

## What Price Natural Gas?

**"In the long term, the question will be cost."**

*Testimony of EIA at Senate Hearings on Natural Gas, 10/28/2009 [1]*

The price of natural gas over the next decade is one of the most important energy questions facing the United States. Our steadily increasing dependence on gas is worrisome -- especially since gas supply is projected to decline through 2020. [2]

### Fool Me Twice

Despite this supply decrease we continue to build out an ever more extensive natural gas infrastructure-- verifying Santayana's warning that: **"Those who cannot learn from history are doomed to repeat it."**

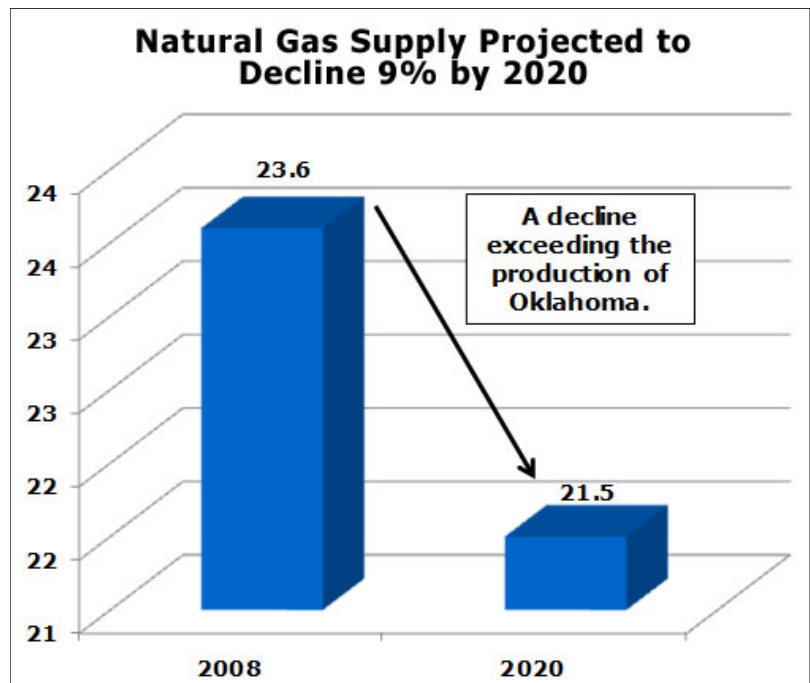
Our "dash to gas" over the past decade led to higher electric rates and increased home heating prices and it raised the cost of manufacturing. Why should the next decade be any different?

**Is this prudent with decreasing gas supply?**

- 90% of power plants built since 2000 depend on gas
- 8 million gas homes have been built since 2000 [3]
- Almost 10,000 MW of new wind power capacity were built in 2008, but gas is the primary backup when the wind is not producing electricity (75% of the time)
- Over 55,000 MW of new gas power plants will be built between 2008- 2012 alone [2]

### And Now, The Double Whammy

EIA's analysis of the American Clean Energy and Security Act of 2009 -- the "Waxman-Markey" climate bill -- came to this conclusion: **"Our results suggest that this legislation would likely increase the use of natural gas for generation over the next decade in all of the scenarios we analyzed..." [1]**



(Continued from front)

## Remember When?

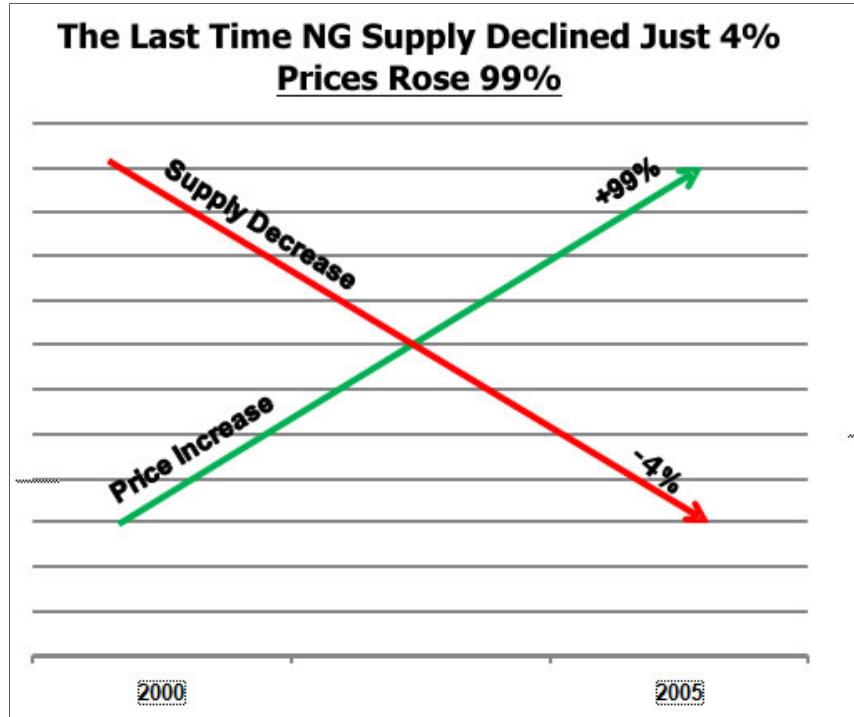
You don't have to be a Ph.D. in economics to understand that when supply goes down and demand goes up (or even stays the same), prices are going to increase. And that is exactly what happened the first half of this decade when a mere 4% decline in supply led to an almost doubling of wellhead natural gas prices. [2]

### Imagine what a 9% drop in supply will do.

Of course, we had a hurricane in 2005. But that is exactly the point. Our supply / demand balance for gas is so fragile that a problem in the Gulf, a hot summer in the South or a cold winter in the Midwest will lead to price spikes with dire socioeconomic impacts.

In 2005, for example, businesses in Illinois paid 101% more for gas than they paid in 2002 -- leading Andrew Liveris, Chair of Dow Chemical, to state bluntly:

*"Some of the best manufacturing jobs in the world are right here in the American chemical industry – and they depend on globally competitive natural gas prices"* [4]



#### Footnotes:

1. Richard Newell, Administrator, EIA, 10/28/2009
2. <http://www.eia.doe.gov/>
3. <http://www.census.gov/const/C25Ann/sfttotalheatingfuel.pdf>
4. <http://ase.org/content/article/detail/2954>

#### About Frank Clemente, Ph.D.

Dr. Clemente is a Professor at Penn State University where he specializes in research on the socioeconomic aspects of energy policy. His work has appeared in *World Oil*, *Public Utilities Fortnightly*, *Oil and Gas Journal* and a variety of other energy related media. *The materials presented here are solely the responsibility of the author and do not represent Pennsylvania State University in any manner.*

