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Post-Hurricane Challenges Continue for U.S. Producers; Industry Optimizing All Other Available Supply Options

Washington, D.C. (May 2, 2006) … Natural gas producers are making the best use of all available supply resources to help overcome the unprecedented challenges caused by last summer's Hurricanes Katrina and Rita, the Natural Gas Supply Association (NGSA) reported today, but meeting U.S. demand continues to be a struggle.

"The number of producing gas wells in the U.S. continues to increase," said NGSA Chairman Chris Conway, citing an independent review performed for the association by Energy and Environmental Analysis Inc. "In 2005, the number of new gas wells hit an all time high of more than 27,000, while rig counts are also up for onshore areas. However, several more years of market tightness appear likely as long as the most economical supply options continue to be kept from our reach."

Meanwhile, natural gas recovery in the Gulf of Mexico has been largely ahead of the best estimates that followed last year's unprecedented hurricane devastation, according to the association, which held a joint media briefing with the Canadian Association of Petroleum Producers (CAPP).

"This is especially impressive when you consider the latest government assessments about the extent of the overall damage," Conway said. "The side-by-side paths of Katrina and Rita combined to impact almost three quarters of the gulf's producing platforms – about 2,900 of an estimated 4,000 total – with 115 platforms listed as destroyed and another 52 reporting extensive damage. To put that in context, the numbers for Hurricane Ivan in 2004 were only seven platforms destroyed and 20 others with extensive damage."

"On top of that, last year's hurricanes also damaged an estimated 183 underwater pipelines, compared to 102 from Ivan the previous year."

In all, supply disruptions through the heating season amounted to an estimated 705 billion cubic feet (Bcf) from the outer continental shelf (OCS), and approximately 89 Bcf from on-shore wells, for a total of 794 Bcf.

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"Increasing investment, however, has meant consistently strong production elsewhere, including an expansion of unconventional natural gas resources, such as shale gas, which appears to be a potentially giant resource," said Conway, president, ConocoPhillips Gas & Power, speaking on behalf of the industry association. "If not for the hurricane disruption, 2005 production in the lower 48 would have been flat to slightly increasing."

Total U.S. investments were up $11.7 billion in 2005, or 14 percent from 2004. In 2006, investment expenditure is expected to increase another $11 billion from 2005.

Liquefied natural gas (LNG) investment continues to expand, as well. There will be approximately $37 billion invested for gas field development, liquefaction plants and ships to supply the U.S. with LNG by 2010, NGSA estimated. In addition, several major producers continue to work with the state of Alaska on a fiscal contract that would support the massive Alaska natural gas pipeline project. The pipeline has the potential to deliver about 4 Bcf/d of natural gas from Alaska's North Slope, and has been estimated to cost about $20 billion in 2001 dollars.

"However, until the government provides expanded access to additional domestic production on non-park federal land and in more of the OCS, the U.S., although the second largest producer of natural gas in the world, will continue to be increasingly vulnerable to natural gas supply and price disruptions from future hurricanes," Conway 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.

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