

## CALGARY HERALD

### Natural gas storage sets records; Prices tumble to \$4.466 US amid sluggish demand

Calgary Herald  
Fri Oct 2 2009  
Page: E4  
Section: Calgary Business  
Byline: Dina O'Meara  
Source: Calgary Herald

Natural gas inventories in Canada and the United States broke records this week, filling storage facilities nearly to maximum as sluggish industrial demand failed to draw down supply.

Producers winced at the numbers -- 3.589 trillion cubic feet in storage south of the border, about 15.5 per cent over the five-year average, and nearing 600 billion cubic feet in Canada, more than 20 per cent higher than last year. High inventories and low consumption spell poor economics, which have been dismal for most of 2009.

The market also frowned, pulling November futures down 37.5 cents US to \$4.466 US per million British thermal units on Thursday, the biggest drop since Sept. 17. On the spot market at Alberta's AECO trading hub, prices tumbled 70 cents to \$2.85 per gigajoule.

But storage developers such as Rex Kary, president of Moneta Energy Services, had a different take on the situation.

"The realization is coming to producers that it is very good to have some storage so they don't have to sell their gas at a low price," Kary said. "They can store it or wait a few months and put their gas back into the market at a fair price."

The company, backed by two New York-based investment and banking firms, converts suitable depleted gas reservoirs into storage facilities. Only a fraction of Alberta's reservoirs will turn out to be compatible, and usually take about two years to be operational, Kary said.

Interest in the two-year-old company has picked up substantially since natural gas futures and spot prices started dropping last fall. Drilling activity in Western Canada ground to a virtual halt as low prices didn't cover the costs of drilling new wells, and the outlook for a recovery was extended to the second half of 2010.

Everything that could go wrong for natural gas did go wrong for the commodity, said analyst Peter Linder with Delta One Capital Partners Corp.

The United States experienced the largest spike in natural gas production in its history at the same time the country sank into a recession that resulted in its largest slump in consumption. As well, it was the coolest summer in a decade, reducing power demand for air conditioning and natural gas consumption, he noted.

But the low activity levels of this year will catch up with growing demand as the economy improves, Linder predicted.

"I believe that this year was an anomaly, one that comes along once every 40 or 50 years," Linder said. "If we assume a normal winter, with lower production and reasonable demand -- partially weather-dependent and partially due to better economy in the U. S. and Canada--I expect the huge storage overhand to start to dissipate by February or March next year."

Michael Cleland, president of the **Canadian Gas Association**, said there has been increased interest in storage as demand for natural gas-fired generation has grown.

"There generally has been a trend for people in North America to want to invest in storage," he said. "The good thing is there is a very high amount of gas in storage so we have a very high assurance of gas for this winter."

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#### Illustration:

• Photo: Herald Archive, Bloomberg / A spike in natural gas production in the United States, combined with a recession-induced drop in demand, has led to brimming inventories.

#### Edition: Final

Story Type: Business

Length: 516 words

Idnumber: 200910020203

People: Michael Cleland; Peter Linder; Rex Kary

Locations: Alberta; Canada; Moneta; North America; USA

Keywords: united states; u s and canada; canadian gas association; moneta energy services; rex kary; peter linder; north america; michael cleland; western canada

Tone: Negative ■

Ad Value: \$4,219.74 ■

Circulation: 127,145 ■