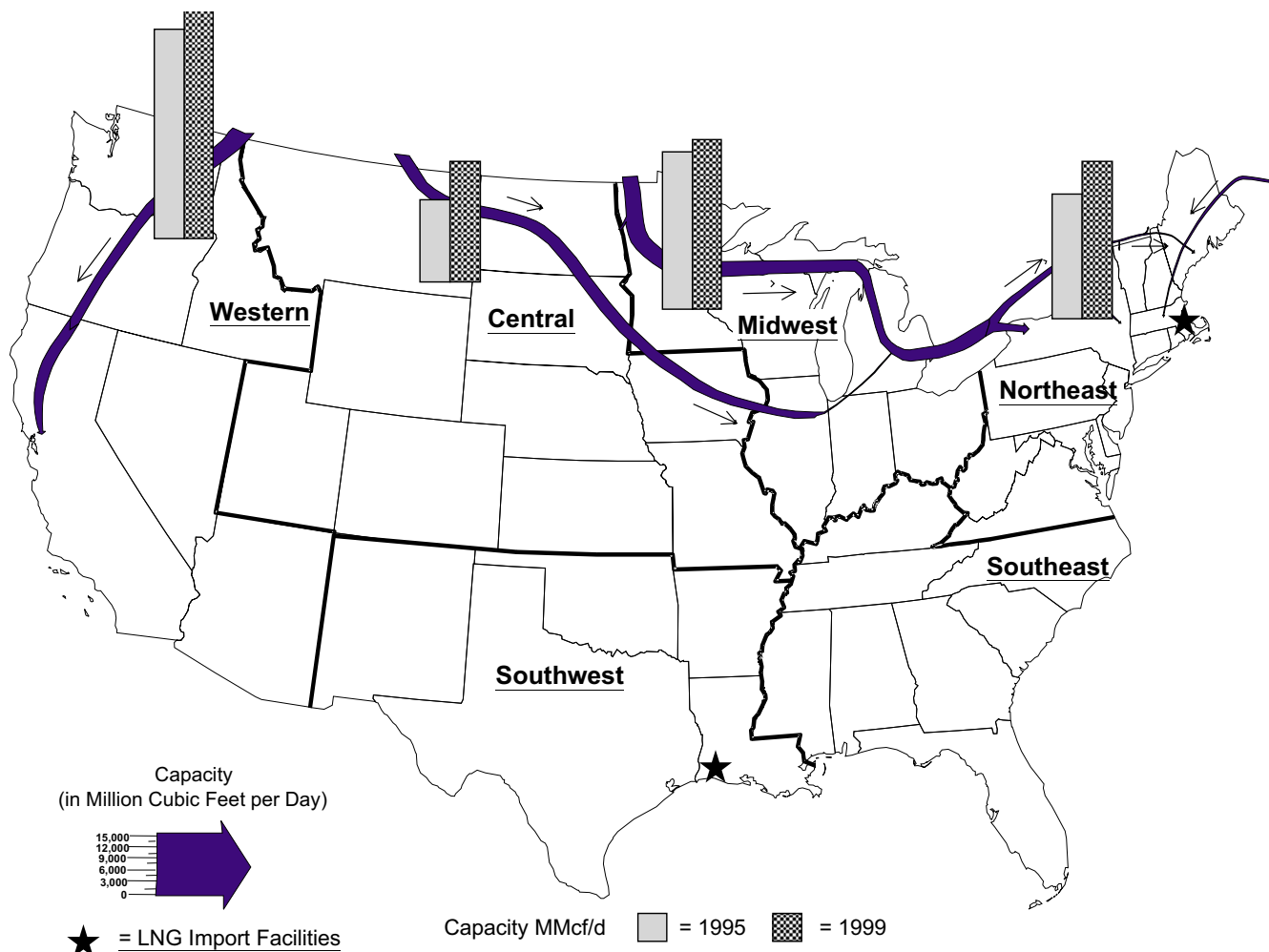


Increasing Importance of Natural Gas Imports on the U.S. Marketplace



Source: Energy Information Administration, Office of Oil and Gas.

