expected to grow, due to increased air conditioning load and lower hydroelectric output in the Pacific Northwest and California. In the residential and commercial sectors, summer demand is expected to remain relatively constant, but the largest consumer of natural gas, the industrial sector, will likely face a continuing growth challenge, given these tight market conditions.

With respect to storage, last summer the industry entered the cooling season with natural gas inventories at a five-year low. This season, we are entering the summer with storage near the five-year average for this time of year. The industry will be able to maintain injections averaging more than 70 Bcf per week, resulting in a level approaching 3.2 trillion cubic feet. NGSAs expects this re-fill rate to result to apply some off-setting, but limited, downward pressure on the wholesale market.

Regarding supply, with increased drilling only managing to offset natural reservoir declines – overall production is likely to remain relatively flat. Further, land access restrictions continue to impede additional resources – particularly in the Gulf of Mexico and the Rockies. Imports will continue to play a crucial role in addressing concerns about domestic supply. Imports of liquefied natural gas (LNG) are expected to increase by 50 percent this summer, to 2.4 Bcf/d from 1.6 Bcf/d last summer. However, due to Canadian demand growth, the U.S. can expect modestly reduced Canadian imports. Therefore, overall natural gas import levels will remain flat this cooling season.

“Looking beyond this summer, however, expanding our nation’s LNG infrastructure and imports will become increasingly important to the U.S. natural gas supply portfolio,” Blount said. “A comprehensive energy bill that would also help the supply constraints remains stalled on Capitol Hill.”

“Last year’s NPC projections for a more balanced energy future were based on aggressive policy responses to the nation’s expanding energy challenges and risks – policy responses that have yet to be realized,” he said. “Unless Congress can quickly resolve its legislative differences, the heat will continue to build, not only when it comes to summer cooling customers, but also manufacturing and the rest of the U.S. economy, as well.”

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.