U.S. Natural Gas Market Assessment

Presented at the NARUC Committee on Gas Summer Meetings

Los Angeles

July 25, 2000

Overview

- ***Natural gas prices are high (near $4.00 per mcf) and will probably remain so unless and until North American supply growth improves relative to observed and expected demand.***

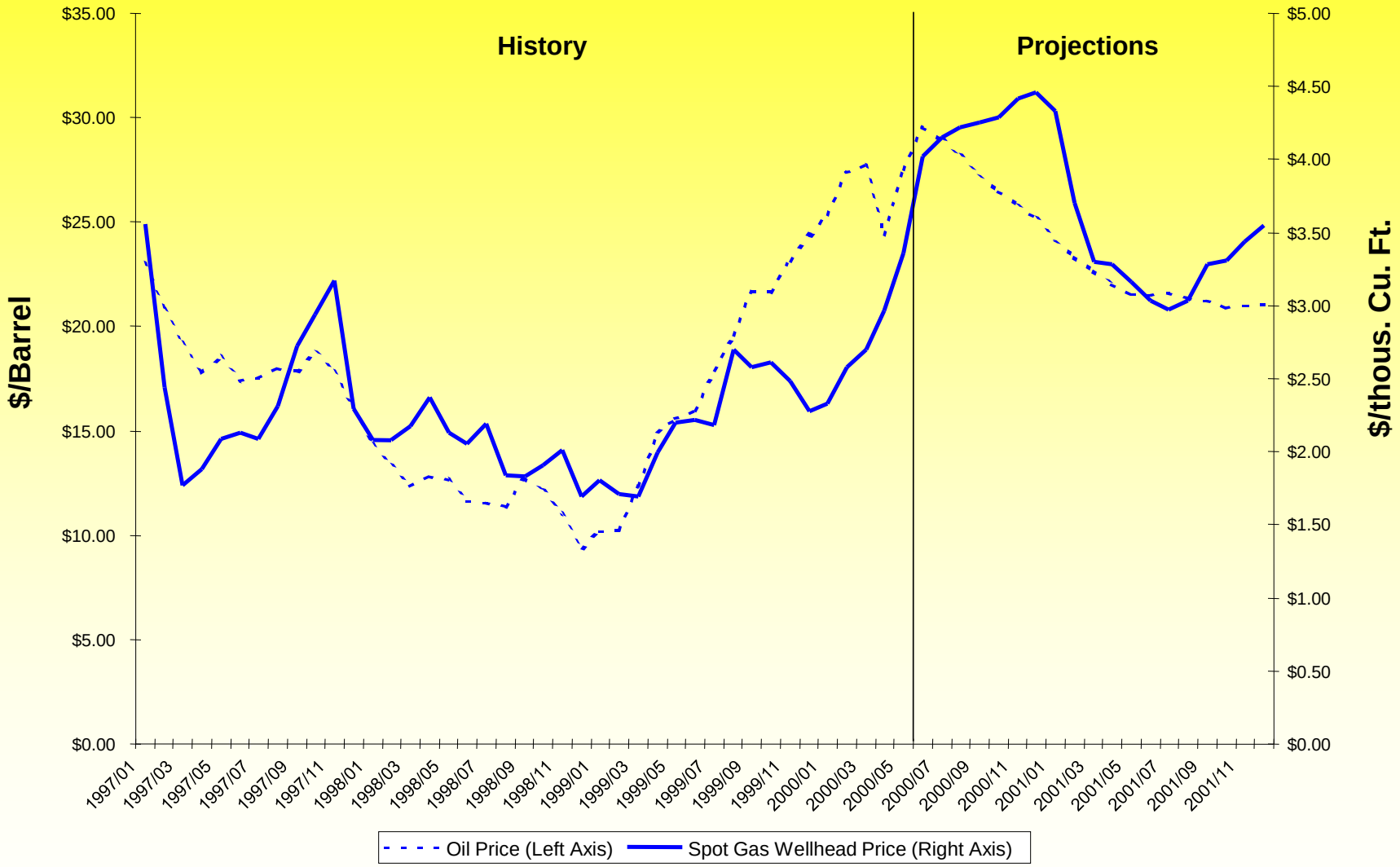
- ***Despite weak overall demand growth last year, gas in storage declined noticeably at the end of 1999. This suggests declining domestic gas production, particularly in light of sharp gains in gas imports in 1999.***

- ***Gas storage declines relative to year ago have continued into this summer, suggesting difficulty of supply keeping pace with demand. Current storage levels are not extraordinarily low but should be considered tight if gas demand grows as expected.***

- ***Possible declines in effective domestic gas production capacity has not been reflected in U.S. gas prices until recently because of factors that have depressed demand temporarily: mild weather; record hydro and nuclear output; excess oil supply (1998 to early 1999).***

- ***Domestic and Canadian gas development efforts should address market tightness, but perhaps not before the winter heating season begins.***

U.S. Gas and Oil Prices



Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2000.

