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EIA Sees Henry Hub Prices Averaging More Than \$7 in 2005, 2006

Natural gas prices should remain in the \$6.50-7.00 range through the summer because of continuing tight supply conditions despite high storage levels and recent weakness in the petroleum complex, the Energy Information Administration (EIA) said in its May Short Term Energy Outlook. The agency expects crude oil prices to remain high and the economy to continue strengthening.

"Although natural gas storage remains above the five-year average, high world oil prices, continued strength in the economy, the expectation that Pacific Northwest hydroelectric resources will be well below normal through mid-summer, and limited prospects for growth in domestic natural gas production all support the natural gas price projections," the agency said. "Henry Hub prices are expected to post averages of over \$7.00/Mcf in 2005 and 2006."

EIA raised its Henry Hub price forecast for the year to \$7.01 from the \$6.95 projected in last month's outlook. It also raised its price projection for 2006 to \$7.33/Mcf.

EIA estimated there was 1,463 Bcf of working gas in storage at the end of April, which was 17% higher than one year ago and 22% above the five-year average. But natural gas production is expected to remain flat this year despite a 13% increase in gas-directed drilling.

Meanwhile, natural gas demand is projected to increase by 2.1%, which is up from EIA's previous forecast of a 1.7% increase in demand in 2005. In 2006, gas demand is expected to rise 2.3% due largely to weather-related factors and continued strength in gas-intensive industrial production, EIA said.

Regarding oil prices, EIA said it expects crude to remain high by historical standards and near current levels through May. "With the end of winter, oil markets turned their attention away from heating oil and towards gasoline,"

EIA noted. "As a result, rather than focusing on low distillate fuel inventories, the focus shifted to gasoline inventories, which have been near or above the upper end of the average range in recent weeks.

"However, despite the recent downturn in crude oil prices, global oil markets remain tight. Monthly average [West Texas Intermediate crude oil] prices are projected to remain above \$50 per barrel for the rest of 2005 and 2006.

Power demand is expected to increase 2.6% this year and another 2.4% in 2006 largely because of continuing economic growth, following estimated demand growth of 1.6% in 2004.

"Third and fourth quarter 2005 year-over-year demand growth is expected to be particularly strong, as cooling and heating demand is likely to be higher than in the mild third and fourth quarters of 2004," EIA said. "Hydroelectric power availability, which fell somewhat in 2004, is expected to rebound in 2005 by almost 11% nationally provided normal precipitation patterns prevail. However, this overall improvement is concentrated in regions other than the West Coast, and Pacific Northwest hydroelectric resources are expected to be well below normal through mid-summer."

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