

EIA expects gas prices to keep falling, ponders growing production

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EIA is expecting cheaper natural gas prices into next year with a sluggish economy and a healthy supply and demand balance, it said in its Short-term Energy Outlook released yesterday. The 2011 gas price forecast fell 6¢ from the last report to \$3.56/MMBTU. The 2012 projected average fell 19¢ to \$4.13/MMBTU.

Gas use was up 1.7% to 67.1 BCF/day this year due to higher demand from industrial users and the power sector. EIA expects it to grow 1.1% to 67.9 BCF/day next year largely due to more heating degree days.

Production should average 65.6 BCF/day this year, up 6.1%, and climb 2% next year to 66.9 BCF/day.

Rig counts keep growing, with Baker Hughes reporting 934 actively drilling for gas last month, up from the year's low of 866 in May -- last month's total. If drilling continues to grow despite low spot and forward prices, production could be higher than expected next year.

The country had 3.8 TCF in stocks at the end of October and EIA expects 2 TCF to be drawn out of that this winter compared to 2.3 TCF last season.

Milder weather led to a projection of 0.6% less demand for power next year, while EIA expects it to rise 0.3% this year. The National Oceanic & Atmospheric Administration expects winter temperatures to be milder this year, especially in the South Atlantic region where most houses heat with electricity.

Coal's contribution to national generation continues to slide, projected to drop to 44.9% this year from 46.1% last year and down again in 2012 to 43.5%. Gas-fired generation picked up the slack, growing from 22.6% in 2010 to 22.8% this year and 23.7% in 2012, said EIA.

The cost of coal is projected to go up a total of 6.4% in 2011 while the delivered cost of gas to generators continues to fall. The effect of the fuel price changes will be relatively modest changes to retail power prices, projected to rise 1.7% this year and 1.2% next.

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