

FOR IMMEDIATE RELEASE

MEETING FUTURE NATURAL GAS DEMAND REQUIRES A BALANCED ENERGY POLICY:

**Conservation, Demand Flexibility, Supply Diversity,
and Infrastructure Reliability are Key Policy Recommendations
of the National Petroleum Council's 2003 Natural Gas Study**

WASHINGTON, D.C., September 25, 2003—The National Petroleum Council (NPC) today recommended to Secretary of Energy Spencer Abraham a portfolio of balanced policy initiatives that, if addressed promptly by governments at all levels, would save energy consumers as much as \$1 trillion in natural gas costs over the next two decades. The NPC found that government policies encourage the use of natural gas but fail to address the need for additional natural gas supplies. A status quo approach to these conflicting policies will result in undesirable impacts on consumers and the economy, if not addressed.

Traditional North American producing areas will provide about 75 percent of long-term U.S. natural gas needs, the NPC concluded in its report, *Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy*. To temper anticipated higher prices and price volatility for natural gas, the NPC calls for increased energy efficiency, greater flexibility in industrial and residential fuel choices, immediate development of new sources of supply, and enhanced infrastructure investment.

In his remarks, Secretary Abraham thanked the Council for its 18-month effort to examine the variables that could affect supply, demand, transportation, and distribution of natural gas in North America through 2025—and for identifying actions that can be taken to ensure adequate supplies of energy for consumers.

“This Administration has placed the highest priority on developing an energy policy that will ensure a sound economic and environmental future, and natural gas is a vital part of that plan,” Abraham said, “This study offers a rigorous analysis of the North American supply and demand dynamics expected over the next 20 years. We now have an important perspective on the future and the opportunity to make policy decisions that will positively impact the economy, energy security and the environment. We await passage of the President's Energy Policy.”

In a letter transmitting the study to Secretary Abraham, NPC Chair Bobby S. Shackouls, Chairman, President and Chief Executive Officer of Burlington Resources Inc., said, “Clearly, the recent tightening of the natural gas supply/demand balance places greater urgency on addressing the future of this important energy source and resolving conflicting policies that favor gas usage, but hinder its supply. The Council

has reached out to hundreds of experts in the public and private sectors, representing both suppliers and consumers, to analyze future supply, demand, and infrastructure requirements in order to advance recommendations that we believe will equip local, state, and national policy makers to make sound and balanced decisions for the future.”

In his overview presentation today, Mr. Shackouls also commended the NPC study team, saying, “The effort that went into this study was exhaustive and thorough. It recommends actions to ensure adequate and reliable supplies of energy for consumers, and to allow natural gas to continue to play an important role in achieving our nation’s economic and environmental quality goals. The findings of the study represent an outlook for North American natural gas that can be expected based on policy decisions that are made in the near term with longer-term implications.”

The Council's report is the product of a comprehensive study conducted under the direction of the NPC Committee on Natural Gas led by:

- Bobby S. Shackouls, Chair
- Robert G. Card, Under Secretary of Energy and Government Cochair
- Robert B. Catell, Chairman and Chief Executive Officer, KeySpan Corporation, and Vice Chair – Demand
- Richard D. Kinder, Chairman and Chief Executive Officer, Kinder Morgan Energy Partners, L.P., and Vice Chair – Midstream
- Lee R. Raymond, Chairman and Chief Executive Officer, Exxon Mobil Corporation, and Vice Chair – Supply.

The Committee was supported by a Coordinating Subcommittee, three Task Groups – Demand, Supply, and Transportation & Distribution – and numerous subgroups. Members of the various study groups were drawn from NPC members' organizations as well as other industries, non-governmental organizations, and government organizations. The participants represented broad and diverse interests including those of large and small producers, transporters, service providers, financiers, regulators, local distribution companies, power generators, and industrial consumers of natural gas.

The attached Executive Summary provides highlights of the study findings and recommendations. The complete text of *Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy: Volume I – Summary of Findings and Recommendations* is available at <www.npc.org>.

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(EDITOR'S NOTE: Printed copies of Volume I will be available for purchase from the NPC in mid-October.)

