

**EIA: U.S. Gas Consumption to Grow, Marketed Output to Slow  
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*The Energy Information Administration (EIA) on Wednesday said domestic natural gas consumption is on track to grow this year, while marketed production will slow.*

According to the agency's Short-Term Energy and Winter Fuels Outlook, domestic gas consumption is expected to average 69.8 Bcf/d this year, an increase of 3.1 Bcf/d (4.7%) from 2011, due in large part from gains from the electric sector. Gas use by the electric power sector is expected to average 25.4 Bcf/d this year, 22% higher than 2011, the EIA noted.

*Projected total gas demand is likely to fall by 0.2 Bcf/d in 2013, according to the federal agency. "Although projected higher natural gas prices contribute to a 10.4% decline in forecast natural gas consumption in the electric power sector in 2013, consumption in the power sector next year is still expected to be about 1.9 Bcf/d higher than 2011 levels and high by historical standards," the agency said.*

**Henry Hub natural gas prices are forecast to average \$3.35/MMBtu in 2013, compared to \$2.71/MMBtu this year.**

Total marketed production of gas grew by 4.8 Bcf/d (7.9%) in 2011. But the EIA forecasts that total marketed production growth will slow to 2.6 Bcf/d this year (to 69.76 Bcf/d) and 0.4 Bcf/d in 2013, as the reduction in drilling activity is offset by growth in production from liquids-rich gas areas such as the Eagle Ford and wet areas of the Marcellus Shale, and associated gas from the growth in domestic crude oil production.

The EIA said households heated with natural gas are expected to spend an average of 15% more this winter than last year due to the anticipated colder heating season, slightly higher residential gas prices and an increase in demand. Interestingly enough, the median U.S. delivered to residential consumer gas price has been 194% higher than the median monthly Henry Hub index over the last 5 years, according to the EIA and NGI's Monthly Bidweek Survey data.

The EIA's projection on winter gas demand mirrors one earlier this month by the Natural Gas Supply Association (NGSA), which estimated that gas consumed by residential and commercial customers this winter would likely increase by 16% due to the anticipated colder weather. According to the National Oceanic and Atmospheric Administration's most recent projection of heating degree days, the Northeast, Midwest and South will be about 2% warmer than the 30-year average, but still 20% to 27% colder than last winter, while the West is projected to be only about 1% colder, the EIA said.

The EIA report is bad news for consumers, said Thomas Pyle, president of the Institute for Energy Research, who said it "confirms that American homeowners will now face a worst-case scenario for energy prices this winter."

Liquefied natural gas (LNG) imports are expected to fall by about one-half this year from 2011. An average of about 0.5 Bcf/d will arrive in the United States (mainly at the Elba Island terminal in Georgia and the Everett terminal in New England) both this year and next, to "either fulfill long-term contract obligations or to take advantage of temporarily high local prices due to cold snaps or disruptions," according to the EIA. "Higher prices for LNG, particularly in Asian markets, have made the United States a market of last resort for LNG suppliers," it said.

## Gas glut eroding as demand rises: ConocoPhillips' Duncan

The oversupply of natural gas has dropped from about 4 Bcf/d in 2011 to about 1.5 Bcf/d currently as production is leveling off while demand is going up, ConocoPhillips' chief analyst and commodity market strategist said Tuesday.

"The market is going to balance," Jim Duncan said at the LDC Gas Forum Rockies & West conference in Los Angeles.

Rising power-generation demand has made up for decreases in residential and commercial usage, as well as the lower overall demand created by last winter's mild weather, he added.

Duncan pointed out that in June, power burn of natural gas matched power burn from coal generation, a major market event he said was largely ignored by the industry.

Meanwhile, producers continue to focus drilling in oil- and liquids-rich plays as crude yields a relative price of \$18/MMBtu, he said.

Duncan said producers have told him they will not "go look for natural gas" until spot prices reach \$7/MMBtu "which means they're actually telling me \$6/MMBtu and they'll do it at \$5/MMBtu."

In another panel at the conference, analyst Anders Hyde with Platts unit Bentek Energy said power demand for gas has increased by 5 Bcf/d over the past year.

In the Western markets, gas has been the fuel of choice to make up for losses in nuclear and hydro generation — particularly in California, where the San Onofre nuclear power plant has been offline since January, he said.

"When you lose other sources of your baseload, it will be gas that going to pick it up," Hyde said.

Southern California Edison has submitted a plan to regulators for restarting unit 2 at San Onofre, which was shut because of an unusual amount of wear in its steam generator tubes.

Hyde said increasing gas exports to Mexico will also be a factor in the tightening of the Western market.

He said US pipeline shipments into Mexico have increased 200,000 Mcf/d since last year and that several projects to increase exports, mainly from El Paso, are likely to come to fruition because of demand in the Mexican power market.

Mexico's need for gas in electric generation and to serve a growing population, along with excess gas supplies in the US, have made it an increasingly popular destination for some shippers (GD 6/22).

Hyde said the rising gas demand in the West, along with declining production in the region, will lead to constraints.

California markets, including the PG&E city-gate, have seen the highest prices in North America several times this summer, a trend Hyde said will continue.

"In light of capacity constraints, this is going to be a more regular occurrence moving forward," he said.

On Wednesday, the spot price at the PG&E city-gate averaged in the low \$3.90s/MMBtu, higher than any other point in the US and Canada, according to Platts data.

— Eunice Bridges