

Home heating sticker shock: The cost of natural gas is up 180%

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New York (CNN Business) – Americans should brace for sticker shock on home heating costs as temperatures drop this fall and winter.

Prices for natural gas, the most common way to heat homes and a leading fuel source for generating electricity, have surged more than 180% over the past 12 months to \$5.90 per million British thermal units. Natural gas hasn't been this expensive since February 2014.

The risk is that an early winter or extremely cold fall temperatures will force households to crank up the heat. That would further shrink the nation's below-average stockpiles of natural gas and could lift prices even higher.

"If we get an early frost, it could get ugly. It could get ugly fast," said Robert Yawger, director of energy futures at Mizuho Securities.

The natural gas spike is exacerbating the United States' first brush with inflation in more than a dozen years. Families are already dealing with surging prices on everything from used cars and gasoline to bacon.

The inflation surge is forcing the Federal Reserve to consider curtailing its ongoing support of the economy and leading some moderate lawmakers to question the need for the White House's ambitious spending plans. Meanwhile the energy crunch is making global investors nervous about economic growth and high prices.

"This would be bad enough even in normal times. But now there is this general fear about inflation," said Robert McNally, president of consulting firm Rapidan Energy Group.

About half of US households use natural gas for home and water heating, according to the US Energy Information Administration.

The American Gas Association, which represents natural gas utilities like Con Edison, noted that "natural gas utility customers are not paying the day-to-day prices for natural gas that we see in the headlines," spokesperson Jake Rubin said in a statement.

That's because, AGA stressed, its members buy gas through long-term contracts that lock in prices and shield customers from some of the volatility. Rubin added that utilities augment winter supplies with storage of gas purchased months earlier.

'Disastrous' gas crisis in Europe

The natural gas situation is far worse overseas: Europe and Asia are grappling with crippling increases in natural gas prices and shortages that have forced blackouts, shutdowns of factories and cast a shadow over the economic recoveries there.

"It's disastrous," McNally said.

Soaring natural gas prices forced a major US fertilizer maker to halt operations in the United Kingdom. Fearing food shortages from a lack of carbon dioxide production, the UK government stepped in to bail out the American company.

The impact in the United States is blunted by the fact that the nation is the world's leading producer of natural gas, a benefit of the shale boom that unlocked an abundance of cheap gas. In fact, the United States is a major exporter of natural gas.

"There's no way we're running out of natural gas. We're going to survive," Yawger said.



Supply can't catch up with demand

So why have natural gas prices gone up so sharply? The central problem is that while economic activity bounced back, natural gas production did not. That means demand is coming back faster than supply, forcing prices to go higher.

After years of losing money, natural gas producers have been cautious about ramping up production. Storage levels in the Lower 48 US states are slightly below normal, according to the US Energy Information Administration.

Demand was further boosted by heatwaves across the country this summer. Hot temperatures drove up air conditioning usage and electricity demand.

Natural gas is the leading fuel source for the US power grid, supplying 40% of utility-scale electricity generation, according to the EIA.

The situation has been exacerbated by unplanned production outages in Norway and Russia as well as by Hurricane Ida, which knocked offline the vast majority of the Gulf of Mexico's oil and gas production.

'Perfect storm'

US supplies have been whittled down further by strong demand from overseas amid high international prices. US exports of liquefied natural gas are expected to average 9.6 billion cubic feet per day this year, up 48% from a year ago, according to the EIA.

And then there's the role of hedge funds and other big money traders on Wall Street. Yawger said speculators jumped in to bid natural gas prices higher when they realized storage levels were unusually low.

"It's been a perfect storm, with specs jumping in to take full advantage of this. It's spec nirvana," he said.

The good news is that some on Wall Street argue the natural gas spike may be getting out of hand.

Last week, Bank of America wrote that the winter risk premium built into natural gas prices has "reached excessive levels." The bank expects natural gas prices to drop during the final three months of the year and go lower next year.

The energy transition won't be easy

The natural gas price spike comes at a tricky time for governments around the world. Not only are they dealing with elevated inflation, global leaders are also trying to transition away from fossil fuels.

Environmental groups want to ban oil and gas fracking to prevent emissions from warming the planet. At least four countries in the Europe Union have enacted plans to end domestic fossil fuel production by 2050, according to IHS Markit.

President Joe Biden has set a target of carbon-free electricity generation by 2035, an ambitious goal that would require a dramatic shift away from natural gas and coal to solar and wind.

Today's high energy prices are a painful reminder of how addicted the world economy remains to fossil fuels — and how difficult, and potentially unpopular, it will be to wean off them.