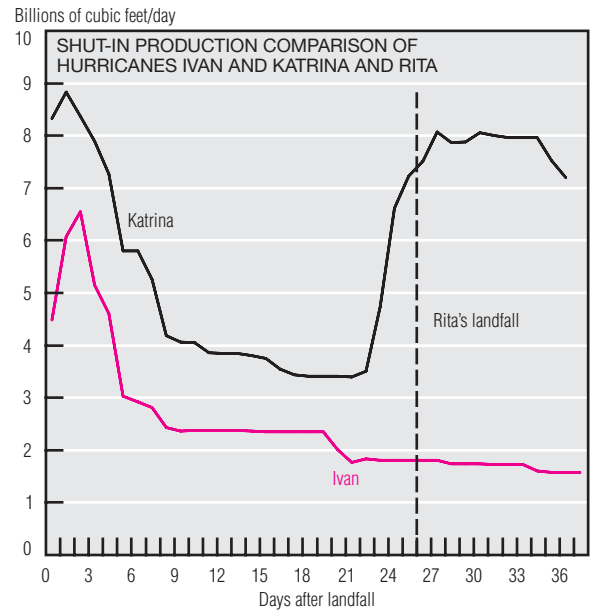
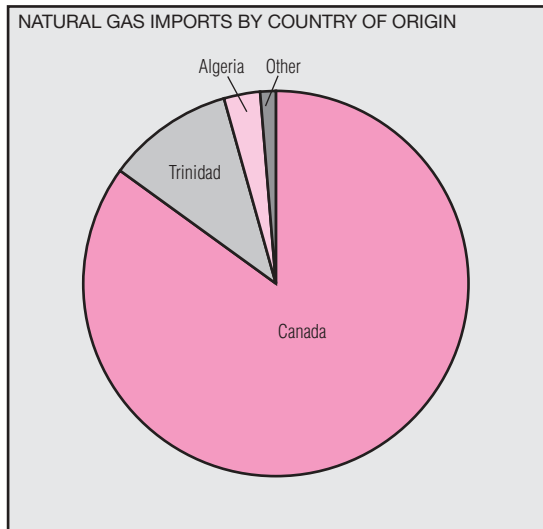
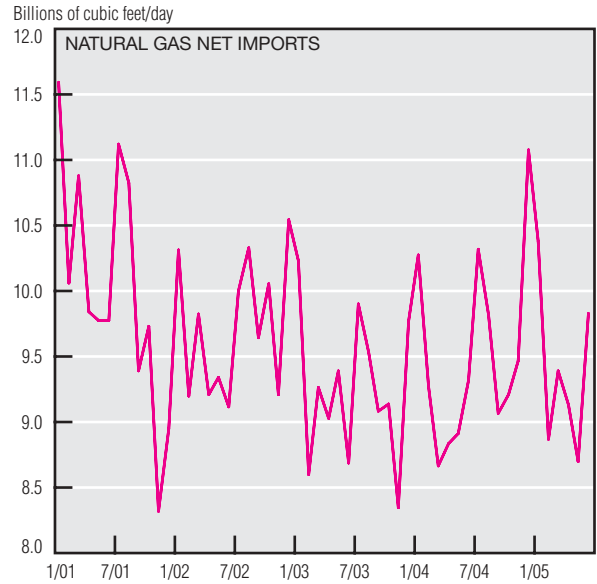
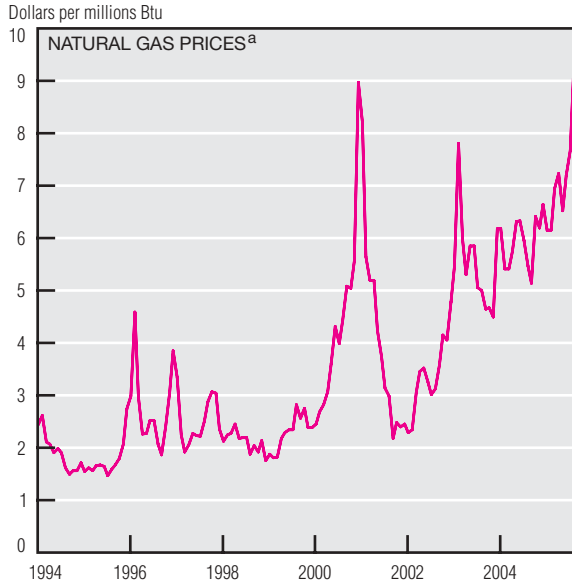


Natural Gas



a. Prices at Henry Hub, Louisiana.
 SOURCES: U.S. Department of Energy, Energy Information Administration; Board of Governors of the Federal Reserve System; and the *Wall Street Journal*.

As the winter heating season draws nearer, many consumers are worried about natural gas supplies and prices. By August, prices had already surpassed the most recent price spikes of December 2000 and February 2003. Although increased imports seem to have some ability to help meet demand, this potential is likely to be limited, at least in the upcoming heating season, because of short-run capacity constraints. In 2004, net imports met only about 15% of U.S. demand for natural gas. About 85% of imports come from Canada; most of the rest is from Trinidad (11%) and Algeria (3%).

A key question is how quickly Gulf of Mexico production, which normally accounts for about 20% of U.S. total production, can be brought back on line. Hurricane Katrina, which made landfall on August 29, caused a huge spike in lost or “shut-in” production. More than half of the loss had returned within two to three weeks. However, only 26 days after Katrina, Hurricane Rita roared through the Gulf, making landfall on September 24 and returning shut-in production to the level reached just after Katrina. As of October 4 (36 days after Katrina made landfall), about 7.2 billion cubic feet per day—roughly

69% of normal Federal Gulf of Mexico production—remained shut in. After Hurricane Ivan hit last year, shut-in production peaked at 6.5 billion cubic feet per day. It fell more than halfway within the first week, but seven weeks later it still stood at about 1 billion cubic feet per day. Thus, if history is any guide, much of the lost production will return in the next several weeks, but as much as 10% of normal Gulf production (or about 2% of normal U.S. production) could be shut in for months, depending on the severity of damage to Gulf production facilities.