

- Home
- News ▶
- Technology ▶
- Markets ▶
- Personal Journal ▶
- Weekend & Leisure ▶
- Opinion ▶

TODAY'S NEWSPAPER
MY ONLINE JOURNAL
ONLINE EXCLUSIVES
RESEARCH & TOOLS

FIND A JOB

FIND A HOME

ADVERTISEMENT

DEALS[Go To Deals Search](#)

Site Highlights

Free Annual reports

Access free annual reports and other information on select companies today!

HEARD ON THE STREET[ADD TO PERSONALIZED HOME PAGE](#)**Natural Gas Discovers Spotlight**

Spiking Demand Lifts Prices As Supply Remains Limited; Trading Wells for Peashooters

By IAN MCDONALD and RUSSELL GOLD
August 9, 2006; Page C1

Oil is often called black gold. Natural gas deserves a similarly flattering nickname.

Soaring crude prices in recent years have pushed the stocks of energy companies into the stratosphere and into many investors' portfolios. But investors shouldn't overlook natural gas, oil's cleaner-burning cousin, which also has seen prices climb. Despite recent volatility in natural-gas prices, there is ample reason to believe the stock prices of companies like [Anadarko Petroleum Corp.](#), [Devon Energy Corp.](#) and [XTO Energy Inc.](#) that focus on drilling for gas might still have room to grow after trailing oil-company shares since the beginning of the year.

Until a couple weeks ago, natural-gas prices had been beaten down by an excess of the cleaner-burning fuel in U.S. storage. But, thanks to spiking demand from over-taxed utilities during the recent heat wave, gas was pulled out of storage in July for the first time ever in summer months. After gaining 17% in the week of July 24, natural-gas prices on the futures exchanges jumped 14% on July 31 to \$8.21 per million British thermal units, the biggest one-day rise in over a year and a half.

The price jumps were so big that they prompted MotherRock LP, one of the biggest New York hedge funds trading natural-gas futures, to close down after several bets soured. So far this month, prices have come back down as the heat wave eased, with the September contract finishing at \$7.158 yesterday on the New York Mercantile Exchange, up about 25 cents.

EMAIL PRINT MOST POPULAR

[Heard in Asia](#)[Heard in Europe](#)

▶ RECENT HEARDS

- [EBay Merchants Seek Management Change](#) 8/21
- [Younger Murdoch Spends, Too](#) 8/18

[MORE](#)

SEARCH HEARDS

Search Heard for the following word(s):

Limit search to:

advertisement

BARRON'S
CONFERENCES

THE ART OF SUCCESSFUL INVESTING

Monday, October 23, 2006
HARVARD CLUB | NEW YORK NY

TODAY'S MOST POPULAR

- [Consumers Curb Upscale Buying](#)
- [Four Mental Mistakes to Avoid Now](#)
- [Coming to a Showroom Near You](#)
- [Does Oil Price Drop Mark Turning Point?](#)
- [The 401\(k\) That Fixes Itself](#)

▶ E-MAIL SIGN-UP

Don't miss a thing. Find out the latest market movements and trends in our Markets e-mail alerts. Check the boxes




THE ART OF SUCCESSFUL INVESTING

Monday
October 23rd
2006

HARVARD CLUB
NEW YORK NY

Dow Jones Sites

- [StartupJournal](#)
- [OpinionJournal](#)
- [CollegeJournal](#)
- [CareerJournal](#)
- [RealEstateJournal](#)
- [MarketWatch](#)
- [Barron's Online](#)

Customer Service

- [The Online Journal](#)
- [The Print Edition](#)
- [Contact Us](#)
- [Site Map](#)
- [Help](#)

Shares of Anadarko are down 2% so far this year, while Devon's stock has gained 1% and XTO's is 13% higher. That compares with a 23% rise for oil giant Exxon Mobil Corp. In 4 p.m. trading yesterday on the New York stock Exchange, Anadarko closed at \$46.42, Devon finished the session at \$63.02, and XTO ended at \$47.75.

Amid the tumult for natural-gas prices, the case for higher, sustainable natural-gas prices has been getting stronger. That could spell opportunity for some bargain-hunting investors who have the mettle to ride out price shocks and the curiosity to look beyond crude.

Even after the run up, "gas looks a bit cheap," says Ron Muhlenkamp, who owns shares of Anadarko, Devon and Houston Exploration Co. in his \$3 billion Muhlenkamp Fund. "Unless we outlaw winter or heat waves in the summer, demand should continue to be on the high side. I don't think the sustainability of healthy prices is yet reflected in these stocks."

The case for higher natural-gas prices rests on the potential for strong demand and pressured supply in coming years.

