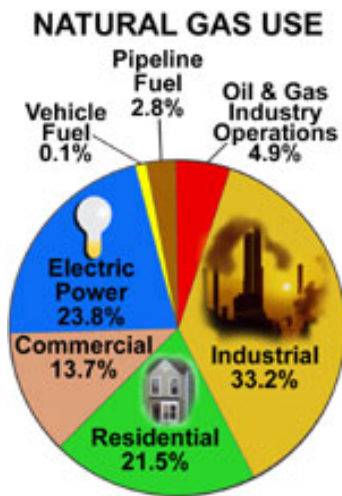


INTERMEDIATE/SECONDARY ARTICLE: Natural Gas in the News



Just about everyone in the United States uses natural gas. It accounts for nearly a fourth of the energy we consume each year. Industry is the biggest consumer, using it as a heat source to manufacture goods and also as an ingredient in thousands of products, such as fertilizer, photographic film, ink, glue, paint, plastics, laundry detergent, and insect repellents. Synthetic rubber and man-made fibers like nylon are also produced with chemicals derived from natural gas.

Homes and businesses are the second biggest users of natural gas. Six in ten homes use natural gas for heating. Many homes also use natural gas water heaters, stoves, and clothes dryers. Commercial buildings use natural gas mainly for indoor space heating.

Natural gas is also increasingly being used to make electricity; natural gas power plants burn cleanly and can be brought on-line quickly, making them responsive to peak demand. Today, natural gas generates about 17 percent of the electricity in the U.S., a figure that is expected to increase.

To a lesser degree, natural gas is becoming popular as a transportation fuel. Natural gas can be used in any vehicle with an internal combustion engine, although the vehicle must be outfitted with a special carburetor and fuel tank.

With such broad consumption of natural gas by people and industries, any marked change in supply or price can produce a significant effect on the economy and on people's lives. Today, many people in the country are concerned that there is a natural gas crisis as demand increases faster than production. Secretary of Energy Spencer Abraham talked about the problem in a recent speech, stating in part:

Over the last decade, demand for natural gas increased 19 percent to levels that are difficult to sustain under current supply and production constraints. This demand growth has occurred despite improvements in energy efficiencies during the past several years. Even more worrisome, perhaps, is the fact that total natural gas demand is projected to grow 50 percent over the next 25 years. Gas in storage is 32 percent below last year's level and 22 percent below the previous five-year average.

At its heart, this is not some abstract problem about numbers and percentages like those I just mentioned. It's not just about low reserves or supply-and-demand imbalances. Rather...it's about real people and the real problems they confront when gas prices soar.

It's about senior citizens, living on fixed incomes, being forced to choose between skyrocketing heating bills or some other of life's necessities. If gas prices this winter are as high as some predict, the average residential winter heating bill for a typical Midwest consumer is expected to be \$915, a 19 percent increase over last year's bill.

It's also about the men and women who work in gas-intensive businesses and industries. They are worried about the economic uncertainty that high gas prices bring - worries about layoffs, paying the mortgages, or providing for their families. The situation is particularly worrisome in the fertilizer industry, where natural gas accounts for 97 percent of total energy use and less than one percent of it can be switched to some other energy source. Some layoffs have already occurred and several companies have warned about possible production cuts and layoffs should these high gas prices continue. In fact, there is even concern that gas prices could go so high that manufacturers find it more profitable to shut down production and sell their natural gas reserves.

With all of these potential, real-life consequences, it is our job ... to ensure an adequate supply of natural gas at reasonable prices. This is not just a problem for federal, state, or local governments. This is not a regional problem. It is not just a problem for gas-intensive businesses and industries. It is a national concern that will touch virtually every American.

Federal Reserve Chairman Greenspan told a Senate hearing in July that high natural gas prices and shortages are already having an adverse impact on some industries and that he does not foresee a return to low prices or abundant supplies anytime soon. "Today's tight natural gas markets have been a long time in coming, and distant futures prices suggest that we are not apt to return to earlier periods of relative abundance and low prices anytime soon."

