

Press Release

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United States Natural Gas Prices To 2015

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About the Author: Dr Michelle Michot Foss is the Head of the Center for Energy Economics based at the Bureau of Economic Geology, Jackson School of Geosciences, The University of Texas at Houston. She has more than 25 years experience, as an academic and consultant, of North American gas market, industry and regulatory policy issues.

A report published today by the natural gas programme of the Oxford Institute for Energy Studies finds that over the next decade, US natural gas prices are much more likely to be determined by electric power demand and price dynamics than by crude oil or oil product prices. The author, Dr Michelle Michot Foss suggests that these dynamics may maintain US gas prices within a corridor of \$3-6/mmbtu (in real 2006 dollars) over the next decade, from which they will not be able to escape from more than a brief period for the following reasons:

- Diminishing returns from US and Canadian E&P activity associated with prices above \$6/mmbtu;
- Demand elasticity and restructuring which will limit opportunities for supply (such as LNG) which is not competitive;
- Structural changes in demand with power becoming the marginal application which will set the gas price. The study finds that petroleum liquids switching capacity will remain at best constant but is more likely to decline as a share of net summer generation capacity.

The study concludes that the relationship between petroleum liquids and natural gas prices going forward will be less contingent, a function of both the dominance of natural gas production and drilling over oil, and a reflection of changing patterns of gas use.

These conclusions have important implications for European LNG supply. If the US market will not be willing to pay significantly in excess of \$6/mmbtu for imported LNG, this means that as long as crude oil prices remain significantly in excess of \$35/bbl, European gas markets – where prices are indexed to those of oil products – should be able to attract LNG supplies away from the US.

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