

Natural gas ... finding a balance

Since its creation in 1946, the National Petroleum Council (NPC) has advised and informed the government on virtually every aspect of oil and gas operations.

Continuing this tradition, in March 2002 Secretary of Energy Spencer Abraham asked the NPC to conduct a comprehensive study on natural gas. The request recognized a considerable change in natural gas markets and underscored the importance of natural gas to the nation's economic and environmental future.

The recently released NPC study (www.npc.org) includes significant new findings and recommendations.

The study highlights the strong U.S. natural gas demand growth of 40 percent from 1986 to 1997. Due to its advantages as an environmentally favored fuel, combined with its ability to provide fuel efficiency and timely project development, **“power generators and industrial consumers are more dependent on gas...”** These benefits have also stimulated growing residential and commercial gas demand.

The study also emphasizes that until recently, North American production kept pace with increasing demand. However, **“it now appears ... that natural gas production from accessible basins ... has reached a plateau.”**

This trend, along with rising demand, has led to **“a fundamental shift in the natural gas supply/demand balance ... [and] has resulted in higher prices....”**

With gas demand growing and existing public policies limiting access to potential supplies, higher prices were inevitable. This rise in prices has affected all natural gas consumers

and could lead to reduced international competitiveness for the most price-sensitive gas users among U.S. manufacturers.

The study finds that **“this situation is expected to continue, but can be moderated”** by a balanced approach that includes **“increased energy efficiency, immediate development of new resources, and flexibility in fuel choice.”**

Developing new resources is especially critical. Additional large-scale resources are available, including imports of liquefied natural gas (LNG) and natural gas in the Arctic and access-restricted areas of the U.S. Key NPC recommendations are therefore to **“increase supply diversity”** and to **“sustain and enhance natural gas infra-**

structure.” To achieve these purposes, it is essential that public policies increase access to resources and reduce permitting and regulatory barriers to project development.

Improving patterns of energy consumption is also vital, so another key NPC recommendation is to **“improve demand flexibility and efficiency.”** Public policies can effectively augment essential market forces through continued consumer education and regulations that provide greater clarity and flexibility to meet governmental objectives.

The NPC estimates that a balanced approach **“could save \$1 trillion in U.S. natural gas costs over the next 20 years.”** Such an important result will require consistent public policies that eliminate barriers to market efficiencies and promote new supplies. We will discuss the NPC recommendations in more detail as this series continues.

**“... it is essential
that our policies
be consistent.”**

*Alan Greenspan,
Congressional testimony
on natural gas*

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