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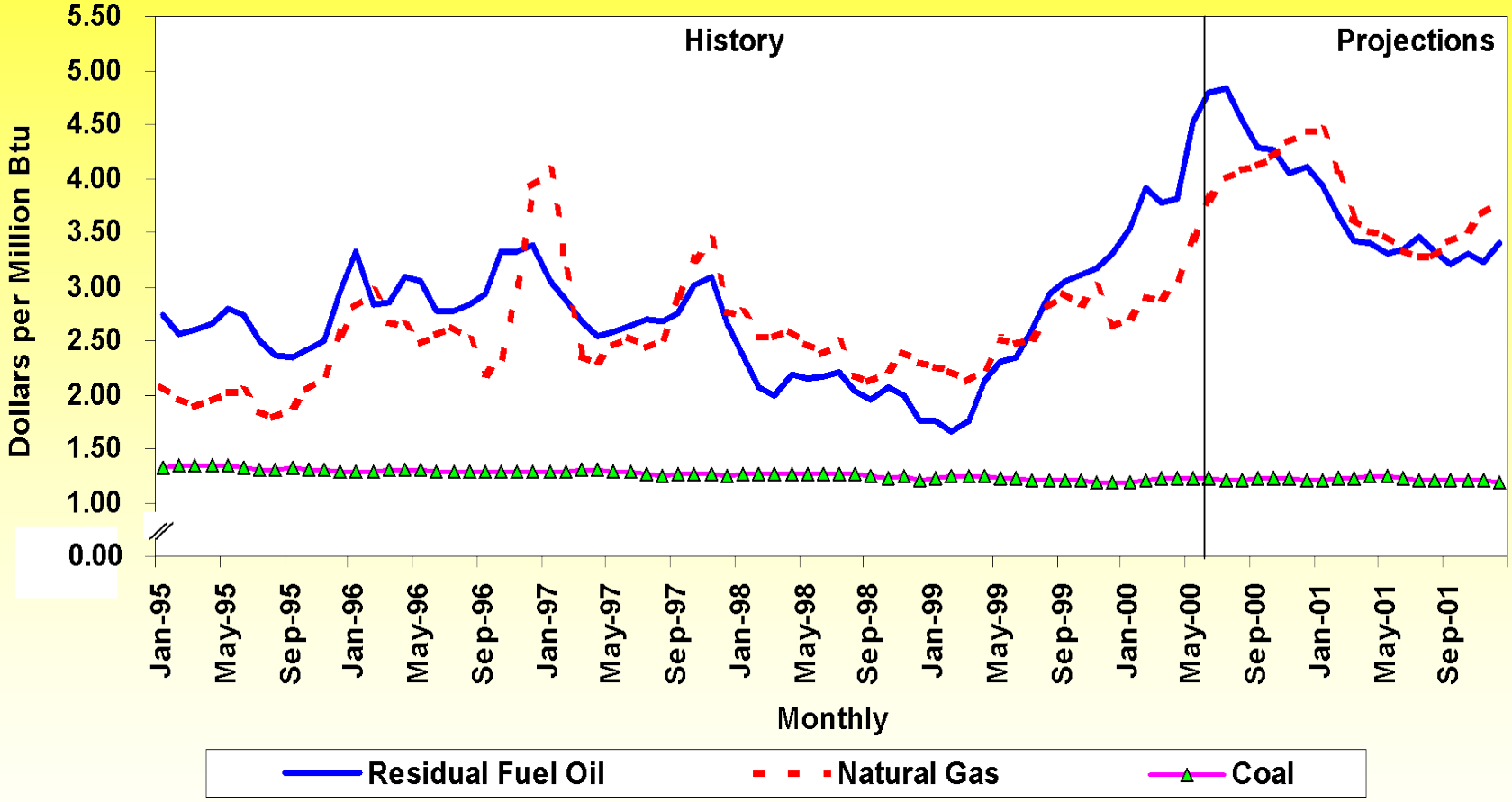
Fossil Fuel Prices to Electric Utilities



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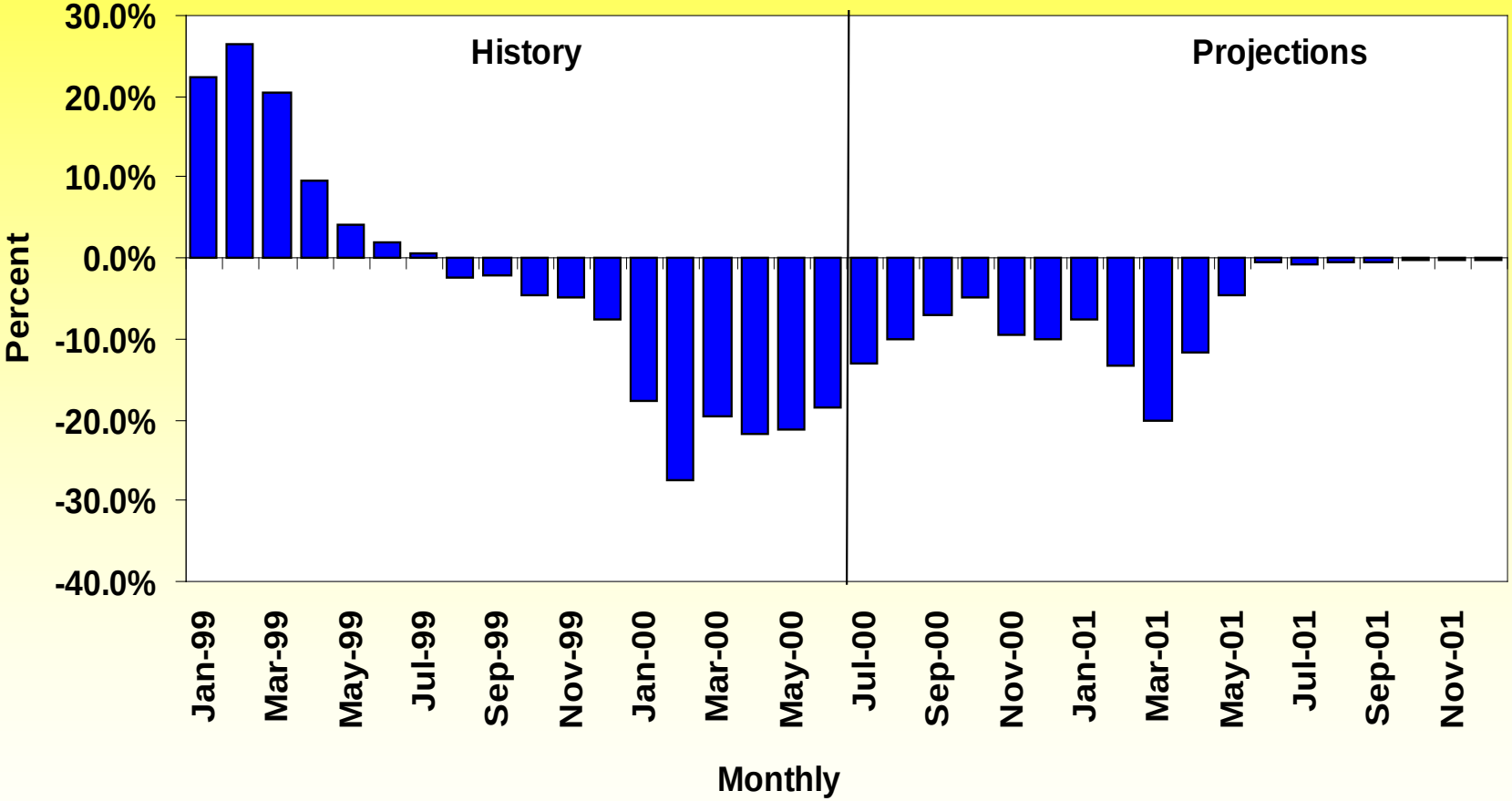
Working Gas in Underground Storage (Percent Change from Year Ago)