Supply is limited partly because gas is a so-called stranded resource. Unlike oil, which can be shipped or piped virtually anywhere in the world once a driller gets it out of the ground, the infrastructure to move large quantities of gas between continents is still under construction.

While most supplies in North America are shipped via pipeline, gas from overseas presents a challenge. Gas has to be liquefied at the source, put into a tanker and then re-gasified when it reaches its destination. The facilities and tankers necessary to move, liquefy, then gasify natural gas aren't plentiful and those in the works won't be up and running for several years.

Many industry observers believe natural-gas prices will stay high because of the difficulty of squeezing more supply out of North America's gas fields.

Natural-gas production in North America has been flat or down in each of the past six years, according to the federal government's Energy Information Administration. Wells in the Gulf of Mexico aren't as rich as they once were and, increasingly, gas will be drawn from nontraditional sources, such as shale drilling. These require more rigs and wells, with each extracting less than a traditional well would.

"We're trading big wells for lots of little peashooters," says Tim Parker, an energy analyst with T. Rowe Price Group Inc. in Baltimore. And the peashooters are getting more expensive to drill. Rates for drilling rigs and other specialized oil-field services are rising at a double-digit clip. Meanwhile, the cost of hiring experienced engineers is escalating, too.

As for demand, U.S. natural-gas prices are typically driven by how cold winter months are in North America. During the summer, gas is pumped into underground reservoirs to wait until the winter, when homeowners turn on their furnaces and natural-gas usage peaks.

below to subscribe.

Trading Shots

[Heard on the Street](#)

[The Morning Brief](#)

[The Afternoon Report](#)

[The Evening Wrap](#)

To view all or change any of your e-mail settings, [click to the E-Mail Setup Center](#)

COMPANIES

Dow Jones, Reuters

Anadarko Petroleum Corp. (APC)

PRICE	45.12
CHANGE	-0.22
	11:52a.m.

Devon Energy Corp. (DVN)

PRICE	60.76
CHANGE	-0.09
	11:52a.m.

XTO Energy Inc. (XTO)

PRICE	45.62
CHANGE	0.02
	11:52a.m.

* At Market Close

RELATED INDUSTRIES

- [Energy](#)

Advertiser Links

Featured Advertiser

Intuitive. Decisive. Smart.
"People Ready."
 Are you ready?

[Click Here ...](#)

[Boardroom Connection](#)

[New HP Workstations
for Financial Markets](#)

[Order free annual
reports on select
companies.](#)

[Fly award-winning
Singapore Airlines.](#)

More and more homes have been built in recent years using natural gas for heat, but it was air conditioners that turned natural-gas prices around lately. As the heat wave moved into the Midwest and then baked the East Coast, extraordinary electricity demand led utilities to turn on their older, less-efficient gas-fired power plants.

And gas still looks inexpensive compared with oil. A barrel of oil can produce the same amount of energy as six million BTUs -- or 6,000 cubic feet -- of gas. By this 6-to-1 ratio, a \$75 barrel of oil implies gas prices of \$12.50 per million BTUs, well above current levels.

The Energy Information Administration predicts spot prices will average \$7.69 next year. "If you assume normalized summer and winter weather, the case is pretty strong for these stocks," says Eric Chenoweth, an energy-stock analyst with Chicago-based Morningstar Inc. Mr. Chenoweth, whose firm doesn't do investment-banking work and doesn't allow analysts to own shares of companies they cover, has fair-value estimates above the current market price on Anadarko and Devon.

Shares of both companies trade at about seven and eight times analysts' estimates of their earnings next year, respectively, according to Thomson Financial, and have dividend yields of a little less than 1%. At their current price/earnings ratios, each is about 10% lower than their historical average over the past five years, according to researcher Capital IQ. XTO shares are pricier after a more than 8% rise over the past month. They trade at about 10 times next year's estimated per-share profits. In contrast, Exxon Mobil's per-share multiple is about 11 times next year's expected profits.

Write to Ian McDonald at ian.mcdonald@wsj.com and Russell Gold at russell.gold@wsj.com

 [EMAIL THIS](#)  [FORMAT FOR PRINTING](#)  [MOST POPULAR](#)  [ORDER REPRINTS](#)

Sponsored by

TOSHIBA
COPY • FAX • PRINT

[Return To Top](#)

[Log Out](#) [Contact Us](#) [Help](#) [Email Setup](#) [My Account/Billing](#) [Customer Service: Online](#) | [Print](#)

[Privacy Policy](#) [Subscriber Agreement & Terms of Use](#) [Mobile Devices](#) [RSS Feeds](#)

[News Licensing](#) [Advertising](#) [About Dow Jones](#)

Copyright © 2006 Dow Jones & Company, Inc. All Rights Reserved

DOW JONES

