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### **NatGas Desk**

Everybody who called (and stuck with that call) a colder-than-normal Winter is now held personally responsible for messing up my sons' early lacrosse season here in Annapolis. Folks like Dave Melita of Houston-based Weather Insight are officially off the Christmas card list. Andy Weissman? Don't get us started. "I accept partial blame," Weissman said. "Melita called the weather, I just happened to believe him, and got the prices right." This Winter, folks like Weissman certainly took their licks from clients and competitors, but at the end of the day, it seems he got it right.

In his weekly analysis, Weissman reiterated that the end-of-season storage tally will be well below last year – a point he's stuck with since mid-January. The interesting bit, however, is that when you couple the presumed year-over-year storage deficit with the new storage coming on line this year – about 75 Bcf – suddenly the supply picture is looking a bit sketchy for 2007, he tells *The Desk*. In order to get us the kind of total-fill picture we saw in 2006, he says we need to secure and dump into storage an additional 1.75 Bcf of natural gas, every single day of 2007. On that subject, we even managed to work up a new word: *filliness*, which loosely means "the degree of being filled."

"I think the market recognizes now that, given the way demand has continued to grow every year, we actually do need to fill every bit of the new capacity that's been added, and as such the market will act to fill it."

A couple months ago, we reported that word on the street was that gas LDCs were making a concerted effort – not seen in years – to put even more gas in storage than in prior years. Evidence of his point, Weissman says. "This is the rational thing to do. But given that the purchases by marketers and LDCs to fill that storage now become a relatively inelastic source of demand that is actually measurable, my math says it amounts to 1.75 Bcf a day greater than last year, which is a pretty significant bump in demand."

Based on the supply figures we've been looking at lately, rig counts, Canada import counts, LNG imports, oil prices, savings, efficiency and the like, we reckon that 1.75 Bcf of additional supply is a tall order but can be achieved this year. And, with some hesitation, Weissman agreed.

"I think it...will happen. One thing I think you can count on is that storage goals will be met, but the question always will be how high will prices be bid up in order to accomplish these

supply goals? This will all depend on how hot the Summer weather will be. I also think there is no significant increase in net supplies to the market compared to last year. So, inevitably, I see a somewhat tighter supply market than last year,” Weissman says.

*So the Big Gas Tank will have high filliness this year, but it will also mean higher prices to get there.* Exactly how high the prices will go is based purely on air-conditioning demand.

“In this context, my weather guy suggests to me – in an initial Summer forecast anyway – a much more bearish forecast,” he says.

We’ve spent a lot of time in the past year tracking all the goings-on in the global LNG sector, from deals and plant sitings to approvals, shipping trends and the like. By our count, this should be a great LNG import year for the US, the best ever in fact. While this year should continue the US market’s distinction as the ultimate sinkhole for imported natural gas (we’ll take it off your hands, folks, any time, at any price), we have some competition on that end as well. More than ever before, LNG carriers are changing course on a dime, pointing their bulbous bows to the best possible market price.

“In the Summer months this year, I expect there will be more gas flowing into the US market than last year. There is additional supply on line in the global markets this year, and in most years there simply isn’t enough demand elsewhere in the world to take it away from us. Nonetheless, I don’t see enough of it coming in this Summer to put any downward pressure on prices.”

The main dynamic at work is the potential for significantly less air-conditioning demand than last year. The possibility that La Niña could lead to a milder Summer is quite real – at least at this moment.

“For a substantial part of last Summer, we had so much gas in storage at the beginning of the cooling season (that) prices were forced low enough to displace oil-fired generation. This year, I see just the reverse. And this reversal only happens when prices are higher. But this is also the quickest way to get a few hundred more Bcf of natural gas to put into storage,” Weissman says.

Some sources we spoke to last month suggested that we might see \$45-range crude by the middle of Summer. Weissman expects just the opposite. “I had seen some softening in crude prices a short time ago, but not any more.”

Looking back on the past three natural gas storage years – 2004, 2005 and 2006 – observers with even partial brain function could only categorize the lot as being “all about the weather” and not much else. We asked Weissman how he might categorize the coming year: What’s his catchphrase going into 2007?

“In the past three years, weather has had a huge impact on demand and it will continue to do so. But this year, and I hesitate to say it, I see the weather turning out to be close enough to

what may be... the new norm. That natural gas prices turn out to be less volatile than they have been in previous years, and closer to a new norm, to the extent there is one." This new norm could be defined as milder Winters and above-normal Summers. "I say this with hesitation because recent experience suggests that the weather not only continues to surprise us, but to shock us...almost at any time.

"This Winter heating season, we got to the end result which was typical of the past five years, but wow, we got there in an amazingly dramatic and circuitous way. We had the mildest start ever and then the coldest cold streaks ever. This may have been a preview of the new norm I was talking about: we had all these extreme episodes, but they did balance each other out in the end. I'm not sure as a general matter they will always balance each other out, but..."

Weissman says the total heating-degree days and the total withdrawals this season come out almost exactly within the averages of the prior seven years. However, compared to the last time we had such extreme weather-induced withdrawals – 2003 –he says February 2007 was even more extreme, weather- and withdrawal-wise. What we didn't see as a result of the extreme weather and withdrawals this year were the same sort of extreme price spikes we saw in 2003, and to a lesser extent in the Winter of 2004.

"We should start to anticipate that we will very likely experience, over the next four or five months, weather extremes in either direction. I don't think anybody is seeing this yet. But this kind of weather is consistent with the general pattern – the new norm – that we keep getting more extreme perturbations from the norm, but overall, we may remain within certain yearly averages."

On other matters, Weissman says he's in the market for some experienced energy analysts who can also write fairly well. He says the positions involve heavy-duty data analysis and modeling, and work on his weekly and monthly energy newsletters and other advisory services.

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