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Business - Investor's Business Daily

Natural Gas Shortage Could Hurt Economy, Greenspan Tells House

Wed Jun 11, 10:16 AM ET

By Joseph Guinto

Federal Reserve ([news](#) - [web sites](#)) Chairman Alan Greenspan ([news](#) - [web sites](#)) on Tuesday said he expects natural gas prices to keep running up and warned tight U.S. supplies will eventually drag down the economy. He urged Congress to support more natural gas development and imports.

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"We are not apt to return to earlier periods of relative abundance and low prices," Greenspan told the House Energy Committee.

Natural gas fetched about \$2 per million British thermal units, a standard unit measure, through most of the 1990s. That price helped drive industrial demand up, especially among steel makers, chemical companies and fertilizer firms. Many converted their plants to natural gas.

But supply hasn't kept pace. And after a colder-than-average winter helped drive demand for natural gas up and supplies low, prices have surged this year. The average price for natural gas in the first quarter was \$5.91 per Btu.

"If we stay at these very elevated (price) levels, we're going to see some erosion in a number of macroeconomic variables," said Greenspan in a rare Capitol Hill appearance on one industry.

No Near-Term Fix

Most industry analysts agree prices will stay high. And the Energy Department forecast Tuesday prices will likely stay at \$5.50-\$6 per unit through the winter. The DOE blamed tight U.S. supplies.

It also said natural gas in storage last month dropped 38% from May 2002 and 28% from its average level the past five years.

Greenspan was asked if he knew of any way to alleviate that supply shortage in the near term. His answer was brief: "No."

But the Fed chief did say Congress could help boost supplies in the long term. He suggested lawmakers revisit restrictions on both imports of natural gas and on developing domestic gas sources.

Policy-makers have been vexed by both issues in recent years.

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Dozens of lawmakers and even President Bush ([news - web sites](#)) have pressed companies to use more natural gas, saying it burns cleaner than some other fuel sources. Congress and the White House have even offered tax incentives for companies to convert to natural gas.

Facing Roadblocks

But when U.S. gas firms looked to Congress for permission to explore, they faced environmental groups. Notably, green groups recently helped stop the opening of the Arctic National Wildlife Refuge to oil and gas exploration.

"On the one hand, the federal government encourages the use of natural gas for a whole host of processes," said Rep. Billy Tauzin, R-La., and chairman of the House Energy Committee. "On the other hand, the federal government restricts more and more public land to natural gas development."

Greenspan admitted that the tradeoff between economic concerns and environmental issues is difficult. But he said it is "essential that our policies be consistent."

The Fed chief was surprisingly candid about where he stands in the debate.

"I'm an economist, and my view is if you're looking for natural gas, you've got to know whether it is there, and the only way to find out, ultimately, is to drill a hole. The question is a judgment if that drilling a hole violates environmental standards. Those are the kind of tradeoffs that an economist has got to make."

The Fed chairman also made clear where he stands on natural gas imports.

Lawmakers haven't been eager to boost imports. Their worries: environmental issues with storage at U.S. ports, alienating domestic gas firms, and making U.S. more dependent on foreign fuels.

Such reticence is costly, noted Greenspan.

"We cannot," he said, "on the one hand encourage the use of environmentally desirable natural gas in this country while being conflicted on larger imports. Such contradictions are resolved only by debilitating spikes in price."

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