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Executive Summary

Natural gas is a critical source of energy and raw material, and will play a vital role in achieving the nation's economic and environmental goals. Current higher gas prices are the result of a fundamental shift in the supply and demand balance. North America is moving to a period in its history in which it will no longer be self-reliant in meeting its growing natural gas needs; production from traditional U.S. and Canadian basins has plateaued. Government policy encourages the use of natural gas but does not address the corresponding need for additional natural gas supplies. A status quo approach to these conflicting policies will result in undesirable impacts to consumers and the economy, if not addressed. The solution is a balanced portfolio that includes increased energy efficiency and conservation; alternate energy sources for industrial consumers and power generators, including renewables; gas resources from previously inaccessible areas of the United States; liquefied natural gas (LNG) imports; and gas from the Arctic. The following is a summary of key findings and of recommendations that will help achieve a balanced future for natural gas.

ALTERNATIVE SCENARIOS

A status quo approach to natural gas policy yields undesirable outcomes because it discourages economic fuel choice, new supplies from traditional basins and Alaska, and new LNG terminal capacity. The NPC developed two scenarios of future supply and demand that move beyond the status quo. Both require significant actions by policy makers and industry stakeholders to effect change. These scenarios, "Reactive Path" and "Balanced Future," are discussed below.

The Reactive Path scenario assumes continued conflict between natural gas supply and demand policies that support natural gas use, but tend to discourage supply development. This scenario results in continued tightness in supply and demand leading to higher natural gas prices and price volatility over the study period. To achieve even the Reactive Path outcome, the following actions must be taken:

- Continue improvements in energy efficiency and conservation.
- Enact enabling legislation for the Alaskan gas pipeline.
- Overcome local siting opposition to new LNG terminals.
- Streamline permitting processes to allow increased drilling and development activity in the Rocky Mountains.

Excerpt from the National Petroleum Council report
Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy

- Implement a Joint Agency Review process for new infrastructure.
- Clarify New Source Review requirements for industrial and power plant facilities.

The Balanced Future scenario builds in the effects of supportive policies for supply development and allows greater flexibility in fuel-switching and fuel choice. This results in a more favorable balance between supply and demand, price projections more in line with alternate fuels, and lower prices for consumers.

This scenario allows for a balanced future by:

- Improving demand flexibility and efficiency.
- Increasing supply diversity.
- Sustaining and enhancing infrastructure.
- Promoting efficiency of markets.

It is important to note that there are uncertainties, which could significantly impact the supply/demand balance for each scenario. These uncertainties include, but are not limited to, weather, oil price, economic growth, and potential treatment of carbon dioxide (CO₂) emissions.

This report analyzes supply, demand, and the infrastructure for natural gas in North America in the near, mid, and long term (through 2025). Recommendations from this analysis are intended to preserve the critical benefits of natural gas to the North American economy and environment.

FINDINGS

There has been a fundamental shift in the natural gas supply/demand balance that has resulted in higher prices and volatility in recent years. This situation is expected to continue, but can be moderated.

Demand

Greater energy efficiency and conservation are vital near-term and long-term mechanisms for moderating price levels and reducing volatility.

Power generators and industrial consumers are more dependent on gas-fired equipment and less able to respond to higher gas prices by utilizing alternate sources of energy.

Gas consumption will grow, but such growth will be moderated as the most price-sensitive industries become less competitive, causing some industries and associated jobs to relocate outside North America.

Supply

Traditional North American producing areas will provide 75% of long-term U.S. gas needs, but will be unable to meet projected demand.

Increased access to U.S. resources (excluding designated wilderness areas and national parks) could save consumers \$300 billion in natural gas costs over the next 20 years.

New, large-scale resources such as LNG and Arctic gas are available and could meet 20-25% of demand, but are higher-cost, have longer lead times, and face major barriers to development.

Infrastructure

Pipeline and distribution investments will average \$8 billion per year, with an increasing share required to sustain the reliability of existing infrastructure

Regulatory barriers to long-term contracts for transportation and storage impair infrastructure investment.

