

as Southern California Gas prices remained flat to Tuesday, the trader continued, but shippers holding interruptible transport were likely to lose out.

"If you're not holding firm, it's worse than feast or famine in the Rockies — it's famine or famine," the trader remarked. "Either the spread will be weak and won't cover your variable costs, or it'll be giving up so much money that there won't be any room left on the pipe. You lose either way."

In the Southwest, prices in the Permian and San Juan basins were boosted by a strong Rockies market and climbed around a dime, a California trader said. "I think Rockies gas is a very significant factor in all of this. It swings from being very constrained to very free [-flowing], and I think the Rockies and the Southwest vie for similar demand markets."

Farther north, Malin, Oregon, shed a couple of cents, as did the Pacific Gas and Electric city-gate. — Market Staff Reports

## Analyst: Ethanol growth propping up gas demand

The growing popularity of ethanol as a gasoline additive is having the unintended consequence of boosting demand for natural gas, Citigroup analyst Gil Yang said in a report Tuesday.

Gas is used in several steps of the ethanol production process, including drying feedstock crops, providing steam to liquefy corn starch and creating heat to distill alcohol and to dry leftover grains. Gas also is used indirectly to manufacture fertilizers used to grow crops — usually corn, Yang explained.

Ethanol production grew more than 25% last year, and another 70-plus plants are being built, according to Yang, who said production of the fuel additive has risen by an average of 23%/year since 2001.

He predicted that the ethanol capacity under construction will increase gas consumption by about 170 Bcf/year, or about 0.8% of total annual US demand.

Additionally, to keep up with the demand for corn, farmers are expected to increase plantings by 15% this year, thereby boosting consumption of nitrogen-based fertilizers for which gas is used as a feedstock, according to Yang.

"With 33 Mcf of natural gas required to produce one short ton of ammonia, we believe the domestic ammonia industry is consuming about 310 Bcf of natural gas annually, or 1.4% of total US gas demand," the report said.

That's bullish news for the industrial end-use sector, where use of gas has declined nearly 3% annually over the past decade, he added.

Yang said he doesn't expect US ammonia plants that have been shuttered to reopen because gas remains cheaper overseas. But the existing domestic plants "will likely be under less pressure to close due to margin strength, providing additional stability for industrial-based natural gas demand." SGS

## Northwest, Vector, PG&E top satisfaction survey

Northwest Pipeline, Vector Pipeline and Pacific Gas & Electric won high marks in Mastio and Company's latest gas pipeline customer satisfaction survey released Wednesday.

Northwest, a Williams subsidiary, ranked highest in both the mega-pipeline category — defined as being at least 3,500 miles long and delivering at least 1 Tcf annually — and the major-pipeline category, which includes systems at least 3,500 miles long and serving three or more states, the St. Joseph, Missouri-based consultant said.

Others in the mega-pipeline category that received better-than-average satisfaction ratings included Dominion Transmission, Natural Gas Pipeline Co. of America, Northern Natural Gas, Southern Natural Gas, Texas Gas Transmission, and Williams' Transcontinental Gas Pipe Line.

In the major-pipeline category, top performers included Columbia Gulf

## Stock exchange, asset manager launch first US gas-based fund

The American Stock Exchange and Victoria Bay Asset Management on Wednesday announced the launch of the first natural gas-based exchange-traded fund in the US.

The fund is a commodity pool that will invest in NYMEX gas futures contracts as well as other gas-related forward, futures and swap contracts. It will be managed by Victoria Bay and listed on AMEX under the symbol "UNG."

The fund managers will "always have the possibility of using other gas derivatives, but they'll be using the near-month [futures] contract as much as possible" to make up the fund's portfolio, Scott Ebner, senior vice president of AMEX's ETF Marketplace, said in an interview.

Ebner said authorized purchasers — largely investment banks — can create or redeem shares of the fund on a daily basis, creating an "arbitrage discipline" that will help keep the fund's asset value close to the price of the front-month NYMEX Henry Hub gas contract.

The fund's daily holdings and pending trades will be posted daily on its web site, [www.unitedstatesnaturalgas-fund.com](http://www.unitedstatesnaturalgas-fund.com). LK

## Southeast buyers seek ways to reduce gas prices, volatility

Concerned about high and volatile gas prices, several Southeastern utility and industrial buyers on Wednesday cited plans to diversify their supply portfolios and increase their hedging activities.

"Our two main concerns are price and price," quipped Al Bean, director of gas management for the Southeast Alabama Gas District, at Interchange Energy's LDC Forum in Atlanta.

Bean said local distribution companies are particularly concerned about how summer weather and the upcoming hurricane season will affect gas supply and demand in the Southeast.

John Cavallin, an asset portfolio manager with Scana Services, said he has observed more conservation by residential and commercial customers and more hedging by utilities to help mitigate price swings. "That is a pattern that will certainly continue," he predicted.

Bruce Christmas, vice president of fuels management for Teco Energy, echoed Bean's concerns, saying 2005's Gulf of Mexico hurricanes "caught a lot of people fairly short." As a result, he said his company plans to diversify its gas supply sources and its storage portfolio.

