



NEWS

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Wholesale Natural Gas Market Likely to Remain Tight This Cooling Season, NGSA Says

(Washington, D.C.) . . . Projected warmer-than-normal summer weather in the South and West, increasing economic demand and relatively flat production could lead to higher natural gas costs this cooling season, according to an analysis released today by the Natural Gas Supply Association (NGSA).

“The existing tight-market situation has resulted in a period of sustained higher natural gas prices for the last several years. Due to local and state opposition to exploration, access restrictions and smaller, less economical finds, producers are struggling to meet growing demand for clean-burning natural gas. As a result, we expect utility customers to continue to feel the effects of the tight-market situation reflected in their bills this summer,” said Joseph A. Blount, chairman, NGSA, and president, Unocal Midstream & Trade.

Although NGSA does not project either wholesale or retail prices, an independent analysis commissioned by NGSA and publicly reported data indicate upward market pressure this cooling season due to several factors. Projected warmer-than-normal summer weather in key regions will likely fuel demand increases in the electric sector. Production, on the other hand, is expected to stay flat. Producers are drilling at a 19-year high – with almost 1,170 rigs now operating in the U.S. – but they still face many challenges bringing natural gas to market.

Another market fundamental is the U.S. economy, which continues to remain in good shape, according to the NGSA analysis. The nation is coming off a strong year of economic expansion, and this year all economic indicators point to continued – although softer – growth. Gross domestic product (GDP) is projected to increase, the unemployment rate is down and industrial production continues to grow, while the rate of inflation, as measured by the consumer price index (CPI), remains relatively flat. NGSA anticipates these economic indicators to signal that the economy will continue at or above the historical trend, resulting in flat summer-to-summer price pressure on wholesale markets.

With respect to storage, the industry is entering this cooling season with inventories at the third-highest level since 1994. Therefore, the industry won't need to inject as much each week, compared to last summer. NGSAs expects the industry to maintain injections averaging 67.7 billion cubic feet (Bcf) per week, reaching, as last summer, near record storage levels of approximately 3.3 trillion cubic feet (Tcf) by the start of the heating season. The association predicts this will put some downward pressure on the market, but not enough to offset other market factors.

According to an NGSAs-commissioned forecast by Energy Ventures Analysis, Inc. (EVA), overall natural gas demand through the cooling season is expected to increase as much as 4.5 percent, up to 53.5 billion cubic feet per day (Bcf/d) from 51.2 Bcf/d last summer. Two-thirds of this demand increase is attributed to the electric sector, where consumption levels peak at this time due to increased air conditioning load. The forecast also anticipates additional natural gas use in this sector because of a likely decrease in hydroelectric generation in the drought-stricken Pacific Northwest. Consumption in the residential sector is expected to see a modest increase, while demand in the commercial sector is projected to remain flat. Finally, the industrial sector – the largest consumer of natural gas – is expected to see a slight increase in demand to meet increasing industrial production this summer.

On the other hand, the Energy Information Administration (EIA) projects this summer's average natural gas production to remain relatively flat at 51.5 Bcf/d, compared to last summer's average of 51.1 Bcf/d. According to NGSAs, imports will continue to help fill the supply gaps. Liquefied natural gas (LNG) imports, for example, are projected to grow 31 percent this summer, to 2.1 Bcf/d from 1.6 Bcf/d last summer. And although Canadian imports are down 4 percent this summer due to increased Canadian demand and comfortable U.S. storage inventories, Canadian imports will also add 8.7 Bcf/d to this summer's U.S. supply portfolio. However, examining the total supply picture, NGSAs does not anticipate that these elements will have a dramatic affect on summer-to-summer price pressure.

"Looking at the market fundamentals at work, we can assume that, in the short-term, there's little relief in sight for natural gas customers. A comprehensive energy bill has been years in the making, but is still being debated. Many of the recommendations set forth by the National Petroleum Council (NPC) in 2003 have yet to be adopted, putting the nation on the reactive path that the council cautioned would lead to greater volatility and spiraling price increases. Policymaker support for expanded natural gas supply and increased gas storage capacity could help ease natural gas costs in the long term, while enhancing our nation's energy security," Blount said.

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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.