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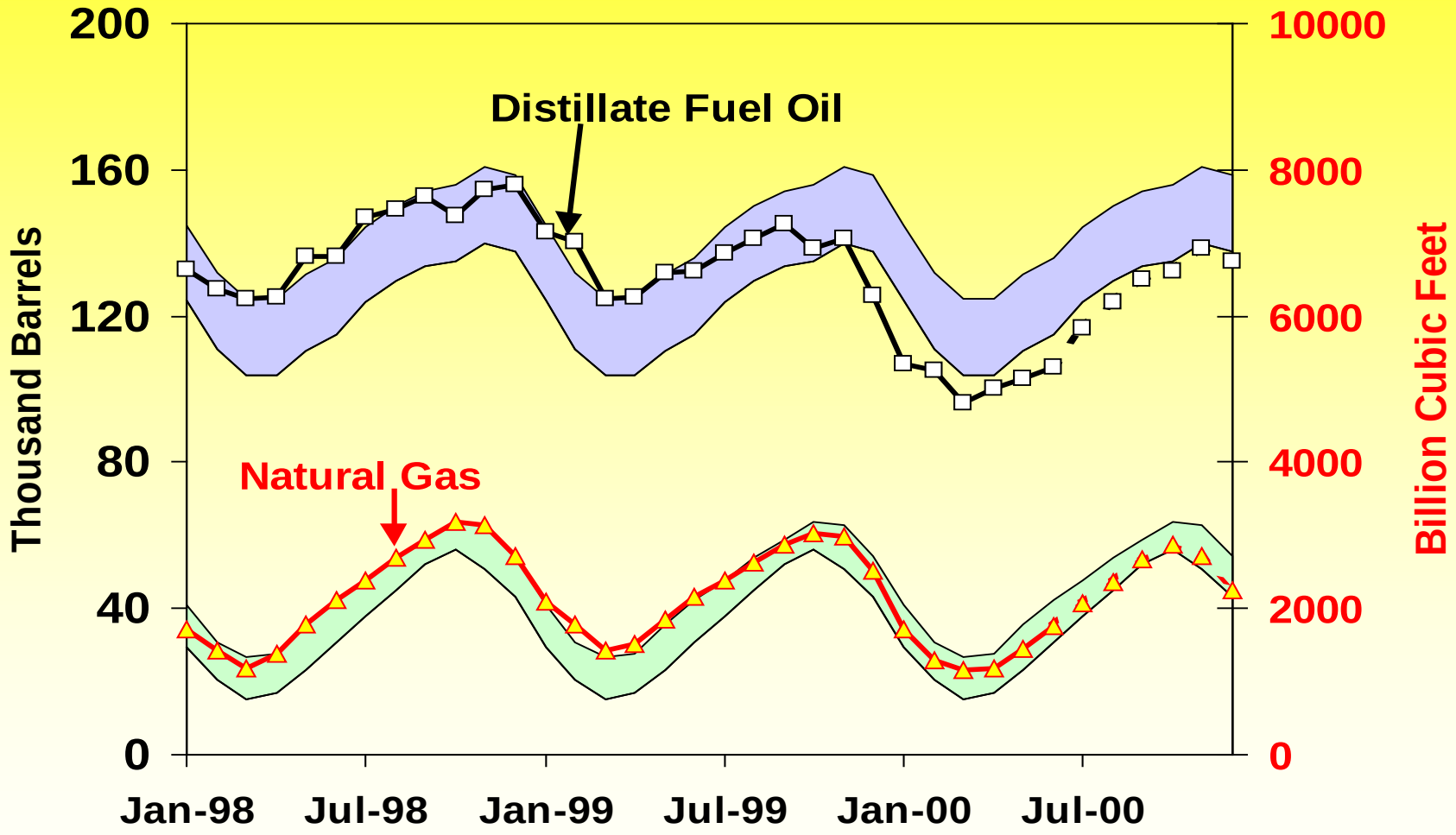
Low Stocks Mean Tight Markets



NOTE: Colored Bands are Normal Stock Ranges

Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2000.

