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EEA Boosts 2005 Price Forecast 15% to \$6.84, Expects Strong Power Demand

Gas prices are expected to average \$6.84/MMBtu this year and \$7.08 this summer given normal weather, Energy and Environmental Analysis Inc. (EEA) said in its April Monthly Gas Update. The Arlington, VA-based consulting firm raised its 2005 gas price forecast by 15% this month in part because of the crude oil price spike, the cold weather in March and the impact those two factors had on natural gas.

EEA's decision to raise its forecast follows a similar move on Thursday by the federal government. EIA raised its price project for the year by 20% to \$6.95/Mcf in its latest Short-Term Energy Outlook, citing strong economic growth and low hydroelectric resources in the Pacific Northwest. EIA also pointed to the impact that crude oil prices have had on natural gas.

"Higher oil prices will continue to put upward pressure on natural gas prices by increasing the price at which gas to oil fuel switching occurs," consultants at EEA said in their monthly report. They expect gas prices to remain "bracketed" by the prices of two alternative fuels, spot Gulf Coast residual fuel oil (currently about \$5.40) and Gulf Coast spot distillate (more than \$11/MMBtu currently).

EEA also is forecasting strong summer power demand. U.S. power consumption is expected to average about 17.6 Bcf/d this summer, which is 1.6 Bcf/d greater than consumption last summer. The increase is due to demand growth, the increase in gas-fired generation and a return to normal weather.

The increase in demand this year is expected to exceed increases in production and imports. EEA predicts that Lower 48 production will rise 1.2% to 51.4 Bcf/d. "Roughly half of the increase is due to production returning from outages cause by Hurricane Ivan. The remaining increase is due to production growth from increased drilling and development," EEA said.

EEA consultants expect LNG imports to increase to 2.2 Bcf/d, or about 0.5 Bcf/d greater than in 2004. Canadian imports are expected to be flat, but EEA said there is a "potential for slight growth."

Meanwhile, gas storage injections started the season a week early last week pushing working gas level up 10 Bcf to 1,249 Bcf, or about 22% higher than the five-year average. That will put less stress on supply this summer because there will be less competition between utilities trying to buy gas to put into storage and power generators trying to buy gas to fuel their plants. EEA is projecting that storage fill (April through October) will average 9.4 Bcf/d, or about 1.2 Bcf/d less than last year.

"Storage entering next heating season will be over 3.2 Tcf," EEA said. "More robust fill is possible but it would place upward pressure on 2005 gas prices."

Next winter, EEA said, gas prices should range between \$5 and \$11/MMBtu at the Henry Hub.

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