

California Energy Commission Sees the Light on Natural Gas Prices

"... past efforts to forecast natural gas prices have been highly inaccurate compared to actual prices... greenhouse gas policies will further complicate these efforts, likely rendering future natural gas price forecasts even less accurate and uncertain"
(CEC, 10/09) [1]

This refreshing acknowledgment from the CEC was a watershed event. One of the most consistent purveyors of highly optimistic gas price forecasts over the past decade has now recognized reality:

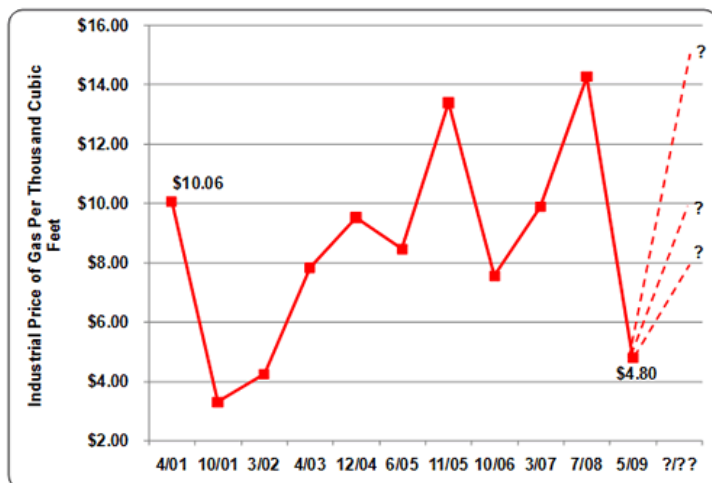
It took a Decade but the CEC Finally Got the Memo

- In 2000: "High natural gas prices are a short term phenomenon."
- In 2003 (December), the CEC projected the price of gas to produce electricity would be about \$4.20 in 2005. Actual price was \$8.08 -- 90% more than predicted.
- In 2005 (June), the CEC projected wellhead gas prices in 2007 would be about \$4.40. Actual price was \$6.62 -- a miss of 50% -- just two years out.
- In 2007 (May), the CEC projected the price of gas to produce power in 2008 would be about \$5.50. It turned out to be \$8.26.
- Now, in 2009, the CEC comes to grips with reality: "past efforts to forecast natural gas prices have been highly inaccurate."

Unfortunately, the CEC epiphany came too late for California's manufacturers who were told in June of 2005 that their costs for gas in 2008 would be about \$7.00 instead of the \$10.71 they actually paid. [2]

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California Manufacturers have been Buffeted by High and Volatile Natural Gas Prices



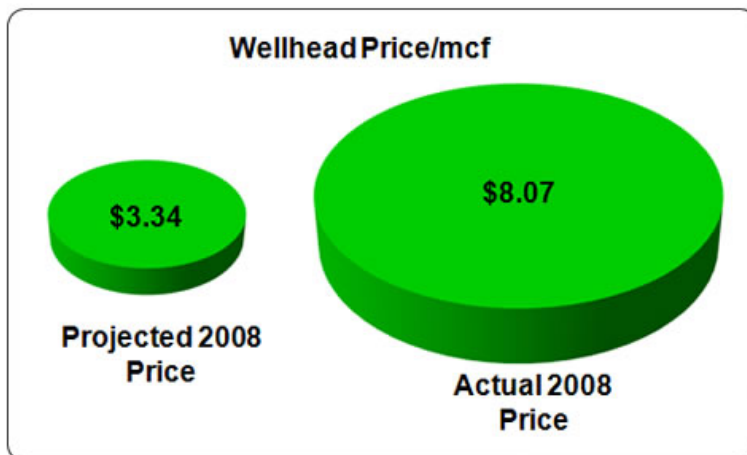
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"These price increases have cost California consumers and industries millions of dollars of increased costs to heat their homes, generate electricity and to provide energy for manufacturing ... higher natural gas prices ... also accelerate the continuing loss of manufacturing jobs, produce higher utility bills for natural gas and electricity customers, and result in lower levels of household income." [3]

And, in a grim warning to policymakers hell-bent on expanding our dependence on gas, the CEC report concluded:

"...the degree of impact expanding unconventional domestic natural gas reserves.... will have on long-term gas prices and volatility is less than certain... The future of the market appears likely to include continuing periods of volatility and uncertainty." (CEC, 11/09)

The Chasm Between the CEC 2003 Forecast and 2008 Reality



References:

- 1 "Natural Gas Price Volatility," California Energy Commission, November, 2009.
- 2 All archival data available at <http://www.energy.ca.gov/>
- 3 "The Impact of Natural Gas Prices on the California Economy," Global Insight, Inc., 2006

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