Several officials said an expected increase in imports of liquefied natural gas should help ease the supply/demand balance. "We're interested in LNG and encouraging it," Christmas said. "It's got to show up and when it does, we'll buy it."

He and some other buyers expressed concerns about potential problems with LNG, such as gas quality and interchangeability. But Cavallin assured conference attendees that as a user of gas from the Elba Island, Georgia, LNG facility, his company has yet to experience any significant issues. AS

## Platts Podcast



### Hess LNG CEO worried over US LNG future

Gordon Shearer, CEO of Hess LNG, upbeat on Weaver's Cove LNG project but concerned about prospects US for terminals in general.

Download the podcast: [www.platts.com/energypodium](http://www.platts.com/energypodium)

Transmission, Dominion, Natural, Southern, Southern Star Central Gas Pipe Line, Texas Gas and Transco.

Vector was the favorite among regional pipelines — those less than 3,500 miles and/or serving fewer than three states. Others ranked better than average in that category included PG&E, CenterPoint Energy, Great Lakes Gas Transmission, Iroquois Gas Transmission, Northern Border Pipeline and Transwestern Pipeline.

Among intrastate pipelines, PG&E ranked highest in customer satisfaction, Mastio said.

Mastio conducted interviews with industrial consumers, local distribution companies, independent power producers, gas producers and marketers. Respondents rated pipeline companies on 24 attributes, including reliability of firm transportation, personnel expertise and likelihood of recommending the pipeline to others.

The most important issues to gas transporters “continue not to change much” from survey to survey, Mastio Vice President Kevin Huntsman told Platts on Wednesday. Reliably meeting firm transportation contracts remains the top customer need, followed by honoring contracts and agreements and providing timely notification before initiating restrictions.

At the same time, “we see the same companies continuously performing at the top,” Huntsman said. The pipelines that score highest are focused not only on meeting a customer’s operational needs but also on listening well to their customers and answering their questions thoroughly. MT

## Analyst says funds add liquidity ... from page 1

“Dealers and merchants change their positions first, prompting a change of positions from hedge funds,” Haigh maintained. “Hedge funds react to price, they don’t cause it.”

Haigh’s comments contradicted those of several other conference speakers, who asserted that hedge funds are responsible for increasing volatility in both the futures and cash markets.

Haigh pointed to CFTC data showing that while about 65 hedge funds participate in gas futures trading on any given day — comprising about 23% of all activity — only 15 were actively changing their positions.

Meanwhile, he said an average of 71 commercial traders are in the market on a given day, making up 25% of trading activity, with more than half actively changing their intraday positions.

“The data shows that hedge funds take the opposite position to commercial traders,” he added.

Haigh said the data showed hedge funds were far more involved in trading near-month contracts, while commercial traders’ open interest was concentrated in contracts at least three years out.

The CFTC’s study was based on data from NYMEX; the commission didn’t begin collecting trading data from the other major US energy trading platform, Atlanta-based IntercontinentalExchange, until this year.

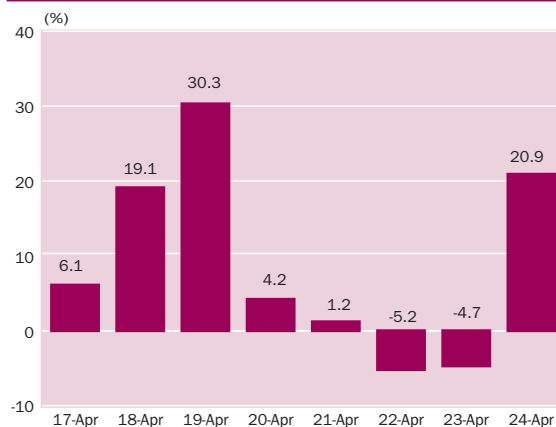
Haigh noted that the CFTC is closely monitoring large speculators’ NYMEX positions. “Energy makes up 10% of commodities trading but takes up 90% of the CFTC’s time” in terms of investigating alleged market manipulation, he said. SSM

## Plains to acquire Piceance reserves ... from page 1

Laramie’s technical team, which may stay with Plains, were previously managers at Progress Energy’s Piceance subsidiary, Mesa Hydrocarbons. “There’s nobody at Laramie we wouldn’t hire,” Plains CEO James Flores said Wednesday.

Flores said the purchase price for the proved reserves was very competitive at \$2.32/Mcf, compared with the \$4.65/Mcf average that competing firms such as Bill Barrett, Delta Petroleum and Ultra Petroleum have paid in other Piceance deals.

## Dominion’s U.S. energy use forecast



This section of the Dominion Energy Index represents a national forecast for home heating and cooling requirements above or below normal with the baseline of 0 representing normal for that day based on historical data.

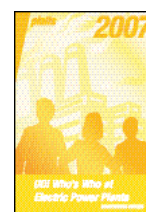
Source: Dominion



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