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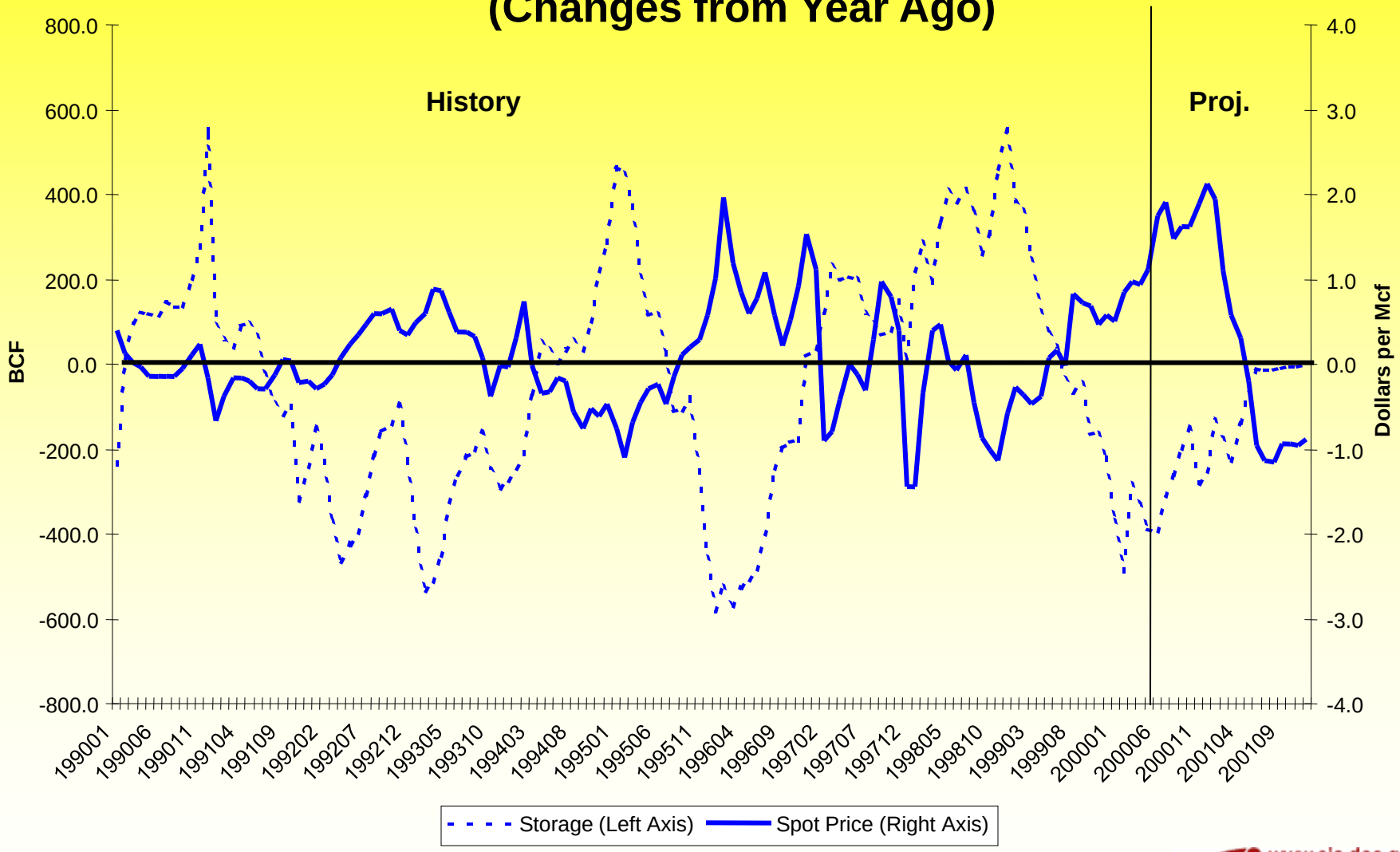
Gas Storage and Spot Gas Price

(Changes from Year Ago)



