NEWS

Embargoed for 9:30 a.m. ET, October 2, 2013

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Good News for Natural Gas Consumers This Winter, NGSA Says

Changing supply portfolio easily responds to quiet growth in demand

(Washington, D.C.) –Pressure on this winter's natural gas prices is likely to be comparable to last winter, the Natural Gas Supply Association (NGSA) today said in its 13th annual *Winter Outlook* assessment of the natural gas market. Using published data and independent analyses, NGSA evaluated the combined impact of production activity, storage inventories, economic growth, customer demand and weather on the direction of natural gas prices for the 2013-2014 winter compared to November through March of last winter when Henry Hub prices averaged $3.47 per MMBtu.

"When NGSA weighed all the different pressure points, the picture that emerged for the upcoming winter is one of quiet growth in supply as well as in demand for natural gas," said Greg Vesey, Chairman of NGSA and Vice President of Gas Supply and Trading for Chevron. "The stability in natural gas is great news for consumers," said Vesey. "When all key supply and demand factors are combined, we expect neutral pressure on prices compared to last winter."

Demand

Combining demand from all the major customer sectors, Energy Ventures Analysis (EVA) projects similar levels to last winter because of similar weather and economic conditions. However, demand from the industrial sector is expected to grow 3.5 percent compared to last winter, according to EVA. EVA's analysis points to sustained healthy growth in industrial demand over the remainder of this decade, as the petro-chemical, fertilizer, steel and gas-to-liquids industries begin construction on scores of major natural gas-intensive projects.

Residential and commercial demand is predicted to be similar to last winter, while demand from the electric sector is expected to decrease very slightly, primarily due to less "fuel switching," when utilities temporarily switch to using gas-fired power plants for purely economic reasons. Although EVA projects the historic five-year trend of electric utilities dispatching natural gas-fired power plants rather than coal-fired plants to continue, it will be at a slightly lower level than last winter.

"Coal-to-gas switching is expected to continue for a sixth straight winter, but switching is forecasted to average 4.2 Bcf/day rather than last winter's near record amounts," said Vesey.

Supply

Turning to this winter's natural gas supply fundamentals, the *Outlook* projects another winter of strong production and storage levels. Vesey said, "The shale revolution has ushered in a remarkable era, as evidenced by dramatic growth in production over the last five years. This winter's supply is expected to be even more robust than last year, but characterized by subtle changes that are indicative of the ability of the competitive gas market to adjust to customer's needs."

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Vesey said, "For example, a solid eight percent of this winter's production is expected to come from "associated" gas, a number that has been quietly growing for four consecutive winters. The growth of associated gas explains how natural gas production continues at strong levels despite a 28 percent drop in the number of gas well completions. We expect associated gas to continue to be a key component of winter supply as oil drilling in the Bakken and Eagle Ford shales continues and new gas infrastructure is put in place to reduce gas flaring."

Vesey added, "Abundant shale gas has even affected storage patterns. Since 2009, we've seen the peak date for storage inventories become a moving target, shifting by a week or more on average to a later peak in mid-November. The proximity of Marcellus shale gas to consuming regions in the East has changed the way the market uses storage."

According to Vesey, "The important takeaway is the strength and responsiveness of natural gas supply. Since the onset of shale production on a large scale, we've had winter after winter of level price pressure."

Vesey said, "In fact, this winter marks the first time in 13 consecutive years of NGSA *Outlooks* that each of the five major supply and demand pressure points so closely mirrors the previous year that factor after factor is expected to place flat pressure on prices. This data points to an overwhelmingly stable natural gas market and positive story for consumers."

In brief, the NGSA 2013-2014 *Winter Outlook* says:

> **Economy** –Analysts expect very modest growth in GDP. *Flat pressure.*
>
> **Weather** –Anticipated repeat of last winter's normal winter weather pattern portends level demand for natural gas heating. *Flat pressure.*
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> **Overall Demand** – Expectation for increased demand from the **industrial** sector of 3 percent. R**esidential and commercial** sector demand projected flat. **Electric** utilities projected to continue to dispatch significant amounts of gas-fired power plants instead of coal-fired plants ("fuel switching"), but a little less than last winter. *Flat pressure.*
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> **Supply** – Continued robust domestic production, fewer imports from Canada, greater exports to Mexico 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.*

NGSA used data from Energy Ventures Analysis (EVA) for its demand and supply projections and IHS Global Insight for its economic projections. **The NGSA 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 NGSA's *Winter Outlook 2013-2014 Executive Summary* and *NGSA's Winter Outlook 2013-2014 PowerPoint* presentation at www.ngsa.org.

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