

Natural Gas Market Indicators



February 13, 2015



Reported Prices – daily cash prices for natural gas at Henry Hub set new lows for this young year then rebounded up – with all of this happening at below \$2.85 per MMBtu. Cold weather in the east for the coming week may push prices higher but by any measure they remain relatively low. Crude oil, on the other hand, has firmed to a range of \$50-56 dollars per barrel for West Texas Intermediate and Brent while crude futures remain in contango – that is, the prices for future delivery are higher than in the spot market – indicating the market believes there is ample near-term supply but opportunity for a premium to traders who are willing to hold onto supplies in order to sell into the market at a future date. Whether the higher prices for future crude supplies actually materialize and the timing of that possibility are, of course, unknown.

Weather – as we approached the final 60 days of the winter heating season on February 1, national temperature conditions had been 4.9 percent warmer than normal, cumulatively (as measured by heating degree days), since early October 2014. During that 18-week period, twelve weeks had been warmer than normal, while only six had been colder and those were concentrated in mid-November and early January. The warmest area in the country this winter has been the Pacific region, while the East (North and South) Central regions have been the coldest.

Working Gas in Underground Storage – at the end of January 2015, working gas inventories in underground storage registered just over 2.4 Tcf and were actually 23.9 percent higher than at the same time in 2014, which were just under 2 Tcf. Last year with continued influences from cold weather in February and March another 1.1 Tcf of natural gas was withdrawn from storage by April 1. It seems unlikely that those same events will be repeated in 2015 but even if they were and another two months of strong withdrawals resulted in 1.1 Tcf less in storage, winter heating season ending inventories would still be about 1.3 Tcf – nearly 500 Bcf more than last year. It seems more likely that season ending inventories will be even higher.

Natural Gas Production – domestic dry natural gas production has pushed north of 72 Bcf per day and even reached 73 Bcf with more moderate temperatures not imposing freeze-offs in the east and mountain west. Year to date, dry gas production is 7.2 Bcf per day higher in 2015 than was the case at this time in 2014.

Shale Gas – in its latest short-term outlook, the Energy Information Administration (EIA) expects Henry Hub natural gas prices to remain below \$4 per MMBtu through 2016. Moderate demand growth but more particularly continued production increases are cited as the primary reasons. Albeit at a slower pace, pent up production from the Marcellus shale is anticipated to lead national growth in production volumes (+2.9 Bcf per day) during 2015, according to EIA.

Rig Counts – the collapse in rig counts has been well documented during the past month and a half. At 1,456, total rotary rigs in operation have dropped 18 percent year over year. A look at the details reveals the decline has been mostly in vertical and directional rigs. The count of horizontal rigs – those

directed towards shale – have only dropped 7%. By contrast, directional (those drilling at a slight angle) and vertical rigs are down 24 and 40% respectively. Now consider the tremendous gains in drilling efficiency per year. What are we to make of all this? An article in the Financial Times notes that the “correlation between rig count and production has become increasingly less straightforward.”

Pipeline Imports and Exports – pipeline volumes from Canada have hovered around the 5.8 Bcf per day mark during the first two weeks of February, which is 0.4 Bcf per day less than this time last year. Pipeline flows exported to Mexico are conversely up, having averaged 2.2 Bcf per day this month, a gain of 0.4 Bcf per day year over year.

LNG Markets – an announcement by Governor Bobby Jindal and Live Oak LNG points to a \$2 billion project to site, permit and build LNG liquefaction capacity of about 1 Bcf per day with storage facilities along the Calcasieu waterway in Louisiana. LNG exports are anticipated to begin in 2019, according to the announcement. Meanwhile, release of the Jordan Cove (Coos Bay, Oregon) Environmental Impact Statement findings are now being delayed until June 2015. If the facility is ultimately constructed it will require the building of the Pacific Connector Gas Pipeline, also, in order to deliver up to 1 Bcf per day to the facility for liquefaction. And finally, the decision to build the Lake Charles LNG export facility is being delayed while the BG Group watches developments with oil and other energy prices around the world for the next year or so. BG remains committed to using about 735 MMcf per day of export capacity it holds at Sabine Pass – an export project expected to begin liquefaction and deliveries in 2015. In the here and now, LNG volumes placed into the US pipeline grid have averaged 0.6 Bcf per day for the month of February – 0.3 Bcf per day more than in February 2014.

Natural Gas Market Summary – the push toward natural gas power generation continues. New data from FERC shows natural gas comprised nearly half the new installed electric capacity additions in 2014 – wind plus solar accounted for the other half. For the first six weeks of 2015 natural gas volumes serving power generation are up about 0.8 Bcf per day compared to this time last year, remembering that January 2014 was an all-time record winter month for gas to power gen. For the nation as a whole, heating degree days have been nearly 5 percent fewer than normal (warmer than normal) and thus heating load is down from the previous year by about 7.2 Bcf per day. Overall U.S. demand is down about 6.7 Bcf per day. That means it is possible that storage inventories will be higher than last year as net injections begin in the spring, leaving more natural gas available to meet summer cooling loads. This comes when natural gas prices are low compared to recent history and generators turn to gas for its pricing and environmental attributes. One thing builds on another as the market progresses in 2015.

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