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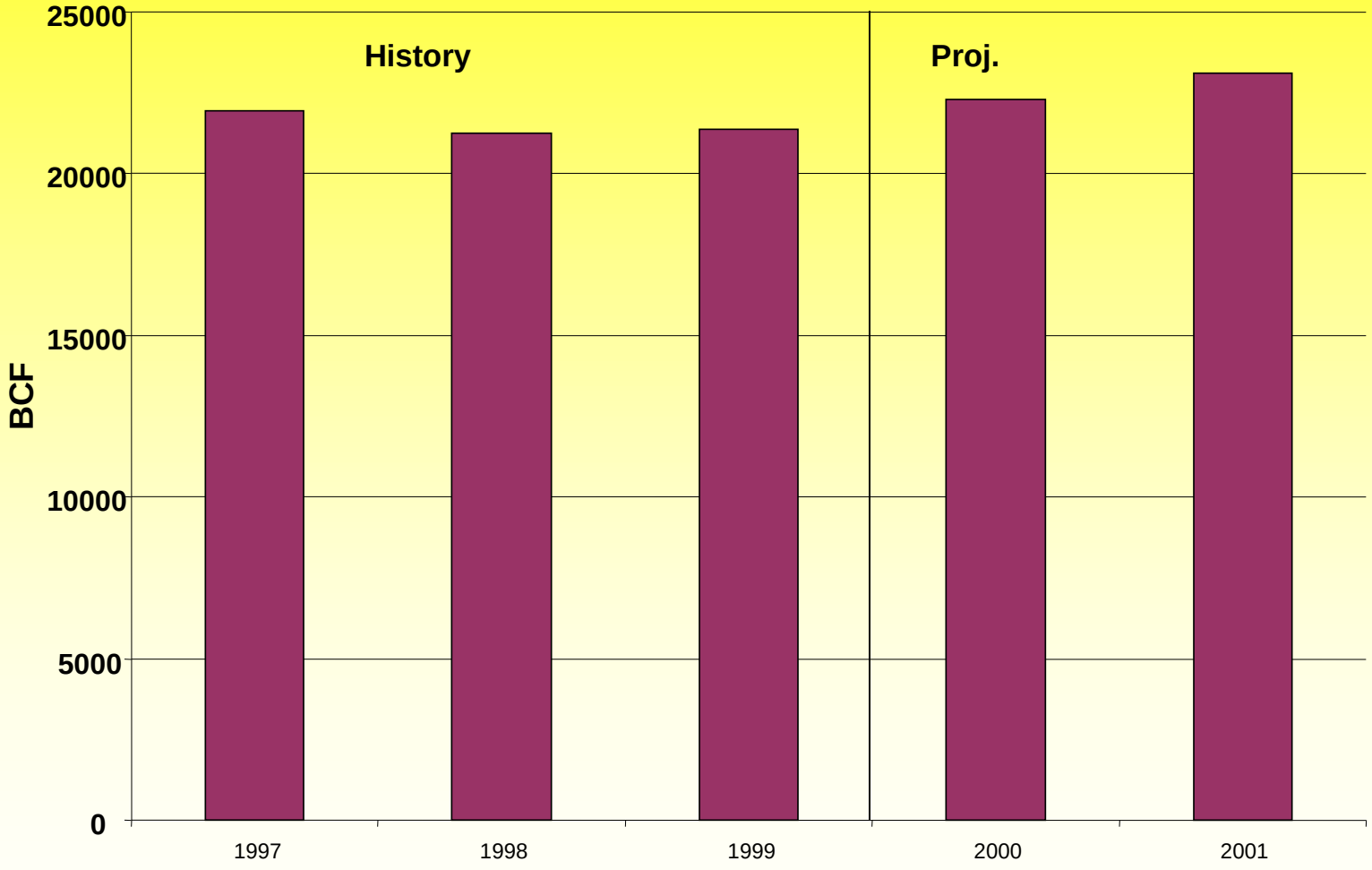
U.S. Natural Gas Demand



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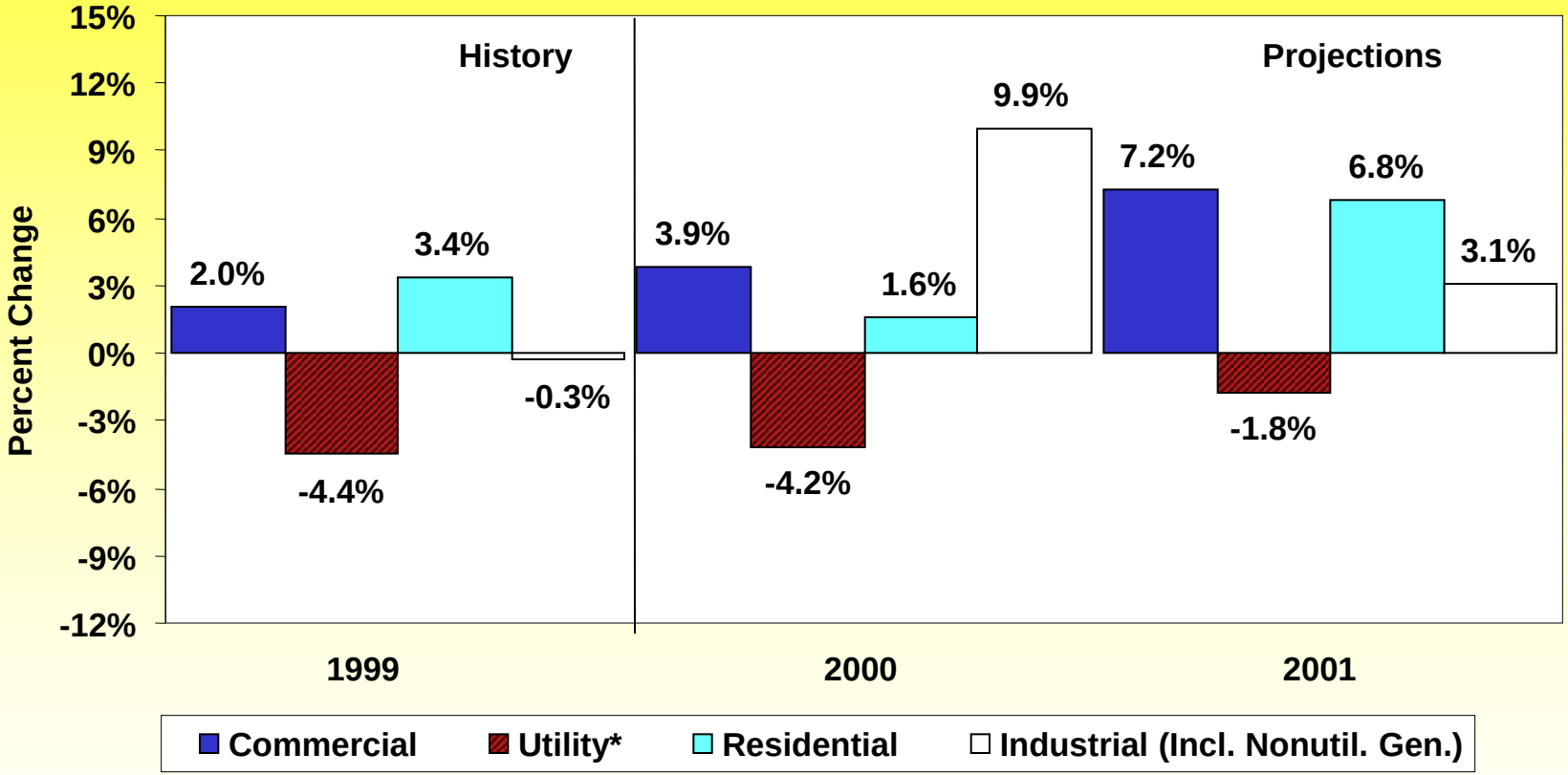
Annual Changes in Natural Gas Demand by Sector



* Electric utility gas demand changes in recent years in part reflect sale of assets to the nonutility sector.