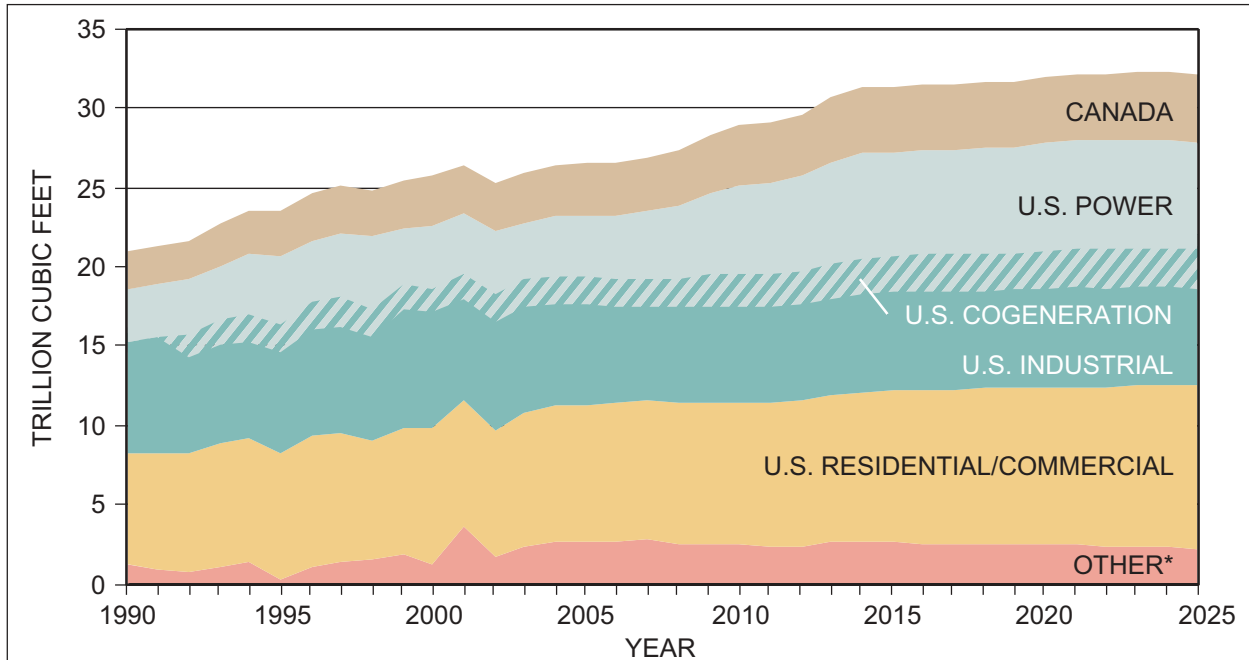
Markets

Price volatility is a fundamental aspect of a free market, reflecting the variable nature of demand and supply; physical and risk management tools allow many market participants to moderate the effects of volatility.

A balanced future that includes increased energy efficiency, immediate development of new resources, and flexibility in fuel choice, could save \$1 trillion in U.S. natural gas costs over the next 20 years. Public policy must support these objectives.

Excerpt from the National Petroleum Council report
Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy

National Petroleum Council projections of future demand and supply are illustrated in Figures 1 and 2. These figures illustrate some of the key attributes of the NPC outlooks.

