

# Energy Update -August 27, 2006

by

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The energy market within the US continues to soften. Natural Gas storage is 13.5% higher than the 5-year average, though injection for the week of August 24th was down 15% from the 5-year average for that week, and down 3% from the same week last year. August has been cooler than normal, leading to less natural gas demand. Unfortunately, speculation of hurricanes has driven the price up slightly.

Gasoline inventories remain in the upper half of the average range. This is the time of year when refineries focus production more on distillates than on gasoline, to meet heating demand in the upcoming months. This switch in production is usually reflected in a lowering of distillate prices. Such is not the case this year, due largely to a toughening of sulfur standards for distillates.

There has been a rise in futures speculation due to first the possibility of tropical storm Debby developing into a hurricane and then the possibility of Hurricane Ernesto damaging more rigs in the Gulf of Mexico. But so far, this has proven to be a mild year for hurricanes; of course, that could change in the months ahead.

The ceasefire between Israel and Lebanon has also eased speculation. Unfortunately, that conflict is far from resolved. Other regional conflicts in Nigeria and Iran could also drive up prices.

BP's shutdown of half of the North Slope production has prevented prices from dropping as much as they should. And the possibility that pipeline erosion is endemic throughout the entire system, as Matthew Simmons, Greg Palast, and myself have suggested, could result in major increases in oil and gas prices.

All in all, the market is easing. The slowing US economy has flattened the demand of the biggest consumer. If the weather continues to moderate, geopolitical tensions continue to ease, and no more problems develop in our pipeline infrastructure, then the energy market *should* experience a major price correction.