Sources: History: EIA; Projections: Short-Term Energy Outlook, July 2000.

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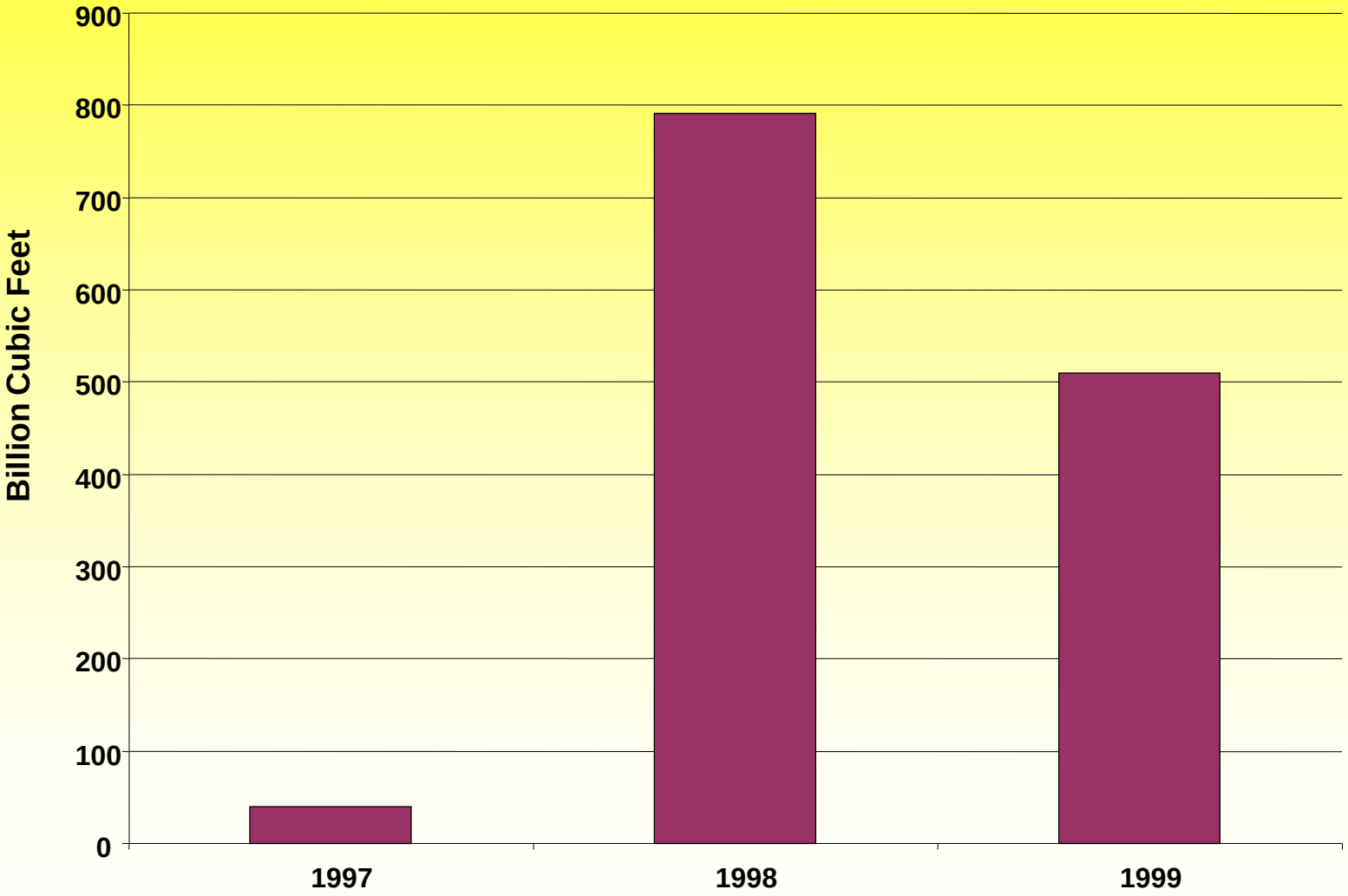
Estimated Additional Natural Gas Demand Under "Normal Conditions"