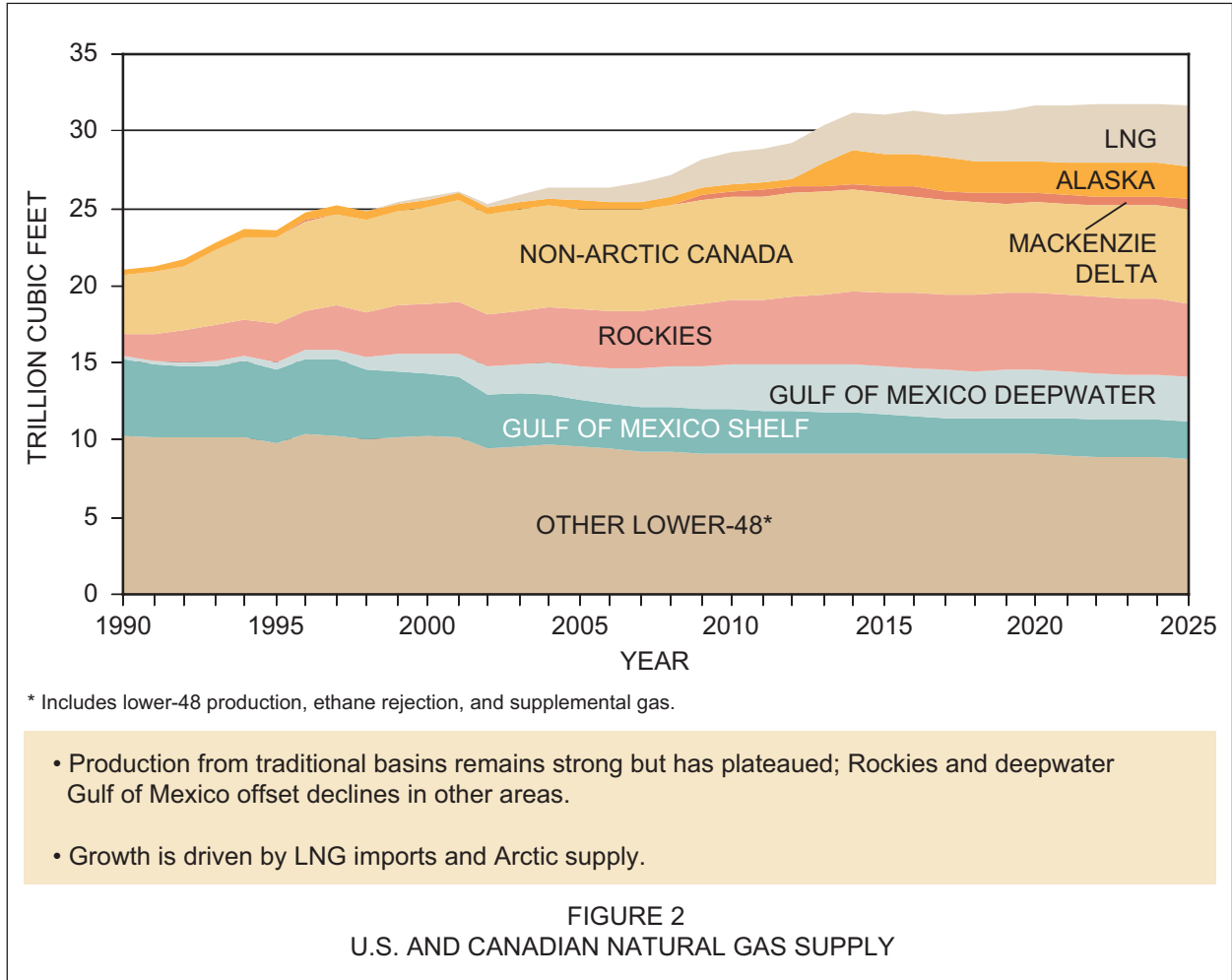


*Includes net Mexico exports, lease/plant/pipeline fuel, and net storage.

- Natural gas demand for power generation increases, reflecting future utilization of recent, significant additions of natural gas-fired generation.
- Natural gas use in the industrial sector erodes, illustrating projected losses in industrial capacity in the most gas-intensive industries.