The growing importance of imported natural gas supplies in the U.S. marketplace, especially the Northeast, is reflected in the two-fold increase in Canadian and overall net imports since 1990. Net imports increased significantly to 3,397 billion cubic feet (Bcf) in 1999 because of various factors, including Canadian-U.S. border pipeline expansions and an increase in liquefied natural gas (LNG) imports. The Northeast has become a significant receiving region for natural gas during the past decade. In 1998, the total volume of gas delivered to the consuming Northeast was 2,877 Bcf, which included 728 Bcf or 25 percent from imports.

A key event in the development of imports from Canada occurred in 1999 with the completion of the Maritimes and Northeast Pipeline, which establishes a

link between the Sable Offshore Energy Project (SOEP) and New England markets. The SOEP, located off Nova Scotia in the northern Atlantic, is seen as a development with potentially far-reaching consequences as it marks the first commercial natural gas project in the Atlantic. The Sable Island project contains about 3 trillion cubic feet of recoverable gas resources and is designed to supply about 530 MMcf/d to the 650-mile Maritimes and Northeast Pipeline, which will deliver 400 MMcf/d to the New England marketplace. Only 36 MMcf/d was making its way into U.S. markets from the Maritimes and Northeast Pipeline before a second shutdown arose because of a possible gas leak at the Sable processing plant onshore. However, the Sable Island project is expected to send 360

MMcf/d to the U.S. markets soon after reopening and reach its peak flow of 530 MMcf/d by November 2000. Over 50 percent of gas deliveries from the Maritimes and Northeast Pipeline will be to Maine, which currently has very limited access to natural gas, ranking forty-ninth in the United States for natural gas consumption. With the Maritimes and Northeast Pipeline, Canadian flow capacity to the Northeast is 3,027 MMcf/d in 1999, up 26 percent, from 2,393 MMcf/d in 1997.

LNG imports from various countries still represent only a small portion, around five percent, of overall U.S. imports although they are a significant supply source for several regional markets. Total LNG imports for 1999 increased 89 percent to 161 Bcf from the 1998 level of 85 Bcf. Eighty percent of LNG imports in 1999 were supplied by Algeria, while 20 percent were from Australia and the United Arab Emirates (UAE). Forty-six percent of the LNG imports in 1999 were supplied by Algeria, while the remaining 54 percent came from Trinidad, Qatar, Australia and Malaysia. This rapid growth in LNG imports is partly due to the startup of the Atlantic LNG project in Trinidad. This project has contributed 31 percent of U.S. LNG imports for 1999 even though LNG receipts only began in May 1999. LNG imports during the third quarter of 1999, were up 211 percent from the third quarter of 1998, due in part to the Atlantic LNG project. Another factor contributing to the growing LNG supplies to

the United States is the increase of short-term sellers of LNG. Spot purchases of LNG accounted for 5.1 Bcf in 1995, while in 1999 spot purchases of LNG totaled 60.2 Bcf. Currently, there are only two operational LNG receiving terminals in the United States: Lake Charles, Louisiana, and Everett, Massachusetts. However, a third facility at Elba Island, Georgia, is planned to open to receive LNG beginning in mid-2002. Work has begun and the operator has a contract for 80 Bcf per year from the Atlantic LNG facility in Trinidad for seventeen years.

During the past decade, imported natural gas supplies have increased from 8 percent of the annual U.S. natural gas consumption in 1990 to 16 percent through November 1999. In 1999, gas imports in the first 11 months increased by 13 percent, over the comparable period of 1998. U.S. market demand for natural gas imports remains apparent. For example, even with the addition of 700MMcf/d operational capacity to the Northern Border Pipeline System (NBPS), imported gas transported by the pipeline has continued to flow at maximum capacity of 96 to 97 percent. Prior to the expansion, the NBPS was being utilized at a level slightly above 100 percent of designed capacity (possible through line-packing). The strong demand for new sources of natural gas indicate potential for continued growth of imports to U.S. markets.