



# NEWS

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## **Summer Natural Gas Markets Can Expect Breather, But Customers Not Out of the Woods, NGSA Says**

(Washington, D.C. )... After four summers of dramatically increasing costs, wholesale natural gas customers can expect a measure of relief this cooling season due to a relatively more stable market than a year ago, but multiple threats from the upcoming hurricane season and volatile world energy markets must be closely monitored, according to an outlook released today by the Natural Gas Supply Association (NGSA).

“Despite forecasts for a somewhat cooler summer this year, projected demand for natural gas is relatively close to what it was last summer,” said NGSA Chairman Chris Conway. “Cooler weather this summer will likely result in lower demand for electricity and, consequently, lower levels of gas-fired generation, leaving room for the return of some industrial demand. As a result, natural gas consumption during this summer is anticipated to be only 0.2 percent lower than summer 2005.”

NGSA does not project retail or wholesale prices, although an independent analysis commissioned by NGSA and publicly reported data point to flat market pressure due to several offsetting indicators, such as more industrial demand taking the place of some cooling demand, along with reduced consumption per residential customer but an increase in the number of household customers.

This summer is projected to be warmer than normal but milder than last year. Specifically, last summer’s weather was 15.7 percent warmer than normal, which broke prior records dating back to 1937, according to data from the National Oceanic and Atmospheric Administration (NOAA).

“Nonetheless, the market remains very tight due to high customer preference for clean-burning natural gas, overall flat production and the constraints on other energy sources,” Conway said.

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The industrial sector's summer demand for natural gas is expected to increase 1.3 percent from last year, according to an NGSA commissioned forecast by Energy Ventures Analysis (EVA). The growth reflects a recovery from hurricane outages and increases due to continued economic growth. Without Hurricanes Katrina and Rita, industrial sector demand for the 2005 summer season would have averaged 17.5 billion cubic feet per day (Bcf/d), rather than the actual 17.3 Bcf/d.

As for the U.S. economy, it continues to grow steadily, according to analysis by Global Insight, with industrial production leading the way via a growth rate of 4.3 percent compared to last summer. The unemployment rate is dropping and the Consumer Price Index is projected to end up flat, with estimated overall gross domestic product (GDP) at a respectable 3.3 percent, declining only slightly from 3.6 percent last summer. This rate of growth, however, does not represent a significant pressure change from last cooling season.

According to analyses from both the U.S. Energy Information Administration (EIA) and EVA, storage levels are at a record for this time of year. NGSA projects that average weekly injection will decrease only somewhat to 59.7 Bcf from last summer's 64.8 Bcf, another indicator of flat price pressure on wholesale natural gas markets. That's because when the season ends November 1, storage levels will hit a new high of slightly more than 3.5 trillion cubic feet (Tcf), about 190 Bcf above the record for storage levels entering the winter season, and about 290 Bcf above last year's levels.

"Although there will be a reduced rate of injection, it appears storage demand during the summer period will actually be off by only about 0.8 Bcf/d, not quite enough in our estimation to result in downward pressure during the entire season," said Conway, who is also president, gas and power, ConocoPhillips. "While this outlook for the summer is based upon NOAA's projections, weather remains the area of greatest uncertainty in this forecast."

Beyond other wildcards such as this year's hurricane season and world energy markets, an additional concern this year is whether some western utilities may need to use more gas-fired generation during off-peak hours to preserve constrained coal stockpiles. Depending on competing fuel prices in the East, as well, some additional gas-fired generation may also displace some coal units here, as well, according to the EVA analysis.

*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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