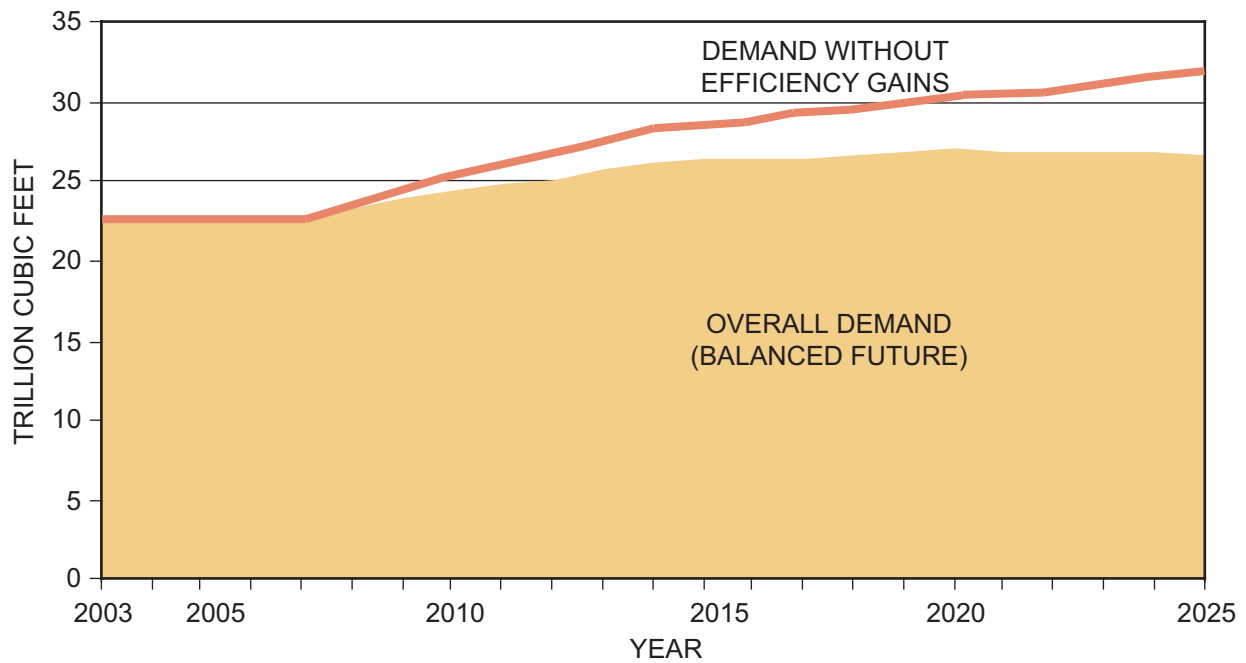
FIGURE 1
U.S. AND CANADIAN NATURAL GAS DEMAND

Excerpt from the National Petroleum Council report
Balancing Natural Gas Policy – Fueling the Demands of a Growing Economy



NATURAL GAS DEMAND

Natural gas supplies approximately 25% of U.S. energy, generating about 19% of electric power, supplying heat to over 60 million households, and providing over 40% of all primary energy for industries. The NPC assessed future demand in each of the key consumer sectors – residential/commercial, power generation, and industrial. These assessments focused on the increased capability to consume natural gas in power generation and the effect of higher prices on industrial consumers, commercial establishments, and residential consumers. These analyses incorporate the effects of energy efficiency improvements in each of these consumer sectors, as shown in Figure 3. Figure 4 shows the diverse nature of natural gas demand in North America, on both a geographic and sectoral basis.



* Energy efficiency gains in NPC modeling of future gas demand are principally from: decreased electric power demand intensity; increased efficiency in gas-fired power generation, industrial boilers, and industrial process heat; and efficiency gains in commercial and residential gas consumption.

