

NEWS

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Growing Demand Matched by Robust Supply, NGSА Predicts Stable Outlook for Natural Gas Consumers This Winter

(Washington, D.C.) –Pressure on natural gas prices is likely to be slightly upward this winter compared to last winter, the Natural Gas Supply Association (NGSA) today said in its 12th annual Winter Outlook assessment of the natural gas market. Using published data and independent analyses, NGSA evaluated the combined impact of the economy, weather, customer demand, production activity and storage inventories on the direction of natural gas prices for the coming winter compared to November through March of last winter when Henry Hub prices averaged \$2.75.

“When NGSA weighed all the different pressure points, the picture that emerged for this winter is one of increased demand for natural gas that is easily matched by ample production and gas in storage,” said Greg Vesey, Vice Chairman of NGSA and President of Chevron Natural Gas. **“When all the factors are combined, we expect soft upward pressure on prices compared with last winter.”**

Vesey said, “The higher demand forecast is primarily due to NOAA’s prediction of colder winter weather, which would in turn increase the amount of natural gas consumed by residential and commercial customers by 16 percent.” According to National Oceanic and Atmospheric Administration (NOAA) data, last winter was the warmest on record from November through March. NOAA forecasters are predicting a return to normal (colder) winter weather patterns this winter.

In contrast, demand from the industrial sector, which is less sensitive to weather and more sensitive to economic forces, is projected to be comparable to last winter, according to Energy Ventures Analysis (EVA). And demand from the electric sector is expected to stay about the same as last winter, as the historic four-year trend of electric utilities and generators dispatching natural gas-fired power plants rather than coal-fired plants (“fuel switching”) continues for economic reasons.

“Fuel switching is expected to continue for a fourth straight year, but switching is forecasted to be 4.9 Bcf/day rather than last winter’s unprecedented 6 Bcf/day,” said Vesey.

Vesey said, “The robust supply figures are just a part of our overall strong supply story. Natural gas supply can now respond quite swiftly to changes in demand. There are numerous completed wells in shale areas that are not yet producing natural gas but can be quickly accessed and flowing gas when the market calls for more supply.”

Vesey pointed out that ICF International is estimating average winter production at almost exactly the same amount as last winter, even though there are 37 percent fewer gas-directed drilling rigs and 33 percent fewer annual well completions. "Multiple wells are now being horizontally drilled from a single drilling site, which is one of the reasons that rig count is no longer a strong indicator of production," Vesey said.

According to Vesey, "The important takeaway is the strength and responsiveness of supply. Since the onset of shale production on a large scale, we've had four straight winter forecasts for level price pressure. Natural gas suppliers stand ready to meet natural gas demand and customers' needs," he said.

In brief, the NGSAs 2012-2013 Winter Outlook says:

Economy -Analysts expect very modest growth in manufacturing and GDP. *Flat pressure.*

Weather -Anticipated return to normal cold winter weather pattern likely to create more demand for natural gas heating. *Upward pressure.*

Overall Demand - Expectation for increased demand from the weather-sensitive **residential and commercial** sectors. **Electric** utilities projected to continue to dispatch significant amounts of gas-fired power plants instead of coal-fired plants ("fuel switching"), but probably less than last winter's unprecedented 6 billion cubic feet (Bcf) per day. **Industrial** demand expected to be about the same. *Upward pressure.*

Supply - Continued robust production, increased imports from Canada and abundant gas in storage projected to provide ample supply. *Flat pressure*

Storage - Likely to see a repeat of last winter's high storage inventories. *Flat pressure.*

Vesey said, "All the factors NGSAs used to derive this analysis are interrelated and a change in any one of them can often influence all of them. This year, we see the weather as having the greatest potential impact. Of course, it's also the most difficult factor to predict."

NGSA used data from Energy Ventures Analysis (EVA) for its demand projections and data from ICF International for its supply projections. **The NGSAs analysis is based on publicly reported data; the association does not project actual cost figures for wholesale or retail markets.**

For more information, please see NGSAs Winter Outlook 2012-2013 Executive Summary and NGSAs Winter Outlook 2012-2013 PowerPoint presentation.

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NGSA represents integrated and independent companies that supply natural gas. Established in 1965, NGSAs encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. customers.

More information at www.ngsa.org and www.naturalgas.org
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