

Natural Gas Market Indicators



February 26, 2015



Reported Prices – despite the onset of another polar vortex that brought record low temperatures across the eastern half of the United States, natural gas prices remain below \$3 per MMBtu amid strong production. Crude oil prices trade around \$50 and \$60 per barrel respectively for West Texas and Brent oil, respectively. Remarkably, the premium between WTI and Brent, which all but disappeared a month ago, is back at a more typical \$10 spread. Crude oil futures remain in contango, indicating the market believes it better to store the oil now and sell it later when prices are expected to be higher.

Weather – temperatures have averaged 1.8 percent warmer than normal across the nation for the 2014-15 winter from October through February 21, after a chilling 40.2 percent colder than normal for the week of February 15-21, 2015. In addition, more than half (53%) of the continental United States is under cover of snow. New England, which is currently enveloped in record snow, has finally flipped from a warmer than normal winter to 2.4 percent colder with this most recent blast of arctic air. The warmest areas by far this winter have been the Mountain West and Pacific regions, 16 and 31 percent warmer than normal, respectively.

Working Gas in Underground Storage – some analysts and market observers feared that after last year's polar vortex a lack of available natural gas volumes were a major concern headed into the summer. One year and another polar vortex later, supplies appear as strong as ever. Following a 219 Bcf pull for the week ending February 20, working gas volumes in underground storage are just above 1.9 Tcf, which is 42% higher than last year and only 1.5% less than the five-year average.

Natural Gas Production – US dry gas production volumes are flowing 11 percent higher month-to-date from last February and 10 percent higher year over year – an astounding amount of growth. Temporary freeze-offs due to severe weather have hampered a relatively small amount of production volumes at times this winter. Generally though, production volumes during February have held steady around 71 Bcf per day, sometimes nearing 73 Bcf per day. Dry gas production was 70.3 Bcf on February 26 according to Bentek Energy LLC.

Shale Gas – the West Virginia Public Service Commission granted final approval for the siting and construction of the proposed Moundsville power plant that will run on ethane. The 549 MW plant, which is to be located in Marshall County, would be the first of its kind with this fuel mix. According to a press release and analysis submitted to the WV PSC, Moundsville Power will run on a 25/75 split of ethane and pipeline natural gas. This novel use for NGLs is proposed amid a glut of stranded volumes in the Marcellus due to lack of takeaway capacity as well as regulatory limits on mixing the ethane into the natural gas pipeline stream.

Rig Counts – active rotary rig counts continue to fall rapidly, though Baker Hughes indicates a slowdown in the decline in its most recent data release. At 1,310 total rigs in operation for the week ending February 20, oil rigs shed 37 while natural gas lost 11. These totals bring the year-over-year

decline to 461 rigs, with 406 of those rigs directed toward oil. Horizontal rigs accounted for the brunt of the decline for the week with 46 rigs coming off the board; these were offset in part by a gain of 5 in directional rigs and a decline of 7 in vertical. Stepping back, the question on some analysts' minds is how much farther do rigs have to fall such that operators and the market feel that the pullback has been sufficient and in line with oil and natural gas price expectations for the coming year. Perhaps there is no definitive answer, but we will watch to see whether there continues to be a precipitous decline in drilling activity or the beginning of a leveling out.

Pipeline Imports and Exports – imports from Canada have averaged 5.9 Bcf per day this February, with volumes flowing in a small excess compared with February of 2014. At 5.9 Bcf per day, month-to-date volumes from Canada are 0.3 Bcf per day above last year's level; the year to date volumes have averaged 6.2 Bcf per day – the same as in 2014. On the other side of the ledger, natural gas exports to Mexico are 0.5 Bcf per day higher this February, totaling 2.3 Bcf per day.

LNG Markets – East Asia LNG prices have taken a beating. Last year the Platt's Japan-Korea Marker called for \$20 per MMBtu spot price for LNG cargoes. Today that price is closer to \$6.75 per MMBtu – a tremendous drop. In locations where contracted LNG prices are indexed to oil, the decline in petroleum prices has contributed to the drop in price. In addition, lower demand in Asia has precipitated a longer and steadier drop compared with European natural gas prices. Contracts for natural gas delivery at the National Balancing Point in the UK are currently \$7.75 per MMBtu.

Natural Gas Market Summary – the one-two-three combination punches of cold weather to the eastern half of the United States have not been enough to pull natural gas commodity prices above \$3 per MMBtu. Amid low prices the US is on track to break the all-time record for February natural gas demand (with 2014 having set the record). As demand surges, strong dry gas production continues apace as well. Flowing more than 11 percent higher than February 2014, production volumes have helped move storage volumes into a surplus relative to last year. How long this price environment will last remains to be seen. Supplies are now in a stronger place than last year or any time in recent history – which, of course, has contributed to the lower natural gas price environment. Volumes to power generation and industrial demand are both running above last year, as have volumes to residential and commercial customers. The question remains how much more demand can the market absorb? If production continues to outpace demand growth, how long will the market continue to grow production at low prices? This year is shaping up to be another interesting one indeed.

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