



## State of the Industry, GasMart 2009

Facing an entirely different market this year with excess supply, falling demand, a tight credit situation and an uncertain economic outlook, both buyers and sellers at GasMart 2009 in May were cautious in their outlooks and strategies for the future.

"So much has been changing so fast," **Will Hussey**, senior vice president of origination for **ConocoPhillips Gas & Power**, told a Chicago audience. "There's a statement I've been hearing a lot lately: 'What a difference a year makes.'"

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*"What a difference a year makes."*  
-- Will Hussey

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"As far as gas prices, gas buyers may look at where things were a year ago versus where they are now and breathe a sigh of relief. I'm here to say, don't be comfortable with that. Coming out of this winter, the markets were oversupplied, and we were ramming gas into storage. But I say you have to stay on your toes. Don't allow yourself to get whipsawed by what's to come."

Unconventional gas reserves across North America have lifted production prospects like never before, Hussey noted. "That's a great story. But my point is, it's price-sensitive...Don't take for granted that because you've got an overhang of gas now that you're going to have all the supplies you want next winter." Drilling is declining and ConocoPhillips is estimating that U.S. gas output will be down 4 Bcf/d by the end of this year from 2008.

Right now, however, Canada, like the United States, is "awash with gas," said **Nexen's David Slater**, who manages marketing and structured products for the Calgary-based company. "It's a glass half full. Yes, we do have declines, but the reality is...the Alberta basin will be a material basin for decades to come and a significant source of supply...Some dynamics are changing, such as how pipelines are competing...What's been reduced in Canada has primarily been picked up by the Rockies region. There's no shortage of natural gas for the markets."

In a few years Canada's gas shale production should be booming. Once that happens, Slater said, Canada's excess gas could be liquefied and transported to Asian markets, bypassing the Lower 48 altogether.



**David Slater, Nexen Marketing**

But wait a minute, those Canadian liquefied natural gas (LNG) tankers heading west could be crossing paths with Russian LNG heading for the U.S. "Our goal is to be a major trading company in North America," said **John Hattenberger**, managing director of **Gazprom Marketing & Trading USA**. "We expect to be marketing 3-5 Bcf/d through 2020."

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It was the first time Gazprom, the world's largest gas company, participated in GasMart. While declining U.S. gas prices could delay LNG shipments to the U.S., they will be arriving eventually, Hattenberger said.

By the end of this year Gazprom, which has begun expanding its U.S. marketing base in Houston under



**John Hattenberger, Gazprom Marketing & Trading USA**

Hattenberger's direction, expects to see an additional 5.5 Bcf/d of LNG capacity in the world market with around 1.4 Bcf/d of that targeted for North America. And there will be more in 2010.

Why the push to bring more gas supplies to what appears to be an oversupplied market?

"The drivers are not simply about LNG production," Hattenberger told GasMart attendees. "The recession has led to world demand destruction and increased global LNG production. Demand in Japan is down, so there is a drive to North America. What's going on outside the U.S. is having an impact on what flows to the U.S."

"There are plenty of ships right now to move into the Atlantic Basin. The infinite sink market for gas is the U.S.," he said. "LNG producers will not turn down production, and they will bring it here even at a lower price." Variable costs generally are low compared to the infrastructure investment. "Once liquefaction is built, it tends to just run."

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***"You're going to have to shut in more production."  
-- Porter Bennett***

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LNG coming to the U.S. will be competing with a deluge of shale gas funneling into markets from diverse points across the continent. New pipelines and connections are being built to carry the unconventional gas. "Production is the only way you balance this," said **Porter Bennett**, president of **Bentek Energy LLC**. "You're going to have to shut in more production."

Looking back, it's almost humorous that there was a time when some thought gas supply was running out. However, from 2005 through 2008 the compound annual growth rate of production from the Rockies was 6.3%; from the Midcontinent it was 1.2%; from Appalachia it was 7.4%; from the Southeast it was 3.7%; and overall it was 3.8%, Bennett pointed out. Rigs now are dropping like flies, but the decline in activity is offset somewhat by producer efficiency gains. And U.S. demand for gas has dropped by 4.7 Bcf/d so far in 2009, Bennett said. Storage is "very full," of course.

The Rockies Express Pipeline (REX) from the West is near capacity, too, delivering a whopping 1.8 Bcf/d into the



**Porter Bennett, Bentek**

Midwest in competition with traditional production from the Gulf Coast, which is being augmented as new LNG receiving terminals open for business.