Sources: EIA; Short-Term Integrated Forecasting System, July 2000

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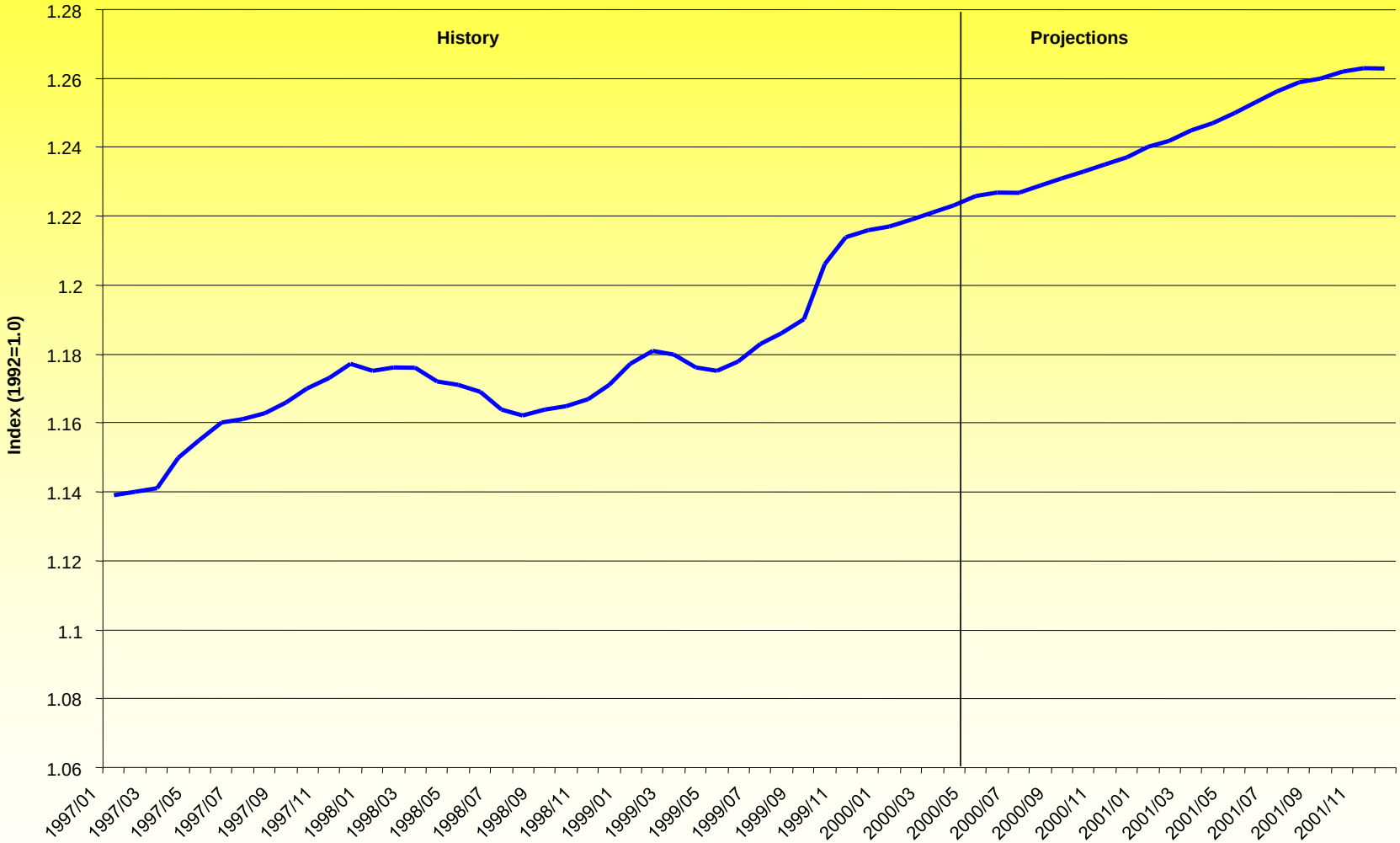
Gas Intensive Industrial Output



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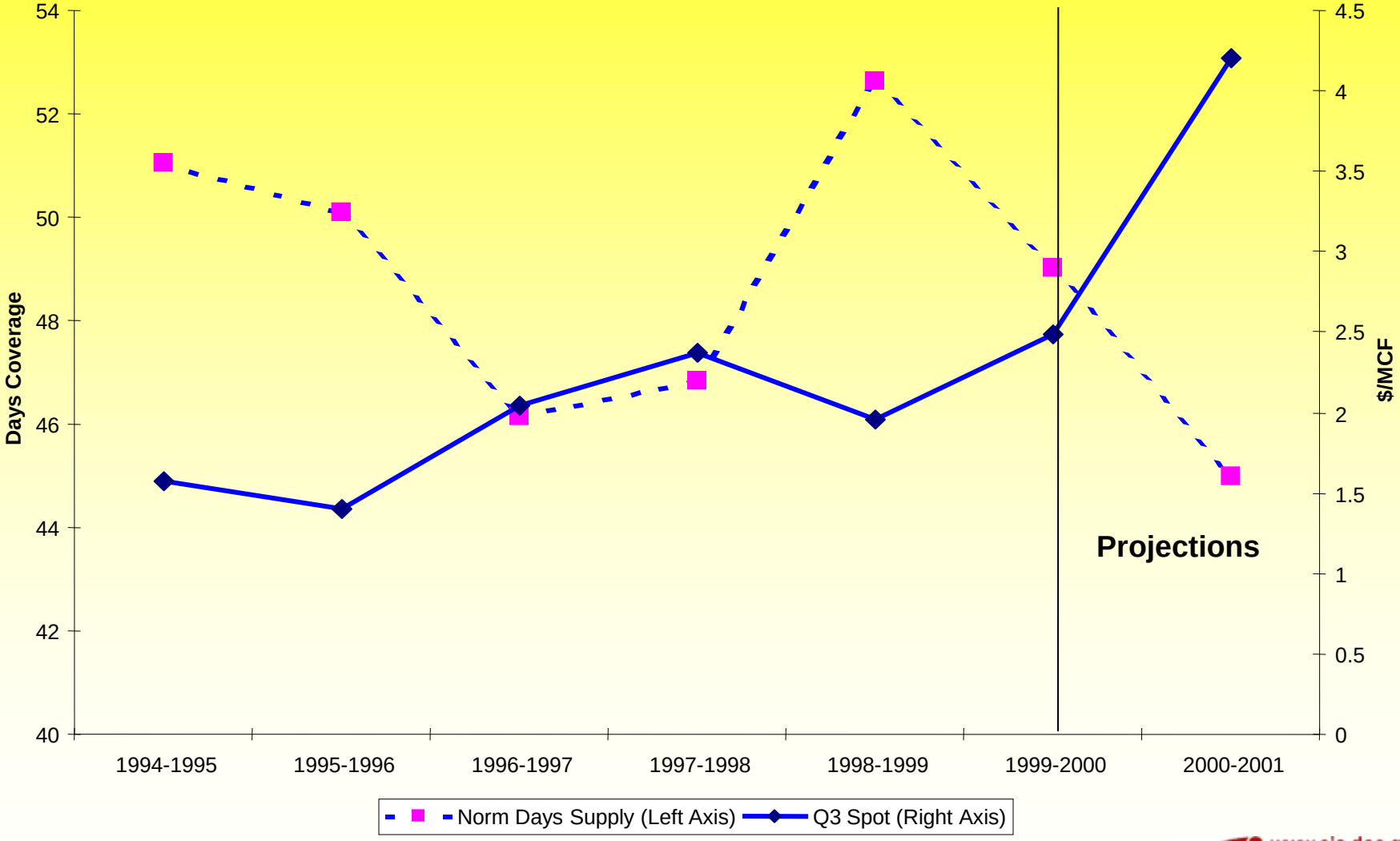
Spot Gas Prices and Expected Excess Supply



