Published: March 30, 2012 Why One Gas Is Cheap and One Isn’t

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THE price of gas has risen rapidly this year.

The price of gas has fallen to the lowest level in a decade.

Both of those statements are true. The first refers to [gasoline](http://topics.nytimes.com/top/news/business/energy-environment/oil-petroleum-and-gasoline/index.html?inline=nyt-classifier), the second to [natural gas](http://topics.nytimes.com/top/news/business/energy-environment/natural-gas/index.html?inline=nyt-classifier).

As the accompanying charts indicate, never in the two decades that natural gas and oil futures have traded have their prices diverged as much as they have now. On an energy equivalent basis, oil costs more than eight times as much as natural gas.

This week, the price of a million B.T.U.’s of natural gas fell below $2.20 for the first time since 2002, while oil prices slipped a little but remained above $100 a barrel. The last time natural gas was this inexpensive, oil cost about $20 a barrel.

The diverging prices reflect the fact that while oil and natural gas can substitute for each other in some uses, the markets for the two products are very different.

Crude oil is a relatively efficient international market, in which the product moves around the globe in tankers that can be diverted from one destination to another almost instantaneously in response to shifts in demand. A sharp change in demand or supply in any region of the globe is likely to show up in prices everywhere.

Oil prices can also be affected by geopolitical concerns well before actual events take place. These days, it appears that oil prices have been pushed up by worries that Israel might attack Iran, leading to a drastic reduction in Iranian oil exports.

The natural gas market, on the other hand, is not a global one. There is a limited trade in liquefied natural gas, which can be transported in tankers, but mostly natural gas must move in pipelines over land. Natural gas prices have been rising in Britain this year even as they have been falling in the United States.

Supply has soared in the United States because of increased production from hydraulic fracturing, but demand cannot change rapidly. Power plants that can burn natural gas or oil were shifted to gas long ago. Add in a relatively mild winter in the United States, which reduced demand, and there appears to have been a glut.

There are efforts being made to use more natural gas. Some fleet vehicles, like buses, already use natural gas, but that market is limited to vehicles that can return to their headquarters for refilling. Chrysler has announced a pickup truck that will run on both gasoline and natural gas, but plans to offer it only to such fleets.

The state of Alaska is also seeking a pipeline that would take natural gas from the North Slope to an Alaskan port, where it could be liquefied and shipped to Asia. The state announced an agreement with Exxon Mobil, BP and ConocoPhillips relating to that project on Friday, but many details remain to be worked out.

Two of the charts show trends in prices of gasoline and natural gas since the end of 2007, when the United States entered [recession](http://topics.nytimes.com/top/reference/timestopics/subjects/r/recession_and_depression/index.html?inline=nyt-classifier). At first, reduced economic activity led to reductions in the prices of both products. But the trends began to diverge in 2009. Now, gasoline costs about 30 percent more than it did in 2007, while natural gas costs around 70 percent less.

For what it is worth, which may not be very much, futures traders think that the gap in prices will diminish but remain large. A year from now, oil prices are expected to be almost exactly where they are now, while natural gas prices are forecast to have risen more than 50 percent. If that happens, on an energy equivalent basis, crude oil will still be more than five times as expensive as natural gas.

*Floyd Norris comments on finance and the economy at nytimes.com/economix. (graphs from 3-30-12 article)*