FIGURE 3
ENERGY EFFICIENCY EFFECT ON GAS CONSUMPTION*

Excerpt from the National Petroleum Council report
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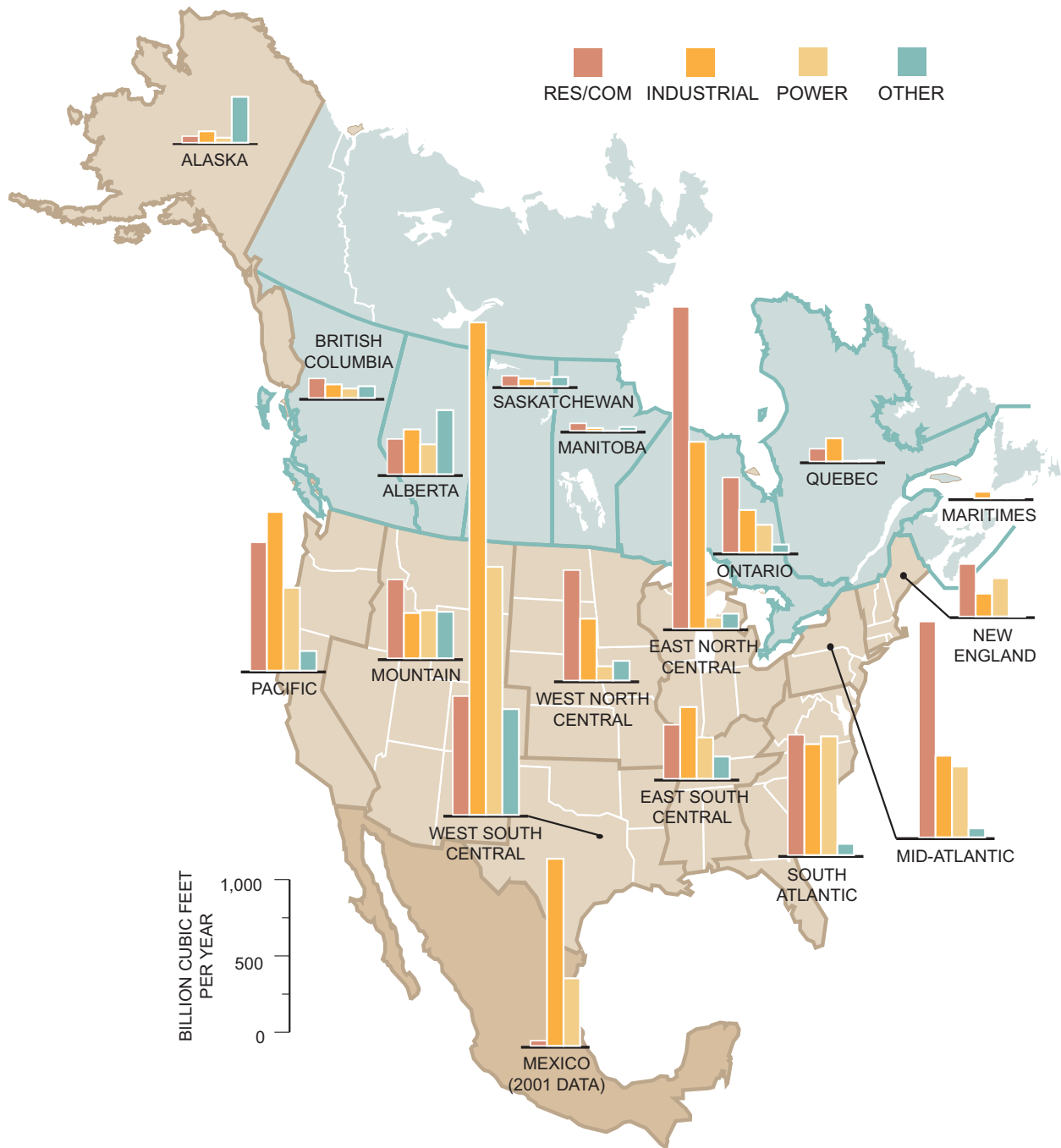


FIGURE 4
 U.S. AND CANADIAN NATURAL GAS DEMAND BY SECTOR, 2002

NATURAL GAS SUPPLY

Abundant natural gas resources exist in North America and worldwide. A thorough study was conducted to assess the remaining potential of traditional North American natural gas producing basins, as well as the potential for growth in supply from areas such as the deepwater Gulf of Mexico, the Rockies, Arctic regions, and imported LNG.

