Natural Gas Annual 2006
Summary Highlights

Overview

Warmer than average temperatures dominated the U.S. natural gas market in 2006. Favorable weather during the heating season as well as a modest increase in U.S. marketed production of natural gas led to higher than average inventories, which resulted in a decline in the average wellhead natural gas price in 2006.

Unlike the 2005 Atlantic hurricanes that reduced annual natural gas production in the Gulf of Mexico (GOM) by 20.7 percent, in 2006 the United States experienced minimal storm activity which eased production worries for the region. Despite continuous recovery operations in the GOM since the 2005 hurricane season, average marketed production in this region decreased an additional 7.9 percent in 2006. However, overall U.S. marketed production increased 2.4 percent this year largely boosted by a 4.9 percent increase in Texas.

Total consumption decreased 1.6 percent mainly because of a lower heating demand. The reduction in total consumption contributed to larger than average inventories for the year. Warmer than normal summer months led to an increase in natural gas demand by the electric power sector. Market forces decreased the average wellhead price by 13.6 percent in 2006.

Natural Gas Supply

Responding to higher wellhead prices in 2005, U.S. marketed production increased 2.4 percent to 19.4 trillion cubic feet (Tcf), after 2 years of consecutive decreases. Colorado, Louisiana, Texas and Wyoming accounted for 6 percent, 5 percent, 5 percent, and 11 percent increases in marketed production, respectively, which helped offset the GOM decrease. U.S. marketed production still remains 592 billion cubic feet (Bcf) below 2003 levels. The total number of natural gas and gas condensate wells rose to a record high of 448,641 this year, a 5 percent increase over the previous record set in 2005.

The average wellhead price for natural gas declined from a high of $7.33 per thousand cubic feet (Mcf) in 2005 to $6.40 in 2006. The price drop was primarily due to higher than average inventories brought on by warmer than average temperatures during the heating season and a small growth in U.S. marketed production. Despite the decline, the 2006 wellhead price remains 15.9 percent above 2004 levels.

Total imports fell 3.6 percent to 4.2 Tcf for the year, while net imports slid 4.2 percent to 3.5 Tcf. Liquefied natural gas (LNG) imports dropped for the second year in a row from 631 Bcf in 2005 to 584 Bcf in 2006, representing a 7.6 percent decrease. The reduction in imports was primarily due to a 110 Bcf decline in Canadian imports and a 50 Bcf decline in LNG imports from Trinidad and Tobago. Again in 2006, Trinidad and Tobago was the leading supplier of LNG, accounting for 389 Bcf. Net LNG imports accounted for 15.1 percent of total net imports for the year, down from 15.7 percent in 2005.

Throughout 2006, underground working gas in storage remained above the previous 5-year average. The total number of active storage fields in 2006 grew by 3, ending the year at 397. Total underground storage increased to 8,330 Bcf, up less than 1 percent, from 8,268 Bcf in 2005.

Total interstate gas movements for 2006 were 61.7 Tcf, a 2.2 percent decline from the total of 63.1 Tcf in 2005. GOM shipments to the mainland decreased by 8.9 percent to 2,800 Bcf. Shipments from the Rocky Mountain States increased again in 2006, led by Wyoming and Colorado, with transfers of 2,175 and 2,053 Bcf, respectively. New Mexico's out-of-State movements were down slightly, to 1,954 Bcf, virtually unchanged from 2005 levels.

Natural Gas Consumption

Total natural gas consumption slid for the second year in a row to 21.7 Tcf, down 1.6 percent from last year. Residential and commercial consumption was reduced to 4,368 Bcf and 2,835 Bcf in 2006, a 9.5 percent and 5.5 percent decrease, respectively, as residential and commercial end-user prices rose for the 4th year in a row. Demand in the industrial sector fell 1.6 percent, to 6,495 Bcf. Consumption grew to 6,222 Bcf, up 6 percent from a year ago, in the electric power sector. As a percentage of total consumer deliveries, the industrial sector accounted for 33 percent of consumption; the electric power sector for 31 percent; the residential sector for 22 percent; and the commercial sector for 14 percent.

The average city gate price fell slightly, from $8.67 per Mcf in 2005 to $8.61 per Mcf in 2006. End-use sectors exhibited mixed price results. Average commercial and residential prices increased 3.5 percent, to $11.99 per Mcf and 7.1 percent to $13.75 per Mcf, respectively. Although the average annual residential and commercial prices remained higher than in 2005, they decreased sharply from their previous record monthly highs set during the second half of 2005. In contrast, annual prices in the other sectors adjusted more quickly in 2006. Industrial sector fell 8.2 percent, to $7.86 per Mcf. The average price of natural gas used for vehicle fuel dipped 3.4 percent below levels from a year ago, ending at 8.78 per Mcf. The electric power sector price fell $1.37 per Mcf from 2005, or 16.2 percent, to $7.11 per Mcf.

Conclusion

In summary, the trends in this year's publication can be explained by weather conditions and marketed production. The net effect of the year's above average temperatures and increase in marketed production provided the market with an adequate supply of natural gas. Market forces responded to the year's sufficient supply of natural gas with a price decrease in all sectors except residential and commercial.