

Natural Gas Annual 2005 Summary Highlights

Overview

Natural gas prices rose significantly in 2005, driven in large part by an active Atlantic Basin hurricane season during the third quarter. Two storms in particular affected Gulf of Mexico (GOM) production: Hurricane Katrina in late August followed by Hurricane Rita several weeks later in September. Both storms achieved Category 5 status over the Gulf as they encroached upon major gas production regions; consequently, GOM marketed production was down by more than 20 percent when compared with 2004 levels, which in turn spurred rising prices. Increased production in Texas partially mitigated the diminished GOM production for the year; however, total U.S. marketed production of 19.0 trillion cubic feet (Tcf) of gas for 2005 represented a 2.9 percent decrease from the 2004 total of 19.5 Tcf.

Total U. S. natural gas consumption for 2005 was 22.2 Tcf, virtually unchanged from the level in 2004. Industrial demand, however, was off by nearly 7 percent. A relatively mild winter contributed to easing demand and accompanying price stability during the first half of the year. The onslaught of the hurricane season, however, brought with it soaring prices that dominated market headlines for the final 4 months of the year. For 2005, the national average wellhead price was \$7.33 per thousand cubic feet (Mcf), an increase of 34 percent versus the 2004 average of \$5.46. End-use prices were up in excess of \$2 per Mcf in all end-use sectors with the exception of vehicle fuel.

Natural Gas Supply

For the second consecutive year, domestic marketed production was down at the national level. The chief culprit was back-to-back major storms that affected the GOM production region from late August through the remainder of the year. While most producing States had relatively flat production in 2005 compared with 2004, GOM production dropped by more than 20 percent, from 4.0 Tcf in 2004 to 3.2 Tcf in 2005. Offshore pipeline damage from these storms extended well into 2006. Storm damage led to significant price increases during the final third of the year, which were the main drivers behind the national average wellhead price increasing by \$1.87 per Mcf over the 2004 average to \$7.33 per Mcf for 2005.

Partially counterbalancing the aggregate production loss was the 4 percent production increase in Texas, from 5.1 Tcf in 2004 to 5.3 Tcf in 2005. Several western States also recorded modest production increases for 2005, including New Mexico, Wyoming, and Colorado. The number of natural gas and gas condensate wells rose again in 2005, to a record total of 425,303, a 4.7 percent increase over 2004.

Import levels remained robust in 2005, increasing by nearly 2 percent from 2004 to just over 4.3 Tcf. Net imports for the year totaled 3.6 Tcf, a 6.1 percent increase over the 2004 total of 3.4 Tcf. Liquefied natural gas (LNG) imports, though down slightly to 631 billion cubic feet (Bcf) in 2005 (a 3.2 percent decrease), continued to run well above historical levels. Trinidad and Tobago again was by far the leading supplier of LNG, accounting for 439 Bcf. Net LNG imports accounted for 15.7 percent of total net imports for the year, down from 17.3 percent in 2004.

Storage levels throughout 2005 remained above the previous 5-year average, aided in part by a milder than average winter. The total number of active U.S. storage fields in 2005 was up by 1 from 2004, ending the year at 394. Total domestic storage capacity experienced a slight increase compared with 2004, from 8,255 Bcf to 8,268 Bcf.

Total interstate gas movements for 2005 were 63.1 Tcf, a 2 percent drop from the total of 64.4 Tcf in 2004. GOM exports to the mainland dropped by 20.9 percent to 3,073 Bcf as a result of the disruptive hurricane season. Exports from the Rocky Mountain States increased again in 2005, led by Wyoming and New Mexico, with exports of 2,035 and 1,955 Bcf, respectively. Additionally, Colorado's exports were up sharply, to 1,951 Bcf, an increase of 17.3 percent over 2004 levels.

Natural Gas Consumption

Total natural gas consumption was flat for 2005, totaling around 22.2 Tcf for the second consecutive year. Industrial demand was off 6.9 percent for the year, declining from 7.2 to 6.7 Tcf, partially because of reduced consumption in southern-tier States including Texas, Louisiana, Alabama, and Georgia. Counterbalancing this decrease, however, was the electric power sector, which actually realized a 7.4 percent increase in consumption to 5.9 Tcf for 2005. Demand within the residential and commercial sectors was relatively flat for the year. As a percentage of total consumer deliveries, the industrial sector accounted for 33 percent of consumption; the electric power sector for 29 percent; the residential sector for 23 percent; and the commercial sector for 15 percent.

The average city gate price rose significantly, from \$6.65 in 2004 to \$8.67. This \$2.02 increase represented a 30 percent jump over the 2004 average. As expected, all end-use sectors exhibited noteworthy price increases when viewed against their respective 2004 levels. The average residential price rose 19 percent, to \$12.84 per Mcf. Prices in the commercial sector rose 23 percent, to \$11.59 per Mcf, while the industrial average increased to \$8.56 per Mcf, 31 percent above the 2004 price. The electric power sector had the sharpest price increase, rising 39 percent from the 2004 level, to \$8.48 per Mcf. The average price of natural gas used for vehicle fuel was \$9.09 per Mcf, which represented a 27 percent jump versus 2004.

Conclusion

By far, the dominant natural gas market-driving factor in 2005 was the Atlantic Basin hurricane season. From late August onward, the physical damage wrought by these storms severely diminished GOM output, which sent commodity prices soaring. Price levels leading up to the height of the storm season, while not particularly low by historical standards, had remained fairly stable. Over the course of the year, storage levels remained solid, as stocks were not abnormally depleted by the 2004-2005 heating season. Consumer demand for natural gas was flat for the year, with the only notable movement being a dampening of industrial consumption that was mostly canceled by a corresponding uptick in the electric power sector.