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# Natural gas price drop helps families, businesses

By Jonathan Fahey, Associated Press

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NEW YORK – The price of natural gas in the U.S. is plummeting at a pace that has caught even the experts off guard.

A 35% collapse in the futures price the past year has been a boon to homeowners who use natural gas for heat and appliances and to manufacturers who power their factories and make chemicals and materials with it.

The country is flush with natural gas as a result of new and controversial drilling techniques that have enabled energy companies to tap vast supplies that were out of reach not so long ago. The country's natural gas surplus has been growing even as the country burns record amounts.

**STORY:** [Fracking for oil, natural gas spurs sand mining in Midwest](#)

This winter's warm weather slowed the growth in demand, however, and created a glut. In the Northeast, December was the fourth warmest in the last 117 years. Winter supplies are 17% above their five-year average.

The natural gas futures price fell 13% last week, to \$2.67 per 1,000 cubic feet. That's the lowest winter level in a decade.

"The market has been overwhelmed with gas," says Anthony Yuen, a commodities analyst at Citibank.

He and other analysts expect the price to average near \$3 for all 2012. If the weather stays mild, the price could even dip below \$2, a level not seen since 2002.

Cheap natural gas is mainly a good thing for the economy:

- More than half of U.S. households use natural gas for heat, and a quarter of the nation's electricity is made from it. Falling heating and electric costs are offsetting the impact of high gasoline prices and enabling families and small businesses to spend on other things. Residential gas and electric customers are saving roughly \$200 a year, according to a study by Navigant Consulting.
- For companies that make plastics, fertilizer and other chemicals derived from natural gas, falling prices are a

windfall. The same goes for makers of products from steel to bricks to beer. All use a lot of natural gas to heat their furnaces. U.S. manufacturers are becoming more competitive globally as a result of the country's cheap natural gas, industry officials say.

By Keith Srakocic, AP

Range Resources site manager Don Robinson stands near the well head by the drill that goes into the shale at a well site for natural gas in Washington, Pa., in July 2011.

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### Natural gas glut



Natural gas futures price, dollars per million BTU, 6 months

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Some industries aren't cheering, though.

With electricity prices falling, the profits of all electric power producers — whether they rely on coal, nuclear or wind — are shrinking.

Companies that drill solely for natural gas are earning less these days, too. That's prompting some to hunt instead for oil, whose price is near \$100 a barrel.

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Still, drillers aren't reducing natural gas production as much as they would have during previous periods of low prices. They've found ways to produce the fuel at much lower cost, so they can be profitable at lower prices. And, in many cases, natural gas is a byproduct of oil drilling, which is so profitable that companies are going after every barrel they can find.

Analysts say in some oil and gas fields, drillers could give the gas away and still be hugely profitable just from selling the oil.

The benefit of falling natural gas prices to homeowners is not as big as a major drop in oil and gasoline prices would provide. The average household's annual gasoline bill is about \$4,000, roughly double the average annual gas and electric bill.

Also, the fuel cost is only half of a customer's bill. The rest is transmission and delivery charges, which don't change along with fuel prices. Homeowners are paying \$10.18 per 1,000 cubic feet of gas on average, including transmission and delivery charges, according to the [Energy Information Administration](#). Over a year, a customer will burn an average of 75,000 cubic feet, or about \$760 worth.

The multi-year drop in natural gas prices caught most industry experts by surprise.

In the middle of the last decade, natural gas looked to be in short supply. Production in the U.S. was slowing, imports from Canada were rising and plans for importing liquefied natural gas from the [Middle East](#) and elsewhere were drawn up.

Natural gas futures hit nearly \$15 per thousand cubic feet in 2005. Chemical and metals manufacturers were shutting U.S. factories and moving overseas, where gas was abundant and cheaper. Farmers in need of fertilizer were turning to inexpensive imports from Canada, Trinidad and Asia.

But over the next few years, drillers perfected methods first tried in 1981 that allow them to profitably extract gas trapped in shale formations — layers of fine-grained rock that in some cases have trapped ancient organic matter that has cooked into oil and natural gas.

Engineers combined the ability to drill horizontally into shale with a technique called hydraulic fracturing. Millions of gallons of water, sand and chemicals are pumped into wells to break rock and create escape routes for the gas. In doing so they unlocked natural gas deposits deep underground across the East, South and Midwest that are large enough to supply the U.S. for decades.

This eventually turned the shortage into a glut, and reversed the fortunes of some industries.

An ammonia plant owned by CF Industries that was shuttered by its former owner in 2004 is running again. Steel maker Nucor is building a factory in Louisiana; Shell Oil is planning a petrochemical plant in Appalachia; and Dow Chemical is building a type of chemical feedstock plant it hasn't built in the U.S. since 1995.

"A whole slice of American industry is benefiting," says [Steve Wilson](#), the CEO of CF Industries, which makes ammonia and other fertilizer ingredients. CF Industries, which is based in Deerfield, Ill., has seen its daily natural gas costs fall from \$6 million to \$2 million over the past few years. The company is planning to spend more than \$1 billion expanding its U.S. plants.

While industrial customers are betting on low prices for years to come, things could change if demand increases sharply because of extreme weather or faster-than-expected economic growth, or if the U.S. begins exporting gas.

It's also possible that natural gas drilling could be curtailed by environmental regulations designed to protect drinking water from hydraulic fracturing.

Legislators in New York and [New Jersey](#) have banned hydraulic fracturing temporarily, and the [Environmental Protection Agency](#) is studying it and may propose national regulations.

The most likely near-term scenario is that prices keep falling, according to Rusty Braziel, an analyst at Bentek Energy.

"This ain't the bottom," he says.

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