

Natural gas

Natural Gas fuels our economy, cools and warms our homes, and helps maintain our quality of life.

Natural gas is a clean burning domestic energy source that powers our economy. It cools and warms our homes and businesses, is used to generate electricity, and helps maintain our quality of life.

Natural gas is used in over 60 million homes. In addition, natural gas is used in 78 percent of restaurants, 73 percent of lodging facilities, 51 percent of hospitals, 59 percent of offices, and 58 percent of retail buildings.

Natural gas is vital to America's manufacturers, not only to power their operations, but also as an essential feedstock for many of the products we use daily -- clothing, carpets, sports equipment, pharmaceuticals and medical equipment, computers, and auto parts. It is also a primary feedstock for chemicals, plastics and fertilizers.

Natural gas prices were in the \$2 to 3 per million Btu (MMBtu) range only five years ago. Record natural gas prices were set in October and December 2005, but warmer than expected conditions during the winter have led spot prices to settle in the \$7-8 MMBtu range. Still, prices paid by residential consumers this winter have averaged more than one-third higher than prices paid during winter 2004-05. Higher natural gas prices have taken their toll -- nearly 3 million U.S. manufacturing jobs have been lost since 2000, and chemical companies closed 70 facilities in the year 2004 alone and estimate that more than 100,000 jobs in that high-paying industry have been displaced.

The Energy Information Administration (EIA) estimates that

concerns about tightness of future supplies of natural gas and continuing pressure from high oil market prices will keep gas prices for the next winter heating season at today's high levels.

There are a number of underlying factors that have applied either upward or downward pressure on prices in 2005.

Production -- Damage from last fall's hurricanes, led production in 2005 to decline about 3.2 percent from 2004, but EIA expects dry gas production to 2.2 percent in 2006 and by 1.7 percent in 2007.

High Demand -- Total natural gas demand in 2006 is expected to remain near 2005 levels, then increase by 2.4 percent in 2007, with residential demand increasing by more than 4 percent in 2007.

High Oil Prices -- Some industrial consumers and electricity generators can switch between natural gas and other fuels. As a result, when oil prices rose this year, there was some shifting to natural gas.

Adequate inventories -- Inventories as of the end of the official heating season (March 31) are more than 62 percent above the preceding 5-year (2001-2005) average. EIA expects supplies of natural gas to be sufficient to satisfy all residential consumers' needs this winter - although there is always the possibility of isolated problems due to unusual weather conditions.

Hurricane Activity -- Hurricanes Katrina and Rita caused major service disruptions and production shut-ins, resulting in record high prices of natural gas. According to the

Much of the natural gas currently in storage was purchased at high prices that could be reflected in consumer utility bills in coming months.

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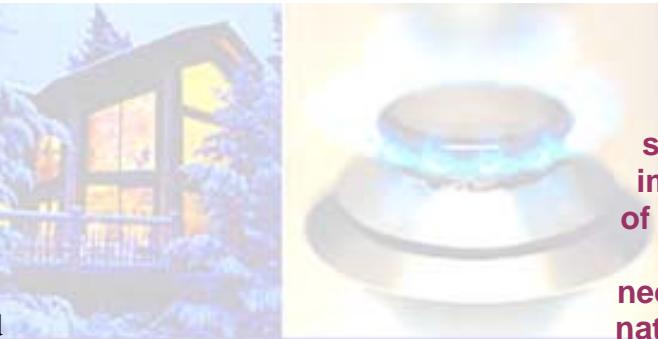
Minerals Management Service, approximately 400 million cubic feet per day of natural gas production are expected to remain offline prior to the start of the next hurricane season, June 1, 2006

Natural gas markets are affected by conflicting government policies that promote the use of natural gas but restrict its production. Changes in energy policy are critical to ensuring that the nation has the natural gas it will need. We need to open OCS areas to energy development; reduce permitting delays and remove process impediments; open Alaskan lands and build a pipeline to bring Alaskan natural gas to consumers in the lower 48 States.

Abundant natural gas supplies lie beneath federal lands in the Mountain West, Alaska and offshore waters. These lands hold an estimated 635 Tcf of natural gas. This is enough natural gas to meet total current U.S. demand for nearly 28 years or to heat 75 million homes for more than 100 years. Yet development in key areas is not allowed or severely limited by government policies --- such as access restrictions on the OCS and process impediments to development in the West. According to the NPC, continuing on this current policy path could result in \$300 billion more in consumer costs over the next 20 years.

Diversifying natural gas supplies is an important part of meeting U.S. natural gas needs. The United States produces about 83 percent of the natural gas it consumes. Most of the rest is imported from

imported as liquefied natural gas. With the nation's natural gas demand growing, development of new supplies here in America is essential. And, we must develop liquefied natural gas facilities so we can tap into global markets.



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