

Understanding Our Economy

Why Natural Gas Prices Rise

(NAPS)—Many Americans may give a warm welcome to an explanation for the recent increase in heating costs.

Natural gas, experts explain, like other commodities, is subject to price fluctuations related to supply and demand. A combination of factors has caused demand to skyrocket over the last several months. Meanwhile, supply is running dangerously low in some regions. The result? Higher prices.

Natural gas demand has been on the rise for more than a decade because it is the clean-burning fuel of choice for new homes, industries and power plants.

More than 70 percent of new homes built in the United States each year are equipped to use natural gas, and newly constructed pipelines bring natural gas to more regions of the country than ever before.

More and more American businesses are choosing natural gas to heat factories and power machinery and new environmental requirements are pushing electricity suppliers to build gas-fueled power plants. In fact, industrial natural gas consumption in August 2000 was 15 percent higher than it was the year before.

Natural gas suppliers are struggling to keep up with the unprecedented demand. Typically, gas distribution companies stock up on supplies in preparation for the high-use cold-weather months. The 1999-2000 heating season, however, severely depleted stored supplies because many commercial users switched to gas as the price of oil rose. Over the summer, the situation worsened, as gas-



The Energy Information Administration predicts that domestic natural gas production will increase about four percent in 2001 thanks in part to new drilling in the Gulf of Mexico.

fired power plants built to meet new environmental requirements further depleted stocks.

In the 1990s, low oil and natural gas prices tightened the budgets of American energy companies and kept them from drilling new wells. Supply was strong and demand didn't warrant new exploration. Now, however, the good news is, strong increases in both demand and prices are sending energy companies back to the field.

As U.S. producers continue to make development of natural gas a priority, natural gas will remain the affordable, clean-burning choice for Americans well into the 21st century.

For more information about oil and gas prices and supply, see www.oil360.org.

Note to Editors: This is the second in a series of 12 articles.