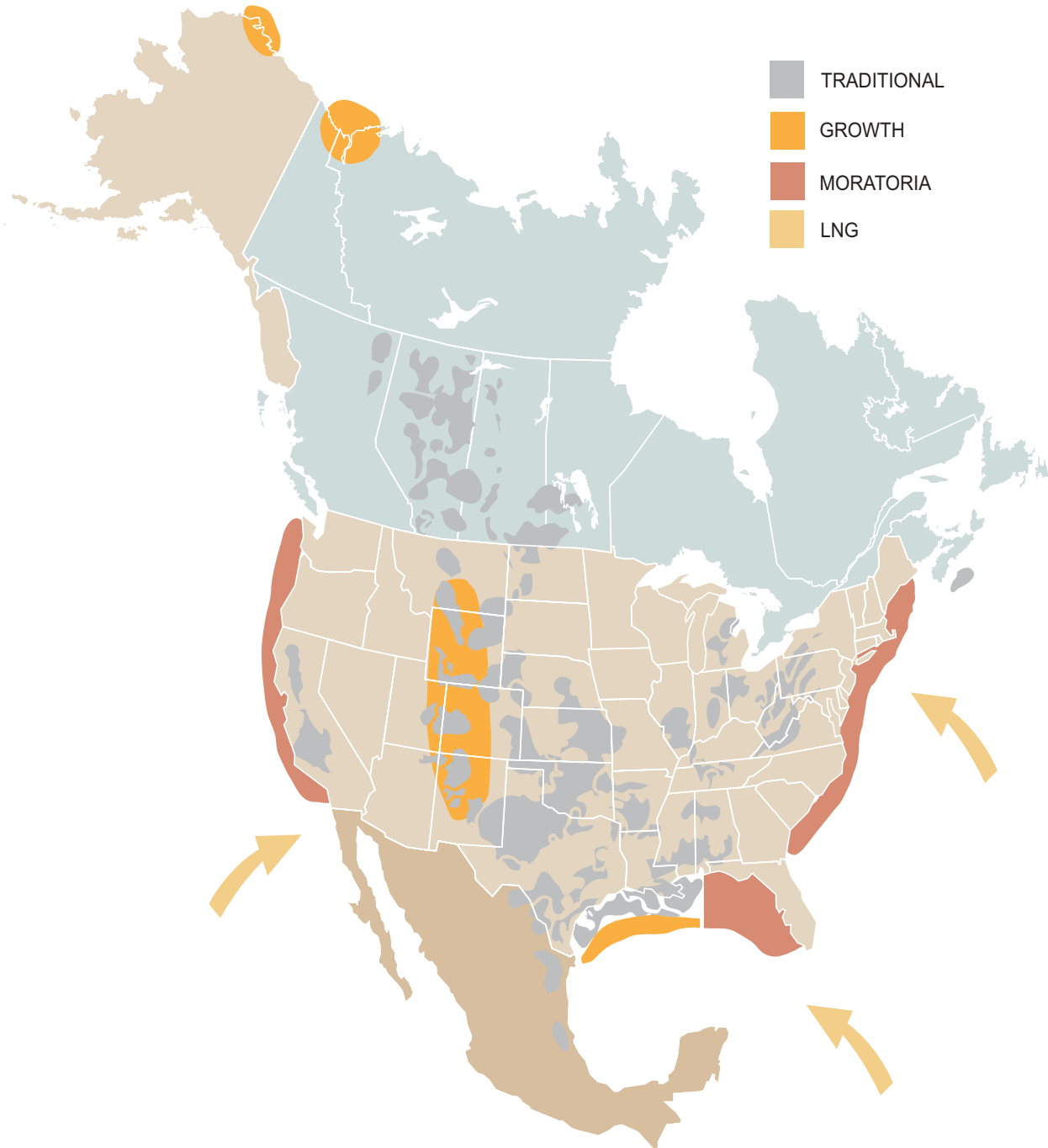


FIGURE 5
SOURCES OF NATURAL GAS SUPPLY

RANGE OF POTENTIAL PRICES

Supply and demand will balance at a higher range of prices than historical levels. That price range will be primarily driven by demand response through efficiency and fuel flexibility, the ability to increase conventional and nonconventional supply from North America including the Arctic, and increasing access to world resources through LNG. National Petroleum Council price ranges for the alternate scenarios are illustrated in Figure 6. These are not status quo scenarios. They both require significant initiative by policy makers and industry stakeholders to implement the recommendations of this report in order to achieve a balanced future.