"Rockies gas can get to Ohio, but that doesn't necessarily mean it can get to the Northeast market to alleviate the basis problems or the basis blowouts or the price

blowouts that happen in the Northeast on a cold day in the winter," Bennett said.

This rerationalization of the natural gas market will create pushback on the Southeast supply area, "the heart of the U.S. gas industry." It's due for a bit of angina as the region is facing the potential for 6-8 Bcf/d of gas-on-gas competition if Bennett's expectations are correct. He noted that 32 projects are in the works in the Southeast to move new shale and LNG supplies into mainlines.

With all this supply, what's an end-user to do?

Bill Griffith, Vice President of Marketing and Origination for BP Gas and Power stepped in to help answer that question as the moderator of a panel comprised of natural gas purchasers.



**Bill Griffith, BP Gas & Power**

The recession has delivered to natural gas end-users some of the lowest commodity prices they've seen in years. However, the gift comes with the curse of sharply reduced demand and prices for

their own products in many cases. The deflating of the financial markets also has made buying more difficult.

**Luke Marriott**, risk manager for energy and fuels at **MillerCoors LLC**, told a capacity crowd that his company has seen "significant" changes due to the credit crisis.

"Before the credit crisis came to a head, we started backing away from hedging physically through our suppliers for that reason. We thought there was a lot of counterparty risk on the part of some of our suppliers, so we started clearing everything through the exchange," he said. "Now that we've renewed some of those natural gas contracts, we've asked to hedge through some of those suppliers, just on the basis or what not. A lot of them want collateral up front. That's something that was never in question two or three years ago."

**Alex Strawn**, North American purchasing group manager for energy at **Procter & Gamble** and chairman of the **Process Gas Consumers (PGC)**, emphasized that conservation is still a "viable strategy," particularly for end-users. One of the main issues on Strawn's mind is overrecovery of fuel costs by pipelines. He said the lack of a uniform Federal Energy Regulatory Commission (FERC) policy on the issue leads to "significant unintended overrecovery."

Strawn cited a study of 11 pipelines that he said showed overrecovery of fuel costs from 2004 to 2006 totaled \$1.7 billion. He also charged that one pipeline made 54% of its profit in one of those years due to overrecovery of fuel costs.

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***"significant unintended overrecovery."***  
**-- Alex Strawn**

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**Dave Ciarlone**, manager of energy services for aluminum producer **Alcoa Inc.**, which uses about 51 Bcf/year procured through 15 pipelines and 27 local distribution companies, said he would like to see FERC be more supportive of the manufacturing sector in its policymaking. "I think we need to grow the part of the economy where people who sweat make things you can touch," he said.



**Dave Ciarlone, Alcoa Inc.**

At the top of Ciarlone's agenda on the regulator front is modification of Section 5 of the Natural Gas Act (NGA) to address "a fundamental disparity" between the NGA and the Federal Power Act. On the power side FERC has authority to order reimbursement of overcharges back to the date the overcharges began. In the case of natural gas FERC can only order reimbursement for overcharges from the date of its order finding that the overcharges took place. "We just don't believe there's any reason to treat natural gas and power differently," he said, noting that the Senate Energy and Natural Resources Committee is considering legislation that would modify the NGA to address the issue.

And that's not all Congress is up to. New regulations coming to the commodities markets near you are likely to drive more transactions onto electronic trading platforms for clearing and provide the public with more aggregated data on market movements, **Greg Mocek**, formerly head of enforcement for the Commodity Futures Trading Commission (CFTC) and now a partner in the Washington office of **McDermott, Will & Emery**, told GasMart attendees.

Natural gas traders "are the victims in a market you didn't create." In Washington "there is a significant amount of momentum going into modifying every aspect of the way the OTC [over-the-counter] markets operate," said Mocek.

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***"...the whole landscape is changed"***  
**-- Greg Mocek,**

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"Over the last year the credit default markets have taken all the deregulatory air out of OTC trading, literally. The congressional vacuum cleaner that's going on in Washington is literally not only sucking the air out of that deregulation, it's sucking the lint, it's sucking the stains, and it's essentially removing the carpet; the whole landscape is changed, and it's going to be changed for a while and probably permanently."

