



## NEWS

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### **Expected Increase in Winter Demand to Further Stretch Natural Gas Supply; Conservation Precautions Urged in Wake of Hurricane Unknowns**

(Washington) ... U.S. natural gas markets so far appear to be compensating for ongoing Hurricane Katrina-related supply disruptions, but Hurricane Rita and an anticipated increase in heating demand are expected to stretch natural gas supplies even further, likely resulting in higher wholesale costs this winter, the Natural Gas Supply Association (NGSA) said in an annual assessment.

"Prior to Hurricane Katrina, the nation's 6,000 natural gas producers were on a pace to expand domestic production this year," said NGSA Chairman Joseph A. Blount. "Now, however, despite more wells and increased exploration activity, U.S. production is likely to remain relatively flat, further tightening our supply-demand balance. Canadian imports and additional conservation, therefore, will be especially important this winter to help compensate for hurricane-related production losses."

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

"This year in particular, however, much still remains uncertain. It could still be some time before we know the full extent of the damage from this year's nasty one-two weather punch, and the recovery process from such a devastating and costly storm season will take time," Blount said.

According to the NGSA analysis, the weather is 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 are for a winter colder than last winter, which was the eighth warmest on record, with 3,430 heating degree days (HDD) compared to a projected 3,768 HDD for this winter.

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Despite Hurricane Katrina production losses, though, and assuming limited damage from Hurricane Rita, the industry still anticipates it will exceed the five-year storage inventory average, reaching an estimated 3.2 trillion cubic feet (Tcf).

“Although there’s been some published concern about a natural gas supply shortage this winter, we simply do not believe that firm-service customers need to be concerned about reliability or deliverability,” Blount said. “In addition, despite the short-term strain on the market as a result of these two hurricanes, we should not lose sight of the fact that we are not running out of natural gas. Over the long-term, there is plenty of cost-effective supply in the U.S., assuming we can get access to it.”

Another factor affecting demand is the economy. According to data from the economic forecasting firm Global Insight, after a year of strong economic expansion, the economy appears to be moving towards a slower growth pattern, especially taking into account the impacts of at least Hurricane Katrina. Gross domestic product (GDP), the most widely-used economic indicator, is projected to remain relatively flat, as is unemployment. Post-Katrina, manufacturing growth is expected to slow from a 4.9 percent increase last winter to a smaller 2.9 percent increase this winter. Overall, NGSAs estimates that the economy will put flat year-to-year pressure on natural gas prices this winter.

As for U.S. production, it is projected to be down just slightly, from 49.3 billion cubic feet per day (Bcf/d) last winter to 49 Bcf/d this heating season, pre-Hurricane Rita and subsequent shut-ins. Annual well completions are projected to increase to 26,100 from 23,400, and the rig count is forecast to increase to 1,189 from 1,025. Meanwhile, Canadian imports are projected to increase about 8 percent, and liquefied natural gas (LNG) imports are expected to jump 26 percent.

“With the exception of our very first Winter Outlook five years ago, market fundamentals have indicated a tightening U.S. market and, as a result of that tightness, we’ve indeed seen rising natural gas costs. It is our hope that in the wake of what will certainly go down as the most significant hurricane season ever to impact the natural gas industry, the nation will come to see the value of further diversifying natural gas supplies -- from the Rockies, to more of the Outer Continental Shelf, and even globally,” Blount said.

“America’s appetite for clean-burning natural gas is not shrinking. Without these additional sources of supply, the market will continue to be at risk for disruptions like Katrina and Rita, and the higher costs that inevitably result. This year, though, as the industry does all it can to restore full production as quickly as possible, additional end-use conservation will be the most effective, efficient and money-saving precaution customers can take on the downstream side to help mitigate any extended heating-season impacts,” 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.*