Natural Gas Week

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# Midwest AGs' Study Critical of NatGas Market 'Disingenuous'

By Michael Sultan

The attorneys general of Illinois, Iowa, Missouri and Wisconsin -- the latest in a long line of public officials to rail against high natural gas price levels -- released a study last week to bolster their claim that "market fundamentals can't account for [the] huge increase in natural gas prices."

But an industry analyst who discussed the study with Natural Gas Week, said the study falls far short in its analysis and arrives at unsubstantiated conclusions, in particular that gas demand hasn't surged.

The four attorneys general, known as the Midwest Attorneys General Natural Gas Working Group, include Lisa Madigan of Illinois, Tom Miller of Iowa, Jay Nixon of Missouri and Peg Lautenschlager of Wisconsin.

"A six-month study into skyrocketing natural gas prices and erratic natural gas markets concludes that traditional factors of supply and demand alone cannot account for the surge in prices," said the group, which asserts that "a huge influx of money into speculative financial
**Burnett was especially critical of what he said was the report's minimization of**

markets has reinforced the upward spiral of prices."

The study was conducted by Mark Cooper, a sociologist and long-time Washington, D.C. , analyst of energy and consumer issues.

Just in time for a massive retreat in natural gas prices, the Cooper study lays out the "causes of spiraling natural gas prices" complete with a graphic spiraling up one of the pages. The graphic begins with a "mature resource base" as a key factor contributing to rising prices and proceeds through physical market factors, financial market factors, and regulatory structure issues.

The attorneys general conclude that several steps should be taken including "oversight of the over-the-counter markets, including requirements for registration of traders and reporting of trades." They also advocate "stricter limits on positions held by any one entity"; "expanded settlement periods for short- and long-term contracts"; and "restrictions on how much the price of natural gas can move on the markets before trading is
**supply and demand factors.**

**"They're being a bit**

temporarily halted."

"[For example], if you limit the size of positions people can hold at the time, you drive people into that market, you diminish the influence of a small number of large actors," Cooper said.

Cooper was emphasizing that the recommendations were meant to increase participation in the market -- this while the attorneys general were highlighting "a huge influx of money" as a market problem.

As to fundamental factors, the attorneys general's six-months of study has led them to propose a "joint federal-state task force to examine critical questions about the supply-side of the physical market and the role of major oil companies, which straddle the physical and financial markets."

**H. Sterling Burnett, a senior fellow at the Dallas, Texas-based National Center for Policy Analysis (NCPA), asked by Natural Gas Week to comment on the study, took issue with its analysis, as well as with the solutions proposed by the attorney general.**
**disingenuous when they talk about how the demand hasn't soared," he said, pointing to**

**the study's own chart of natural gas demand growth. The chart, while appearing to show a fairly flat demand growth line, actually shows that "since 1995, there's been a substantial increase in demand," Burnett said.**

However, when told about Burnett's assessment, Cooper told Natural Gas Week that surging gas demand is an "urban legend."

"Every story you hear is [about] soaring, surging demand … and you can't find it, demand has been dead flat," Cooper said.

**Burnett also faulted the written discussion of demand growth in the Cooper report in that it tends to focus only on natural gas demand for heating, while the real driver of demand growth has been power generation.**

**"Consistently, they talk about how there hasn't been this demand growth because winters have been moderate," he said, but "it wasn't more natural gas for heating during the mid- to late 90s and the early part of this century, it was more natural gas [used] for power generation."**

Cooper, however, countered that the supposed contribution of power generation to natural gas demand growth "is where the urban legend comes from." He cites, among other factors, displacement of less-efficient gas-fired power and high-price demand destruction.

**On the supply side, Burnett says the Cooper study neglects supply-side cost increases. Even without an overall decline in natural gas supply, the cost structure is higher with the decline in natural gas production per well. "There are higher costs involved in getting less and less gas per well … and it's not clear to me that they take account of that."**

In speaking with Natural Gas Week, Cooper did acknowledge that the "cost of finding gas has gone up."

**Burnett concedes that, as with oil prices, there is "a speculative margin in the current price of gas" but he disputes the nature of it. Cooper's study says the speculative margin is about 10%, which Burnett said "wouldn't surprise me at all." However, Burnett characterizes it as more of a "huge risk margin" with some responsibility for that margin resting with federal policy that "is still touting [natural gas] that we know we have a declining supply of."**

Others describe that "speculative" margin as one driven by expectations and uncertainty including the US government's own Energy Information Administration.

**Burnett took issue with the proposed additional market oversight. "I have never found it to be the case that increasing government oversight and regulation [including] paperwork and licensing … decreases the price of anything."**

**Instead, he maintained that if you restrict the supply of traders through paperwork barriers to entry, "the price for trading goes up. That is the way markets work."**