With a multitude of bills before Congress, it's hard to know exactly what will be enacted or when, but Mocek said the drive is pointing toward having all OTC markets, standard or unstandard, cleared. If it is not possible to clear customized products in the natural gas market, it is likely parties will be forced to report trades, and record-keeping requirements are likely to be expanded.

As to trader liability, the CFTC now has the authority to police the possibility of fraud involving a sophisticated trader and a municipal or other government entity. So far it has not

used that authority, but Mocek expects to see some cases prosecuted.

Rules already in place could affect trading of natural gas at illiquid locations. A large trader who dominates the market with large orders at an illiquid location could be liable to prosecution if it is determined that trader has an undue influence on the closing price. Mocek said he did not know how that could be avoided at some locations, but suggested that companies advise their traders to have no communications of any kind in that type of situation.

Meanwhile, with all the emphasis on climate change and alternative fuels, where does natural gas fit into the overall energy picture? It is not just a stepping stone to renewables, according to **Larry Borgard**, president of the utilities business of **Integrus Energy Group Inc.** "We need to make sure that our legislators and regulators understand that natural gas is a fuel of the future." And the industry has to be ready with increased deliverability when the domestic economy recovers.

Borgard acknowledged that the recession has been clearly felt by Integrus utilities, which have been forced to disconnect record numbers of customers across their service territories due to nonpayment of bills. Last year saw a spike in job losses, which has continued this year with 200,000 jobs lost in the service territories of the Integrus utilities just in the last 12 months.

The reduced demand has signaled lower prices, but that won't always be the case, according to market experts addressing the GasMart audience. Eventually the market is going higher and buyers will be longing for the days when they could have locked in supply in the \$3.50-4.50/MMBtu range.

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***"As always, if it meets or beats your budget...Buy it,"***  
***-- Val Trinkley***

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"Veteran energy marketer **Val Trinkley**, general manager of **EnergyUSA**, told the 400+ attendees, more than half of which were natural gas buyers that with summer prices under \$4.50 and winter near \$6, purchasers should put this year to bed and "consider longer term strategies.... As always, if it meets or beats your budget...Buy it," he advised.

Also conducting a workshop for gas purchasers was **BP Gas & Power**, who walked attendees through a "hedge product decision matrix" and then proceeded to give several "real life" examples of how these various tools could

be used to a buyers' advantage. As for the question of "why to hedge in this price environment?," Bill Griffith of BP noted that while over time the results speak for themselves, "Proactive Risk Management is like preventative medicine -- the immediate benefits are not always obvious..."



**Paul Corby, Planalytics**

**Paul Corby**, senior vice president of **Planalytics**, told the audience that "the bottom" was already in and that buyers would be wise to buy now for at least throughout 2010. "No waiting, because it is not coming back down to \$2.50 or \$3."

Drawing from charts of natural gas futures trading from 1990 to present,

**Tom Saal**, senior vice president of Energy Trading at **Hencorp Becstone Futures** in Miami, told the GasMart crowd the \$4.60 price level has played a key role over the years. "The \$4.60 price level on a technical basis is a huge number. For practically the first 10 years of trading, the spot contract never got above that level. Once it punched above \$4.60, it virtually did not come back below \$4.60 until recently. In the few instances we've dipped below \$4.60, the market explodes [back] above \$4.60.

**PA Consulting's Ron Norman** sees a "balanced market" returning in 2011 as the drilling falloff leads to more production decline. However, he said, "I don't expect the market to ever be in balance for very long," noting that global LNG growth will level off and existing supplies will be drawn away to Europe and Asia in 2012 as U.S. gas demand growth rebounds. In the longer term, he said LNG will not play its anticipated role of filling the domestic supply gap. Instead, domestic unconventional gas sources such as shale plays will make up the difference.

**The Process Gas Consumer's** Gas Buyer luncheon/meeting, following the conclusion of GasMart was the scene of a spirited debate as large industrial users squared off against a representative of the **Interstate Natural Gas Association** over the customers' drive to revise the Natural Gas Act section 5 to require refunding of pipeline overcharges back to the date when the overcharges began -- as is done in cases involving the electric power industry -- rather than just from the date of a regulatory decision. The end users said the incentive is for pipelines to drag out cases as long as possible so they can keep collecting overages with no refund obligation.

# Networking activities very popular at GasMart

## Attendees Enjoyed Putting Around

You couldn't have asked for better weather for the golfers who enjoyed 18 holes at the GasMart golf tournament sponsored by **NECC**, at the Ruffled Feathers Golf Club.

