

## Ferguson: Energy Matters

February 16, 2007

### Energy Matters Mea Culpa?

In baseball, there's a superstition that you can jinx a no-hitter by mentioning the fact that one is in progress. I can only hope my column wasn't responsible for the blast of arctic cold that has frozen the Northeast in its tracks.

I felt obliged last month to comment on the balmy weather back East and the paucity of demand for natural gas. During one unusually mild week in November, the amount of natural gas in storage increased for the first time in (November) history because of the lack of heating demand. How the weather has changed!

In the last four weeks alone, 1.4 trillion (1,400 billion) cubic feet of gas has been burned to keep folks warm. That's in addition to all the other uses of natural gas. Cooking, industry, electricity, et cetera, have burned through perhaps another trillion cubic feet in the same time.

Gas storage levels have fallen a trillion cubic feet since the beginning of 2007 in response to unusual heating demand. The heating season began November 1 with 3,500 bcf in storage, a record amount. As of January 5, more than 3,000 bcf remained in storage. By February 9, storage levels had been drawn down to 2,100 bcf, only slightly above average for the date.

This week has remained cold in the populous northeastern quadrant of the U.S. When the U.S. Energy Information Administration releases gas storage data next week, I expect another draw of more than 200 bcf. The average weekly withdrawal for this time of year is only about 120 bcf.

Mother Nature has wiped out a record storage surplus in just a few weeks.

However, there is more going on in the gas world than just the weather. Changes in storage represent the difference between supplies and consumption. In winter, when consumption is higher, storage is reduced. But reductions in storage can also be caused by reductions in supplies.

Unfortunately, we won't get current supply data from the Energy Information Administration until the end of April. However, my computer model makes pretty good supply estimates. In addition to high heating demand, a second reason for the large drop in storage last week appears to be that U.S. gas supplies are down substantially compared to average. It's too soon to declare this a long-term trend, but since last July, U.S. gas supplies have been below what the country burns in average-weather years.

The record amounts of gas in storage provided us with a cushion against cold weather and weak supplies. But now that we've burned up the surplus, the supply problem becomes worrisome once again.

After the hurricanes of 2005, gas prices went through the roof. Consumption declined in response to higher prices, more than compensating for lost gas

production and resulting in the record surplus at the end of 2006. But with the surplus looming, market prices fell through the floor, dropping briefly below \$5.00/MMBtu last September. Today, gas for March delivery is trading around \$7.25/MMBtu. If supplies are indeed below normal, prices should continue upward despite the usual summer doldrums.

The current gas supply situation is not for lack of drilling activity. Twice as many gas wells were drilled last year as in 2002. Last year's drilling outpaced 2005 by 15 percent. Still, however, production barely increased over storm-ravaged 2005. As many analysts have noted, the gas industry is having to run faster and faster merely to remain in the same place.

In case my earlier column had anything to do with the weather, my special apologies to the many cities back East where the temperature dropped below zero this week.

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