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U.S. Department of Energy
Office of Fossil Energy (FE-30)
ATTN: Trudy Transtrum
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Washington, DC 20585

Ms. Transtrum,

I am happy to be able to submit comments on balancing the supply of and demand for natural gas in the U.S. over the next 10 years.

Based on my firm's market analyses and day-to-day work on behalf of large natural gas end-users, I would suggest that the federal government could promote the following three initiatives (in addition to continued conservation and efficiency measures):

- (1) Decreasing the incredibly strong growth in natural gas used by electric power plants;
- (2) Increasing the availability of foreign gas supplies through LNG imports; and
- (3) Providing centralized and readily available market price information on interstate transportation/basis costs to major pipeline points.

Taking these suggestions in turn, virtually all new power plants in recent years have been gas-fired, which has caused electric generators' share of national gas consumption to continue to rise. Between 1997 and 2004, annual gas use for electric power generation rose by 1,287 Bcf (billion cubic feet), or 32%. In contrast, annual gas use by the industrial sector declined by 1,213 Bcf, or 14%, over the same seven-year period. Natural gas deliveries to commercial and residential customers also declined over the 1997-2004 period. *(Data are from the "U.S. Natural Gas Consumption*

by End Use" table, Energy Information Administration, U.S. Dept. of Energy).

Gas-fired power plants have recently and are expected to continue to account for the vast majority of net growth in U.S. gas demand. This has bolstered natural gas prices. A policy shift towards encouraging more use of coal for domestic power generation should decrease both natural gas prices and electricity prices. Further, increased coal use would reduce our nation's reliance on foreign fuel sources. The availability of clean coal technologies to mitigate the environmental impact of coal-burning makes this policy more palatable now than it has been in the past.

Turning towards the supply end of the gas price equation, LNG offers the best hope of price relief in the intermediate term. Because natural gas can be extracted at such low costs in other parts of the world and can reach our shores at costs several dollars per MMBtu below current market prices, there are obvious opportunities. The U.S. Department of Energy reports that, although LNG imports are growing at 30%+ per year, they still only represented 2% of national gas consumption as recently as 2003. The expansion of existing LNG import terminals and the construction of new terminals would allow more inexpensive natural gas to come into this country and relieve some of the upward price pressure on natural gas. This would benefit U.S. natural gas end-users.

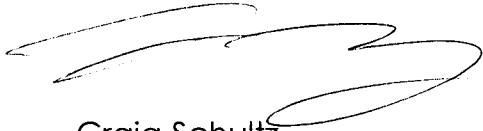
However, a policy of encouraging LNG terminal construction brings with it two important issues. It would increase our nation's dependence on fuel from foreign sources and related political complexities. In addition, despite the good record of the LNG industry to date, there are relevant concerns about the safety and vulnerability to terrorism of LNG facilities.

Lastly, the availability of market price information on future basis costs (differentials in prices between the centralized pricing point of Henry Hub, Louisiana and other points or pools in the interstate pipeline system) would allow end-users to better forecast their natural gas costs, adjust their consumption, and intelligently evaluate the economics of energy efficiency projects. Currently, basis prices in the futures market are tightly-held OTC trading information by financial market participants, energy suppliers, and major advisory firms. Few end-users can obtain this information at reasonable costs or effort. The federal government may be able to play a role in more widely disseminating this information, through its regular Energy Information Administration publications or otherwise.

These brief remarks are meant to highlight a few of the issues regarding the natural gas supply and demand faced by U.S. businesses. If there is

additional information that my firm can provide or other ways in which I can support the efforts of your office, please let me know.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Craig Schultz', with a large, sweeping flourish extending to the right.

Craig Schultz

Author Bio: Mr. Schultz is President of Energy Buying Strategies, Inc., a consulting firm that works with commercial, industrial, and institutional end-users to reduce the costs and risks of their deregulated energy purchases. Prior to founding this firm, Mr. Schultz served in management positions at two large natural gas suppliers to the end-user market and held an analytic position at the U.S. Department of Energy. Mr. Schultz can be contacted at (240) 731-0065 or craig@energybuyingstrategies.com.