

Natural Gas Market Indicators



August 14, 2015



Reported Prices – oil prices have continued to slide with West Texas Intermediate falling to below \$43 per barrel by mid-August and Brent crude slipping below \$50. Prompt-month Henry Hub natural gas is in the \$2.80s per MMBtu range at the same time. Much of the near-term pricing analysis for natural gas in energy literature today points to the fact that as August winds down cooling loads will likewise lessen and natural gas storage will continue to build toward a strong pre-winter position—all moderating factors in price expectations. On the other hand, more gas to power generation seems to be price-induced and structurally built in to gas markets—factors that would seem to point to price increases once winter demand loads begin. Pricing bulls and bears, bears and bulls. Similar tugs in both directions have led to relative stability in Henry Hub pricing this summer.

Weather – four warmer-than-normal weeks nationwide beginning in mid-July raised cooling degree day totals to 12.6 percent higher than normal for the three month period May 2 through August 8. Actually, four consecutive months (April through July) were warmer than normal, as measured by cooling degree days this year. Only the East North Central region and West North Central have been cumulatively cooler than normal so far this summer. The Eastern United States and Pacific region have been the warmest places in the country. So how does this translate into natural gas demand to power generation this summer? Quoting former President Reagan, “Well,” cumulative gas to power generation has hit new summer records in 2015. By early August, daily volumes to power had reached or exceeded 33 Bcf eighteen times during the early summer, which cumulatively exceeds the prior year average to date by 4.0 Bcf per day—up 18 percent!

Working Gas in Underground Storage – working gas injections increased 99 Bcf for the week ending July 10, bringing national inventories to 2,767 Bcf. Two weeks later, a small reclassification of working to base gas (7 Bcf) contributed to slowing the injection, but a broader market surprise came with the 32 Bcf injection for the week ending July 31. That injection total was the lowest since the first week of April 2015 and actually included a net drawdown of 6 Bcf in the Producing region. The following week injections picked back up again with 65 Bcf put into storage for the week ending August 7. Working gas is now at 2,977 Bcf and is 2.8 percent above the five year average and 21 percent higher than last year.

Natural Gas Production – Northeastern US production continues to flirt with record volumes even though overall US natural gas production has remained at 72+ Bcf per day on average to begin August. An extended maintenance season this summer has moderated some production growth in all areas of the country. Still, current average daily production year to date has been 4.3 Bcf higher than the same period in 2014.

Shale Gas – the Energy Information Administration anticipates that virtually all major shale producing basins in the United States will begin to show signs of marginal production declines as low rig counts and less production drilling investment slow growth rates. This seems rational given an extended

period of reduced oil and natural gas prices at the wellhead. Percentage decreases in natural gas production from any given basin are small—often less than one percent for a given month—but are significant as a departure from the month-over-month and year-over-year increases seen in recent years. Whether these conditions persist may have more to do with eventual increases in demand than the ability of industry to produce more. Time will tell.

Rig Counts – for the week ending August 7, rig counts for oil and gas got off the mat with a six-rig increase for oil and a four-rig increase for gas-directed operations. At 883, the oil and gas rig count is down by more than 1,000 from this time one year ago. Gas-directed operations stand at 213 rigs, which is 103 below last year but up slightly from a record low the previous week. Again, time will tell if this is an indication of recovery from low rig counts that have persisted this summer.

Pipeline Imports and Exports – exports to Mexico have slowed slightly to below 3 Bcf per day during the past week, yet remain 0.6 Bcf per day higher this month than in August 2014 and 0.5 Bcf higher year to date. Additionally, US imports from Canada at 5.6 Bcf per day (year to date) are 0.5 Bcf per day higher than last year.

LNG Markets – reports indicate that Cheniere at Sabine Pass will begin moving gas through the first stages of the export facility for testing and cooling in August. Cheniere still expects exports to begin before the end of 2015 from the Louisiana facility. LNG import facility sendout volumes to the pipeline grid have been in the range of 0.3 to 0.4 Bcf per day during the past week.

Natural Gas Market Summary – the recent unveiling of EPA’s Clean Power Plan, which is intended to reduce carbon dioxide emissions from existing electric power plants, points to three pillars upon which the plan has shaped its state standards: (1) increasing efficiency at coal-fired generation facilities; (2) turning to cleaner fossil fuel generation sources such as natural gas; and, (3) integrating more renewables into the generation mix. The plan’s initial proposal had included end-use efficiency and conservation within the standard setting formula. Although efficiency has been removed as a building block for the standards, states are still able to use efficiency to comply with the new rule. Either way, the rule indicates that natural gas is expected to grow as a primary power generation source and a back up to wind and solar; that overall efficiency in energy use throughout our daily lives and the economy are anticipated; and renewable sources of energy will continue to be emphasized through government policy. The plan has pushed compliance dates back to 2022 with final requirements met by 2030. Now the litigation positions, political push back from congress and states, and chest thumping begin. More to come.

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