

Natural Gas Market Indicators



February 12, 2016



Reported Prices – prompt-month natural gas futures at Henry Hub nudged below \$2.00 per MMBtu then rebounded and are now in a narrow range between \$2.00-2.10, while West Texas Intermediate oil has slipped below \$27 per barrel. For much of early February, warmer than normal temperatures in the east have not been offset by winter weather in the Mountain states and Midwest sufficiently to create significant upward pressure on natural gas prices. Modest storage withdrawals and resulting strong inventories for this time of year are a factor, also. In fact, the Energy Information Administration continues to project relatively low but growing natural gas prices in their short- and medium-term outlook. They see Henry Hub natural gas averaging \$2.64 per Mcf in 2016, increasing to \$3.22 per Mcf on average for 2017.

Weather – after a week where temperatures dropped below normal according to the National Weather Service during the third week of January, the mercury rose again across the country. For the nation as a whole, the week ending January 30 posted heating degree days that were 15.4 below (warmer) than normal, driven by warmer temperatures across most of the country. Then for the week ending February 6 the pattern was repeated with national temperatures and measured heating degree days resulting in a 20.9 percent warmer than normal deviation. For the country as a whole, only one week in nineteen has been colder than normal since early October 2015. Every region individually has been warmer than normal, also.

Working Gas in Underground Storage – the country saw five straight weeks of triple digit storage withdrawals beginning January 1, 2016 but only one week that exceeded 200 Bcf. Put mildly, net weekly withdrawals from working gas have been modest this winter heating season. The warmer than normal week ending February 6 noted above brought with it subdued net storage withdrawals of only 70 Bcf. National inventories now at 2,864 Bcf already have analysts asking the question, where will gas go this summer without very strong demand from power generators? Current working gas volumes are 25 percent ahead of this time last year and 23.4 percent higher than the five year average.

Natural Gas Production – flowing volumes from production are remaining resilient to start the year. Natural gas production is actually up this February, adding some volumes on top of the relatively strong numbers posted in January. Lower-48 dry gas production touched 73.0 Bcf on February 1 and currently resides between 72.5 and 73.2 Bcf per day, which is about 0.9 Bcf per day or 1.2 percent higher than February 2015. This is driven in part by the Northeast, which set an all-time high production record on February 2 at 22.88 Bcf per day and is anticipated to continue to grow.

Shale Gas – some producers are actually expected to grow their natural gas production in 2016 even with a low price environment. EQT and Cabot in the Appalachian basin are expected to be among those companies. Balancing this expectation is the fact that production in other areas of the country like the Eagle Ford in Texas are likely to fall with reductions in rig activity.

Rig Counts – the collapse in the rig count continues. Total rigs in operation dropped by 48 for the week ending February 5, 2016. This represents a nearly eight percent drop for just that week. Oil rigs shed 31 rigs or six percent off its total; gas rigs dropped 17, a 14 percent decline! The pricing environment has reshaped expectations and caused many exploration budgets to contract in order to preserve cash flow. While there is typically a lag between a change in rig counts and eventual oil and gas production, we will note that during the past year natural gas rigs have dropped by 67 percent; lower-48 natural gas production is up about 1.2 percent during that same period.

Pipeline Imports and Exports – imports from Canada in 2016 have dropped year to date on warmer weather and lower demand from the Northeast. Imported pipeline volumes have averaged only 5.9 Bcf per day so far in 2016, compared with 6.3 Bcf per day year to date last year. Exports to Mexico on the other hand are very strong. Volumes are up to 3.3 Bcf per day on average this month, a gain of 1.1 Bcf per day from last year.

LNG Markets – one theme often explored in the *Market Indicators* is the competition from foreign sources of LNG with US sourced natural gas. North American liquefaction and export facilities must contend with other countries that may boast less costly supplies or easier access to markets. That's not to say that the US can't be competitive. Rather, it's that the US position in a global marketplace will be shaped by this competition. One observation regarding this competition is this week's announcement from Pakistan that it has sealed an agreement with Qatar for LNG. The terms state that Pakistan will buy LNG for 13 percent of Brent crude oil price, which amounts to \$4.68 per MMBtu, according to *The Express Tribune*. Back in North America, the US Department of Energy has approved LNG exports to non-Free Trade Agreement countries for Bear Head LNG, utilizing pipeline transport of gas from the northeast US to a liquefaction facility in Nova Scotia, Canada. About 1.4 Bcf per day of export capacity is ultimately expected with initial startup in 2019. The environmental approvals for the export facility from the Canadian national and provincial governments are already in place. Meanwhile, sendout of LNG from US import facilities is holding steady at about 0.5 Bcf per day in February 2016.

Natural Gas Market Summary – another gas-only utility, Questar, is being acquired by a large natural gas transmission and electric company. Dominion Resources Inc. revealed that it will acquire the company for \$4.4 billion. This is the third in a string of offerings during the past few months following the announcement of Southern Company acquiring AGL Resources and Duke purchasing Piedmont Natural Gas. Obviously, many observers are asking what this trend means for the gas industry and for utilities in general. Underpinning all these deals is a recognition that affordable and domestic natural gas resources will continue to serve a critical role in the clean energy economy of the future.

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