



NEWS

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Natural Gas Markets Compensating to Assure Post-Hurricane Reliability to Firm-Service Customers This Winter, NGSA Says

(Washington) ... Newly projected heating-season supply disruptions averaging about 1.7 billion cubic feet per day (Bcf/d) in the Gulf of Mexico continue to represent a post-hurricane challenge for natural gas markets – but adequate storage, import and production responses, and ongoing conservation precautions will all help protect the nation’s firm-service customers this winter, the Natural Gas Supply Association (NGSA) told federal regulators today.

“Even in most colder-than-normal weather scenarios, we believe a resulting spot-market price spike would temporarily lead sufficient industrial demand off the system to assure essential heating for homes, offices and all public services. In this way, markets have always proven to be the most effective way to allocate resources during times of scarcity,” said NGSA President and CEO Skip Horvath, addressing a Federal Energy Regulatory Commission conference on the state of natural gas infrastructure.

Despite production shut-ins in the wake of Hurricanes Katrina and Rita, the updated recovery estimates provided by the consulting firm Energy and Environmental Analysis (EEA) continue to support a recent NGSA assessment that producers and the rest of the market are so far compensating for the supply constraints.

“Although our industry has taken quite a beating this hurricane season, natural gas markets appear to be breathing a little easier now. There are still challenges ahead, but somewhat lower futures and cash-market prices recently appear to be a reflection of the recovery efforts and above-average storage levels,” Horvath said.

As highlighted in the association’s annual Winter Outlook released two weeks ago, Horvath again noted that end-use conservation will be a big help this heating season, helping to offset production losses. For example, recent statistics from the Department of Energy reportedly show that precautionary conservation to reduce

demand by only 5 percent would amount to a savings of 3.5 Bcf/d – which is more than the projected Gulf of Mexico shut-ins.

“Conservation can be as simple as customers installing programmable thermostats, or turning their thermostats down merely two degrees from their usual setting. These measures will be the most effective, efficient and money-saving precautions customers can take to alleviate any further heating season impacts,” Horvath said.

In its recent analysis, the association outlined the key supply and demand factors that it expects to affect natural gas prices this winter heating season. NGSA projected upward pressure on wholesale natural gas prices as a result of hurricane-related production losses, relatively flat production and an increase in seasonal heating demand in the residential and commercial sectors.

The association also gave a preliminary assessment of the effects of Hurricanes Katrina and Rita on natural gas supply. Updated EEA data suggest that a total offshore hurricane disruption averaging 2.5 Bcf/d – 1.7 Bcf/d during the official heating season – is expected to drop to only 0.3 Bcf/d by March, indicative of a nearly complete recovery by that time.

“These encouraging statistics clearly suggest that ongoing around-the-clock efforts by producers will allow them to respond to these tight market conditions. Although heating costs are still projected to increase this winter – perhaps significantly in some regions – this new data supports our view that firm-service customers are not facing natural gas shortages or curtailments this winter,” Horvath said.

To help compensate for some hurricane-related production losses and to add further certainty to the marketplace, imports will also continue to play a critical role this winter, Horvath said. For example, projections for Canadian imports are now expected to be 10.1 Bcf/d this winter, up from a previous estimate of 9.8 Bcf/d. This, coupled with liquefied natural gas (LNG) imports, will help balance the supply-demand equation this winter and beyond.

“Even with some natural gas still offline this winter, as the recovery effort continues, we anticipate that a variety of market alternatives and end-use conservation will help the market ensure the reliable delivery of clean-burning natural gas to customers. However, in the long-term, many supply challenges still remain for producers here in the U.S. Without access to additional natural gas resources, American consumers will continue to be at risk.”

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.