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Winter natural gas prices may hit \$6 MMBtu

By Hil Anderson
UPI Chief Energy Correspondent
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LOS ANGELES, Jan. 8 (UPI) -- Natural gas prices appeared poised for a mid-winter surge Wednesday as inventory reports showed storage levels on the decline at the same time some analysts were predicting a chilly couple of months in the eastern United States.

After last fall's early predictions that the influence of El Nino would lead to a warmer and drier winter in the Midwest and Northeast, the forecast for the next couple of months now looks to be cold enough to keep furnaces humming and gas prices rising.

"By the end of the year (2002), working gas in storage was about 19-20 percent lower than at the end of December 2001, and about 5-percent below the previous five-year average," the U.S. Energy Information Administration said Wednesday in its monthly short-term energy outlook. "Considering not only the reduced cushion from natural gas in storage but also the currently high world oil prices, natural gas prices are likely to stay relatively high through the winter."

Higher natural gas prices are routine during the winter heating months as supplies stockpiled during the late summer and fall are drawn down. The EIA predicted that the price for gas on the spot market, which had topped \$5 per million British Thermal Units, or Mmbtu, in December, could climb past \$6 Mmbtu if cold weather in the key markets of the Northeast and Midwest continued to siphon off stored gas.

"Spot prices have mostly stayed near or above this (\$5 Mmbtu) threshold as abnormally cold weather during the fourth quarter of 2002 whittled away underground storage levels at a much faster rate than was previously anticipated," the EIA noted.

The path that prices follow for the remainder of the winter will depend in a large part on the accuracy of weather forecasts that are poured over by traders with the ardent fervor of racetrack handicappers.

"They don't want to plan for a warm winter and then have a cold winter and have to go out into the spot market where the prices can be pretty volatile," said Judah Cohen, a meteorologist from Atmospheric and Environmental Research in Boston. "People have been pretty confident about a warm winter based on El Nino, but that may not turn out to be the case, which could cause a spike in prices."

Cohen, whose forecasts are used by energy, financial and agricultural companies in their risk management strategies, predicted that the Northeast would see temperatures 1-2 degrees below average during the dead of winter. While it doesn't seem like much of a drop, Cohen noted that temperatures last winter were 5-10 degrees above normal.

"I think it will get a lot colder across the country than it has been," Cohen told United Press International in a phone interview. "We're not predicting large departures, but even a slightly below normal winter could have a large impact on prices."

Other climate analysts were in agreement that a major intrusion of arctic air in early January would keep the East in the deep freeze, although its duration was subject to debate.

"After a cold start to the heating season in the eastern and southern states, we expect the remainder of the winter to be characterized by warmer-than-normal temperatures in the West and across the northern tier of states, with cooler-than-normal temperatures in the Southeast," said Todd Crawford, seasonal forecaster for WSI Corp., another Massachusetts forecasting firm.

Opinions on the weather may differ, but there is no denying that the weather can have a major impact on business. According to Cohen, 20 percent of the \$7 trillion annual U.S. economy is directly affected by weather conditions.

"People don't appreciate the impact that weather has on the economy," he said.

The predictions produced by companies such as WSI and AER are by no means the product of reading the stars or studying groundhog shadows. They are instead the scientific end products of reams of data from around the world crunched into a forecast

model by increasingly powerful computers for the benefit of farmers, energy providers, commodities brokers and insurance companies.

Cohen focused on snowfall on the other side of the world in formulating his chilly forecast. While the warming of the oceans by El Nino is seen as a major indicator of U.S. weather patterns, Cohen also looks to Siberia where autumn snowfall can create the frigid air masses that slide south out of Canada during the winter months and make their way into the United States.

And this autumn saw some of the heaviest snows in Siberia in the 30 years that weather satellite images of the remote region have been available.

"We took that as a very robust signal in predicting what was coming this winter, which was cold in the eastern half of the United States," Cohen told UPI. "Snow cover has the highest reflectivity of any natural surface. You get snow and you are reflecting as much as 80 percent of that incoming solar radiation that would normally be absorbed into the ground back into space; it acts like a refrigerator."

"Most people think weather systems move from west to east, and that's usually the case," he said. "But during these exceptional periods, you can get air that comes across the pole and into North America. That looks like it could be happening in the next week or so."

Cohen's forecast will be put to the test in the coming weeks when New Englanders and Midwesterners open their heating bills and see just how well the natural gas industry had prepared for the current winter.

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