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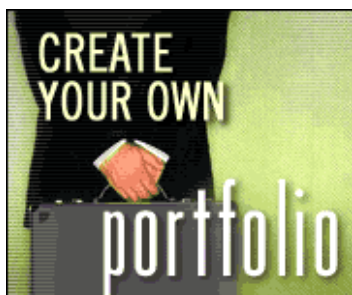
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## BONDS NEWS

**UPDATE 2-Greenspan warns of "serious" natgas problems***Wed May 21, 2003 06:10 PM ET*

(adds analyst comments, market reaction)

By Andrea Hopkins

WASHINGTON, May 21 (Reuters) - Federal Reserve Chairman Alan Greenspan said on Wednesday the low level of U.S. natural gas supplies was a "very serious problem", with delivery difficulties driving up prices and pressuring U.S. industry.

The assessment from the Fed chief drove benchmark gas prices higher as traders said Greenspan's comments added to a generally bullish market psychology due to competition between utilities and storage operators for limited gas inventories.

"I'm quite surprised at how little attention the natural gas problem has been getting, because it is a very serious problem," Greenspan told Congress's Joint Economic Committee.

After first outlining the good news about falling oil prices -- which the Fed hopes will allow consumers and businesses to spend money on other things -- Greenspan said the price of natural gas had increased sharply as stocks fell.

The demand for natural gas has climbed in the last two decades as consumers and businesses alike find new uses for the fuel, which is increasingly used as a clean-burning source of electric power. But the colder-than-average winter left stocks almost 40 percent below the five-year average.

Greenspan said that while new technology had doubled the success rate of so-called wildcat -- or exploration -- wells, better technology was also draining reservoirs faster.

"The end result is that we are so good, the new findings of natural gas reservoirs are drained by half in the first year, and as a consequence...just to keep up with the drain is a major problem in itself," Greenspan said.

And, he said, natural gas, unlike oil, is difficult to import because the only way to bring it into the United States is in cryogenic liquefied natural gas (LNG) carriers, which are constrained by environmental concerns.

"And if on the one hand we have encouraged, as we have, very significant growth in domestic demand for natural gas -- but are very readily constrained by our ability to increase supply -- then something has got to give, and what is giving, of course, is price," Greenspan said.

June NYMEX Hub gas closed 2 percent higher at \$6.198 per million British thermal units after Greenspan's warning. Traders said longer-term bullish fundamentals like sagging gas production and low stocks were likely to lead to still higher prices when the summer air-conditioning season kicks in.

Greenspan also suggested Congress would have to deal with contradictory federal policy on natural gas, with rising prices already pressing down on industries that rely very heavily on natural gas.

"I don't think we've yet seen the implications of (price pressures), but they are going to arise, and it is coming to your subcommittee," he told Republican Senator Lamar Alexander, who is chairman of the Senate Subcommittee on Energy.

"I suspect you'll find a number of people are going to watch very closely because this is an issue that we have not addressed and we have, I'd say, contradictory federal policy," Greenspan said.

National Association of Manufacturers chief economist David Huether said industries most likely to be hit by rising gas prices include chemicals and plastics, which use natural gas as their main feedstock.

"The more widespread effect is going to be in the increase in electricity costs for everyone," Huether said.

Other analysts were even more pessimistic, saying a supply crunch could eclipse concern about high prices.

"If we have some adverse weather in the summer and winter -- a little bit warmer than normal in the summer, and a little bit colder than normal in the coming winter -- it may not even be a question of price. It may be a question of availability," said Clearview Economics president Ken Mayland.

"It could lead to industrial disruptions, potentially, in the middle of the winter."

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