NEWS

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Robust Production Enabled Unprecedented Supply Response to Record Demand
Hedging and Infrastructure Seen as Key to Future Winters, Says NGSA

(Washington, D.C.) – In testimony at the Federal Energy Regulatory Commission today, a Natural Gas Supply Association representative told the agency that natural gas reliably met this winter's extreme conditions, but encouraged customers to secure natural gas through a portfolio approach including physical and financial hedging and emphasized the need for market solutions to incent more natural gas infrastructure.

In advance of testimony by Jim Tramuto, representing both Southwestern Energy and NGSA, Dena E. Wiggins, president and CEO of NGSA said, "Weather is always the most critical factor in determining demand during the winter heating season; it is also the most difficult to predict. Natural gas suppliers met unexpected levels of demand this winter despite the unpredicted weather extremes."

Jim Tramuto, representing Southwestern Energy and the Natural Gas Supply Association at today's technical conference, said, "Government forecasters didn't see this extreme winter coming, but natural gas was up to the challenge, on some days supplying enough natural gas to meet typical U.S. demand levels twice over."

Tramuto pointed out that despite the unusual and prolonged cold weather across half the United States, spot prices at the Henry Hub never increased to pre-shale gas levels. In fact, spot prices peaked at less than $9 this winter. In contrast, the previous coldest winter peak was over $18 in February 2003. "We can thank abundant supplies of shale gas for that change," said Tramuto.

"Access to physical and financial hedging tools is critical," Tramuto said. He said, "Buying decisions matter. Even during this winter's coldest days, those natural gas customers who had secured gas supply a month ahead were paying under $5 for their gas, instead of the much higher spot market price. Customers who use hedges to purchase more supply on a monthly basis protect themselves from wide swings in the daily spot market. It's important to remember that only a small percentage of the natural gas molecules that were flowing to customers on cold days this winter were purchased at spot market prices."

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Finally, Tramuto said, "The cold weather clearly revealed the need for more pipeline capacity in New England. Several pipeline expansion projects are underway and they will help, but new infrastructure must also be built further into New England."

NGSA has called on FERC to rapidly approve ISO-New England's "Pay for Performance" proposal, which would provide an incentive for generators to invest in measures to help improve reliability. Tramuto said, "Pay for Performance would be a good start, but more must be done to change market behavior enough to build gas pipelines soon. "

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