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Rocky Mountain Natural Gas Market Price Dynamics

The primary driver behind the impressive growth in Rocky Mountain natural gas production has been the substantial increase in regional gas prices. Between 1999 and 2005 northern rocky mountain natural gas production has risen from 4.0 Bcfd to 6.2 bcf as annual prices rose from \$2.04/MMBtu to \$6.96/MMBtu. The resource base has been known to be extensive for a long time. However, it has taken this strong price signal to justify the cost of accelerating the transformation of the resource base into flowing gas supplies. The outlook for future gas production is substantially a question of expectations for regional gas prices tempered by uncertainty over land access. This presentation will examine the primary components that drive Rocky Mountain natural gas prices and discuss their outlook.

Regional nature gas prices derive from the overall domestic market as reflected in NYMEX futures prices and the regional basis price differential. At times this differential can exceed the value of the commodity itself. NYMEX prices are driven by the very high level of capacity utilization for production and storage, short term inelasticity of supply and demand, and high global oil prices. The basis differential is driven by local seasonal demand patterns, the growth rate of new production and related expectations for new well counts, the decline rate of existing production in new and mature basins, and the capacity utilization of export pipelines both from the Rocky Mountain region and downstream from the Mid-continent. Understanding this interplay is critical to whether regional prices are at parity with national prices or substantially discounted thereto. The timing and duration of these utilization cycles is a prime mover of regional pricing and the ultimate price signals to producers to accelerate or slow the pace of resource development.