

Natural Gas Annual 2007 Summary Highlights

Overview

Natural gas prices declined in all consuming sectors except for electric power. The downward pressure on prices was caused by increased production, record levels of liquefied natural gas (LNG) imports, and inventories that consistently surpassed the previous 5-year average levels throughout the year. Hurricane activity in 2007 caused production outages, but these disruptions were not as severe as in 2005.

Overall marketed production rose by 3.1 percent in 2007, largely boosted by a 9.8 percent increase in Texas. The robust growth in Texas was predominantly caused by production increases in unconventional formations, mainly the Barnett Shale. The 6-year declining production trend in the Gulf of Mexico (GOM) continued in 2007, with a decrease of 3.6 percent from the level in 2006.

Total consumption of natural gas grew for the first time since 2004—up 6.3 percent from 2006. All end-use sectors contributed to the increase in consumption, with the most significant growth occurring in the electric power sector. The rise of natural gas use in the electric power sector was primarily due to the continued construction of natural gas-fired power plants, additional use of natural gas in dual-fired plants, and a warmer-than-normal late summer.

Natural Gas Supply

In 2007 marketed production grew to its highest level since 2001, recording a 3.1 percent rise from the previous year, to 20.0 trillion cubic feet (Tcf). The increase over the previous year's production level was mainly driven by an increase in onshore production, as gains in the Barnett Shale and Rocky Mountain region more than offset the decrease in the Federal Gulf of Mexico production during the year. Large-volume natural gas producing States such as Texas, Wyoming, Colorado, and Oklahoma, exhibited increases in marketed production, rising by 9.8 percent, 5.9 percent, 3.3 percent, and 3.3 percent, respectively. For the second year in a row, marketed production in Louisiana was virtually unchanged while New Mexico was down, ending the year 4.0 percent below the 2006 level. The total number of natural gas and gas condensate wells rose to a record high of almost 453,000 in 2007, 2.8 percent greater than the previous record set in 2006.

The average wellhead price for natural gas decreased slightly from \$6.39 per thousand cubic feet (Mcf) in 2006 to \$6.37 in 2007. Growth in domestic production, increases in pipeline and liquefied natural gas (LNG) imports, and robust storage levels supported the increase in consumption and the slight 0.3 percent decrease in the average wellhead price. The wellhead price in 2007 was 13.1 percent below the recent high annual price of \$7.33 in 2005, when two category-5 hurricanes caused significant outages in Gulf of Mexico production.

Total imports increased by 10.1 percent to 4.6 Tcf for 2007, as both pipeline imports from Canada and LNG imports from overseas expanded. LNG imports increased by 32.1 percent in 2007, reaching a record high of 771 billion cubic feet (Bcf). The climb in imports was primarily due to the 193 Bcf rise in Canadian imports and the 58 Bcf growth in LNG imports from Trinidad and Tobago. Again in 2007, Trinidad and Tobago was the leading supplier of LNG to the United States, with volumes 15 percent higher than in 2006. Net imports in 2007 increased by 9.3 percent to 3.8 Tcf.

Inventory levels throughout 2007 remained above the previous 5-year (2002-2006) average, influenced in part by the increase in production as well as the high storage levels at the beginning of 2007. Inventories at the end of July and October set records for those months. The 2007-2008 heating season began with 3,567 Bcf of working gas in storage, which was the record high level for end-of-October stocks. The total number of active U.S. storage facilities in 2007 ended the year at 400, growing by 3.

Total interstate gas movements for 2007 were 67.1 Tcf, an 8.4-percent increase from the total of 61.9 Tcf in 2006. GOM transfers to the mainland dropped by 4.2 percent to 2,683 Bcf. Shipments from the Rocky Mountain States climbed again in 2007, led by Wyoming and Colorado, with transfers of 2,261 Bcf and 2,114 Bcf, respectively. New Mexico's out-of-State movements fell to 1,868 Bcf, down 4.4 percent.

Natural Gas Consumption

Total natural gas consumption in 2007 rose for the first time in 2 years to 23.0 Tcf, an increase of 6.3 percent from the level in 2006. Colder weather and lower prices than the previous year boosted residential and commercial natural gas consumption to 4,717 Bcf and 3,017 Bcf in 2007, an 8.0-percent and 6.5-percent increase, respectively.

Consumption in the industrial sector rose by a more modest 1.7 percent, to 6,625 Bcf. In the electric power sector, consumption grew to 6,841 Bcf, up 10.0 percent from the 2006 level spurred by increases in generation capacity and the favorable price of natural gas relative to petroleum products during most of the year. As a percent of total consumer deliveries, the electric power sector accounted for 32 percent of consumption; the industrial sector for 31 percent; the residential sector for 22 percent; and the commercial sector for 14 percent.

Natural gas consumer prices declined in 2007 for the residential, commercial and industrial sectors. In addition, the average city gate price fell, from \$8.61 per Mcf in 2006 to \$8.12 per Mcf in 2007. The most significant price decreases were in the residential and commercial sectors where prices decreased by 4.9 percent to \$13.06 per Mcf and 5.7 percent to \$11.32 per Mcf, respectively. Prices in the industrial sector were down 2.4 percent in 2007, ending the year at \$7.68 per Mcf. The electric power sector had a slight increase in price, rising by 2.8 percent from the 2006 level, to \$7.31 per Mcf. The average price of natural gas used for vehicle fuel was \$8.45 per Mcf, dipping 3.1 percent from 2006.