Designed by the legendary Pete Dye, the Ruffled Feathers Golf Course offered the seventy-three golfers 18 devilishly unique and demanding holes in a superbly crafted, simply gorgeous setting.

The NECC scramble tournament offered prizes at the 19th Hole Party presented by **George Sladoje**, chairman of **NECC**. Jack Vijit of **Nicor Gas** won Closest to the Pin. Longest Drive honors went to Stephen Balcom of **USG Corporation**.

The team of Steve Vesley of **Integrus Energy Services**, Rhonda Pantoja of **Sequent Energy** and Christina Spiro and R. Guitierrez of **NECC**, came in first place after a tiebreaker with the team of Mark Matthews of **Bank of Montreal**, M Blazer of **Repsol Energy**, Guy Ausmus of **Nipsco** and Keith Thibodeaux of **NECC**.

It appears that when you play with NECC you win. NECC's continued sponsorship of this event is much appreciated.

## Attendees had a Suite Time

Whether networking with new contacts or reconnecting with longtime customers/suppliers, GasMart attendees found the **ICE/NGX**-sponsored suite at U.S. Cellular Field to be a hit.

There was BBQ, burgers and beer, but also talk of where and when to lock-in winter requirements, changes in the rig count and how to properly account for derivatives under FAS 133. Also a hit was the home team as the Chi Sox soundly thumped the visiting Minnesota Twins, 6-2.

The home team won and so did the attendees. Thanks to ICE and NGX for sponsoring this GasMart activity.

## Come Join the Band

After a full day of sessions discussions about supply, demand and price continued into the evening during the GasMart Cocktail Reception sponsored by SolArc.

Buyers and Sellers swapped stories with colleagues and enjoyed the food and drink. Everyone seemed to enjoy the Jazz and R&B, especially GasMart attendee, Liam Leahy of RBAC, who joined the band for a few songs on his flute.

During a break in the music SolArc took the opportunity to award a few prizes to attendees. GasMart thanks SolArc for its sponsorship of the reception.

## Gimmie a Break

Between the sessions, attendees had a chance to visit with all the sponsors in the Market Network Center. Attendees enjoyed breakfasts, coffee breaks and lunch as well as several give-a-way contests.

## GasMart After Dark

Natural gas networking continued even after the last "official" GasMart event of the day.

It was bump, set, spike for those who attended **BP Gas & Power's** Wallyball bash.... For those of you uninitiated in this game of cunning and skill, wallyball -- as its name suggests -- is volleyball, played on a racquetball court, where the ball can be played off the wall, and sometimes off unsuspecting participants' heads.

Other producers/marketers took a more traditional approach to mingling with prospects or hosting customers. A couple of buyers from a small- to mid-sized Ontario-based marketer said they were well taken care of at a dinner hosted by large Canadian producer/marketer **Nexen**. Meanwhile, **ConocoPhillips** and its customers caught the second night Wednesday of a White Sox three-game home stand against the Twins. As they did the previous night during the **ICE/NGX** reception, the White Sox were victorious -- this time a margin of 7-4. Then on Thursday night, with no known GasMart participants in attendance, the Sox lost 20-1, which I think says something about our timing....

It was game-on for hometown utility **Integrus** who invited customers to the downtown Chicago ESPN Zone. **CME's** GasMart party was well-attended in in the Sheraton Hotel's Chi Bar, which features a floor-to-ceiling jewel-toned windows. "Na zdorovje" to the folks at **Gazprom M&T USA** for their vodka tasting celebration next door to the Hotel at Lizzie McNeill's.



### GasMart: Buyers Beware, ConocoPhillips Exec Says

With big cutbacks in North American natural gas production and new pipeline capacity coming on for the once-captive Midcontinent gas supplies, gas buyers will have to be on their toes to prepare for what may be intense competition later this year, a ConocoPhillips executive said Wednesday. ( more at [gasmart.com/news](http://gasmart.com/news) )

### Mocek Sees Stiff Commodities Regulation Ahead

New regulations coming to the commodities markets near you are likely to drive more transactions onto electronic trading platforms for clearing and provide the public with more aggregated data on market movements, a former Commodity Futures Trading Commission (CFTC) official told the 450 attendees at GasMart 2009 in Chicago. In Washington "there is a significant amount of momentum going into modifying every aspect of the way the OTC markets operate." ( more at [gasmart.com/news](http://gasmart.com/news) )

