



Natural Gas Update 4th Quarter 2011

To drill or not to drill? That has been the question lately, especially in Pennsylvania, but also in other areas included in the Marcellus Shale deposit zone. Huge amounts of extracted natural gas have been introduced into the market. The December NYMEX settlement price is at the lowest point in over 10 years. Mild winter temperatures have also played a role as storage levels are at an all time high. In mid December the natural gas EIA storage report showed a 154 Bcf (billion cubic feet) increase over last year at this time, and 347 Bcf more than the 5 year average.

When market prices drop, shale gas well drillers do not make as much and leave the Marcellus area and revert back to more profitable locations drilling for oil. Because the byproducts of oil drilling are other gas products like propane, butane and pentane that are sold at higher prices along with methane or natural gas, the production and storage levels will remain high.

So what can we expect now that there's abundant natural gas? Expect an even faster migration to use this inexpensive fuel in replacement of oil for heating and a continuous growth in electric generation use. New EPA interstate air standards focusing on mercury, nitrous and sulfur dioxide emissions, primarily from the burning of coal, have recently been released. As expected, equalization of supply and demand will eventually prevail, and we should be cautious and prepare for a potential price rise over the next year or two.

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