Greenspan told the Senate Energy Committee that it is difficult to assess the impact of higher gas prices on the overall economy, but that high energy prices are expected to cause some industries to lose business to foreign competitors. "We do see the obvious loss of jobs that will go with the inevitable movement of gas producing capacity to foreign shores because it has made us largely uncompetitive in a number of industries in which gas is a critical input," said Greenspan. Otherwise, he said, "you don't see all that much direct economic impact, except in households where you are going to clearly see significantly higher bills as we go into the winter" if tight supplies and high prices persist.

Representatives Richard Pombo (R-CA) and Billy Tauzin (R-LA) are leading an effort to roll back environmental restrictions that they say prevent gas companies from tapping new domestic supplies. The restrictions "threaten our nation's economic health and American jobs, just as our economy is showing signs of recovery," they wrote in a letter to Speaker Dennis Hastert (R-IL). Unless the government takes steps to allow drilling in currently closed or restricted areas, primarily in the West, the nation could become more dependent on foreign energy supplies, the lawmakers said, adding, "Clearly something must be done to balance conflicting government policies that encourage the use of natural gas as a clean-burning fuel but restrict access to plentiful American supplies."

Environmental groups oppose any rollback of environmental restrictions. An article by the Natural Resource Defense Council stated, "Sharp increases in short-term natural gas prices have prompted some to call for more drilling on public lands and fewer environmental safeguards on gas exploration and use... Invading environmentally sensitive federal areas in search of fuel is not the answer: recovery of much of our federal gas reserves is uneconomic, and will be even more so if prices fall."

Secretary of Energy Abraham encouraged Americans to make use of energy efficiency and renewable energy in their homes and businesses. In a speech at the National Renewable Energy Laboratory, he stated, "By incorporating advanced energy efficiency and renewable energy technologies that reduce energy use into building designs, the U.S. building sector is achieving significant results. Individuals can also play an important role in reducing energy usage. Conserving energy in the home saves consumers money today while also helping ensure abundant energy supplies in the future."

In a letter to all 50 of the nation's governors released in July, Secretary Abraham urged state chief executives and their state energy agencies to join the Department's Smart Energy Campaign, a broad-based communications campaign to educate consumers, homeowners and businesses on the need to conserve energy in the wake of low natural gas supplies and rising demand for the popular energy source. Abraham urged each Governor to place the energysavers.gov link on their official websites.

Abraham also announced that the Department of Energy would soon undertake a Natural Gas Data Collection Initiative that will improve the way the Energy Information Administration and the Office of Fossil Energy gather and disseminate information about the use and origin of natural gas supplies in the U.S.

For more information on natural gas issues, go to the U.S. Department of Energy website, www.energy.gov and the Energy Information Administration website, www.eia.doe.gov.

NATURAL GAS PROJECTIONS ENERGY INFORMATION ADMINISTRATION

The Energy Information Administration of the U.S. Department of Energy is charged with providing data analysis and projections on energy sources. Guy Caruso, EIA Administrator, gave the following natural gas projections to the House Committee on Energy and Commerce in June 2003.

Short Term: Currently, the natural gas market in the United States is tight, with gas storage levels lagging well behind normal levels. Spot natural gas prices reflect this deficit and the expectation that demand ... remains at a high level relative to domestic natural gas supply capability. The high market prices and strong drilling efforts are expected to ultimately allow gas storage volumes to move closer to normal by the beginning of the next heating season. This expectation, however, is predicated on prices continuing at high levels through the next winter.

Longer Term: By 2025 total natural gas consumption is expected to increase to almost 35 trillion cubic feet (Tcf) or 26 percent of U.S. delivered energy consumption. Such a demand level represents an increase of about 52 percent from the expected 2003 level. Domestic gas production is expected to increase more slowly than consumption, rising from 19.5 Tcf in 2001 to 26.4 Tcf in 2025. Growing production reflects increasing natural gas demand and is supported by rising wellhead gas prices, relatively abundant gas resources, and improvements in technologies, particularly for unconventional gas.