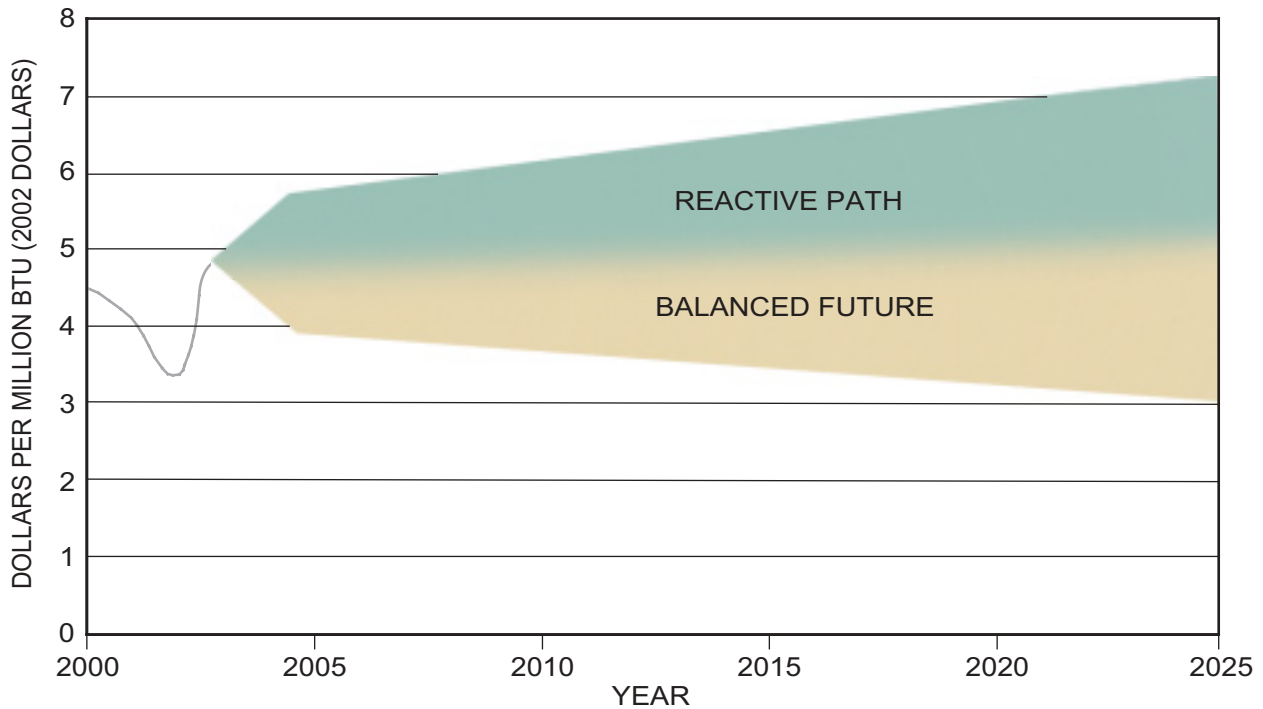


FIGURE 6
AVERAGE ANNUAL HENRY HUB PRICES

RECOMMENDATIONS

Improve Demand Flexibility and Efficiency

Encourage increased efficiency and conservation through market-oriented initiatives and consumer education.

Increase industrial and power generation capability to utilize alternate fuels.

Sustain and Enhance Infrastructure

Provide regulatory certainty by maintaining a consistent cost-recovery and contracting environment and removing regulatory barriers to long-term capacity contracting and cost recovery of collaborative research.

Permit projects within a one-year period utilizing a “Joint Agency Review Process.”

Increase Supply Diversity

Increase access and reduce permitting impediments to development of lower-48 natural gas resources.

Enact enabling legislation in 2003 for an Alaska gas pipeline.

Process LNG project permit applications within one year.

Promote Efficiency of Markets

Improve transparency of price reporting.

Expand and enhance natural gas market data collection and reporting.

Overall, this comprehensive NPC report provides a number of recommendations, all of which require action and are required to achieve the Balanced Future, thus creating a more favorable outcome for consumers and the economy.