### GasMart 2009: Canadian Gas Export Declines Challenge Producers, Pipes

Canadian natural gas exports to the Lower 48 are down and likely to decline even more in the short term, and that poses "significant challenges" for the country's operators to remain competitive, a Nexen Inc. executive said Wednesday. ( more at [gasmart.com/news](http://gasmart.com/news) )

### Gazprom Plans 3-5 Bcf/d of LNG Exports to North America, NGI Reports

Up to 1.5 Bcf/d of Russian liquefied natural gas (LNG) could make its way to North America by the end of this year, with more on the way long term, the managing director of Gazprom Marketing & Trading USA Inc. (GM&T) told gas buyers and sellers recently at the GasMart 2009 conference and trade show. ( more at [gasmart.com/news](http://gasmart.com/news) )

### Bennett: 6 Bcf/d Gas Brawl Coming to Southeast Supply Area

It's no secret that the natural gas industry is long on supply and, thanks to the recession, currently short on market. Complicating the picture are the shifting geography of supply sources as producers target unconventional basins, and pipeline capacity constraints, which are expected to periodically push prices down further and put a ceiling on high prices, the founder of Bentek Energy LLC said Wednesday. ( more at [gasmart.com/news](http://gasmart.com/news) )

### Integrys Utility Chief: Gas Is a Permanent Solution

Natural gas is not just a bridge to renewables but rather is the fuel of the future in an era when beating global warming tops agendas in Washington, DC, and gas producers have stoked supplies with unconventional drilling success, a leading utility executive said Wednesday. ( more at [gasmart.com/news](http://gasmart.com/news) )

### End-Users Minding Their Costs and Interests

The recession has delivered to natural gas end-users some of the lowest commodity prices they've seen in years. However, the gift comes with the curse of sharply reduced demand for their own products in many cases. Of course, end-users are still buying fuel and feedstock, just less of it. And they're still vigilant in defending their interests when it comes to supply procurement. ( more at [gasmart.com/news](http://gasmart.com/news) )

### Market Experts Urge GasMart Attendees to Lock in Gas Prices NOW!

While market experts at GasMart 2009 in Chicago could not come to a consensus on when natural gas prices would move higher in a meaningful way, they did agree that when they do, the market will rocket higher and buyers would be longing for the days when they could have locked in supply in the \$3.50-4.50/MMBtu range. ( more at [gasmart.com/news](http://gasmart.com/news) )



### Expect more shut-ins by year's end, producers say

Despite rig counts that have fallen 55% since October, more cuts in gas production are needed this year to bring the market into balance, producers... ( more at [gasmart.com/news](http://gasmart.com/news) )

### Ex-CFTC official predicts regulatory 'carpet-bombing'

Commodity dealers should brace themselves for a blitz of new federal regulation that will place undue burdens on traders while giving ... ( more at [gasmart.com/news](http://gasmart.com/news) )

### Gazprom to begin trading gas in US late this year, officials tell conference

The US arm of Russia's Gazprom expects to begin trading gas in the US by October, company officials said this week. ( more at [gasmart.com/news](http://gasmart.com/news) )



### gazprom cometh (gulp)

Say what you will about this year's GasMart, we think those Gazprom Marketing and Trading guys stole the show. Why? It's actually a little complicated. ( more at [gasmart.com/news](http://gasmart.com/news) )

### American Metal Market

### Natural gas tags in doldrums; analysts at odds on when they'll shoot up

Many experts seem to agree that there is nowhere for natural gas prices to go but up, according to speakers ... ( more at [gasmart.com/news](http://gasmart.com/news) )

### Russia's Gazprom has its sights set on the North American market

The Russians are coming! ( more at [gasmart.com/news](http://gasmart.com/news) )

### Natural gas glut is creating market mayhem: Bentek's Bennett

The rig count may be off dramatically, but that doesn't mean production is falling across the board or that supplies are dropping ... ( more at [gasmart.com/news](http://gasmart.com/news) )

### Stimulus may help but customers, producers hurting: Integrys exec

Energy distributor Integrys Energy Group Inc. may not be getting much in the way of federal stimulus dollars... ( more at [gasmart.com/news](http://gasmart.com/news) )

### Gazprom exec sees big future for LNG imports, others tout NA exports

Gazprom's John Hattenberger may stoke some controversy when he shares his views... ( more at [gasmart.com/news](http://gasmart.com/news) )



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