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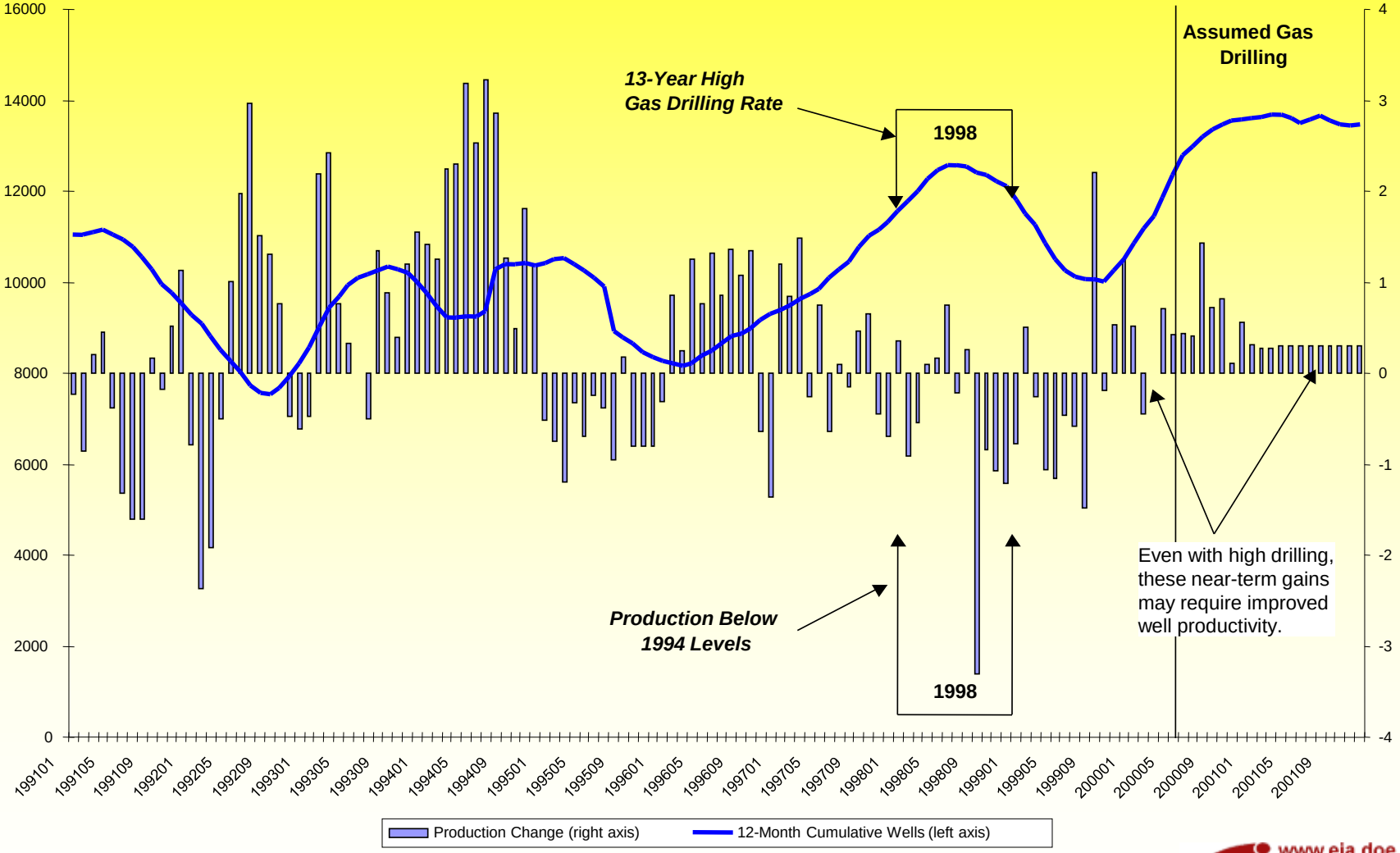
U.S. Gas Wells Drilled vs Year-to-Year Gas Production Growth



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U.S. Gas Price Scorecard

U.S. Production Performance	**+**
Relative Storage Position	**+**
Expected Demand	**+**
Oil Prices	**+/-**
Drilling Effort	**-**
Imports/Capacity	**-**
Weather	**?**
Summary	**+**

Upcoming Heating Season:

$1 to $2 per mcf above year ago

Note: Real gas prices were in the $4 range in the 1982-1984 time period