Natural Gas Market Indicators

American Gas Association

January 15, 2015

Reported Prices – with no hint of seasonal pressures, crude prices have inched down below $46 per barrel for West Texas Intermediate, while even with colder temperatures natural gas at Henry Hub went below $3.00 per MMBtu during the first two weeks of January. Very modest storage withdrawals in December seemed to coincide with the plunge in the forward price curve for natural gas late in the month. Futures for February through July 2015 ranged from only $2.95 to $3.07 on January 5 and fell even more the next day. Of course, they will change with time but are very modest pricing expectations to start the year.

Weather – after five straight weeks of warmer than normal temperatures for the nation as a whole, the weeks ending January 3 and 10, 2015 actually recorded more heating degree days than normal and were therefore colder than normal, taking the lower-48 collectively. Coldest temperatures were first concentrated in the west then moved east. Cumulatively and going back to early October 2014, the country has been 3.6 percent warmer than normal as measured by heating degree days with the central portion of the country slightly colder than normal to date and the east coast, Mountain and Pacific regions warmer to significantly warmer since early October.

Working Gas in Underground Storage – a tepid 26 Bcf withdrawal from underground storage to support weekly gas supplies for the week ending December 26 placed downward pressure on prompt month pricing to begin the year. Since then withdrawals have picked up and now with inventories at 3,089 Bcf, total working gas is actually 250 Bcf ahead of inventories comparably situated last year and only 2.1 percent behind the five-year average. Quite a change from inventories when the winter heating season began with significant deficits to the prior five-year average and last year. With all of that said, bitter cold has struck the mid and eastern portions of the country and storage has been doing what storage does – providing peak demand day gas supply. Stronger withdrawals are expected as data catches up with recent cold temperatures.

Natural Gas Production – domestic dry natural gas production has moved up and down between 70 and 72 Bcf per day as a polar air mass has moved across the country west to east in early January. And the key word here is *moved* from west to east – not settled over the whole country as the polar vortex did last year. Even with the temporary impact to production from ice storms and such in January 2015, production is running 6.3 Bcf higher than that in January 2014.

Shale Gas – shale-sourced natural gas is now the work horse of domestic supply along with other less conventional producing reservoirs including coal seams and tight sands. Any questions?

Rig Counts – US oil rig counts dropped 35 for the week ending December 26 and another 17 for the week ending January 2, then an additional 61 rigs down for January 9, 2015. This marks five straight weeks of decline in the oil rig count. Does this decline portend a slowdown in liquids-directed drilling given the precipitous drop in petroleum prices during the past few months? Actually, it is already happening. The holiday time usually sees a small decline in drilling activity, so this year was no

exception. However, with news reports of companies reigning in capital spending on new projects, many analysts anticipate continued declines in rig activity. With oil rig counts at 1,421, activity is still higher than this time last year and really any first week of January in the data going back to 1987. Meanwhile, natural gas rigs are at 329 – up one rig from the week prior.

Pipeline Imports and Exports – cold weather finally impacted natural gas pipeline imports from Canada with volumes increasing and averaging 7.0 Bcf per day this January – up about 300 MMcf per day from this time one year ago. Of course, this year we are only now seeing a significant sustained cold snap for the demand sensitive Midwest and Eastern United States. In addition, exports to Mexico remain strong, as high as 2.3 Bcf per day this January, a gain of about 300 MMcf per day year over year, also.

LNG Markets – the Corpus Christi LNG project proposed by Cheniere has received authorization from the Federal Energy Regulatory Commission (FERC) to build and operate the facilities although DOE approval is not yet finalized. The news follows a 20-year purchase agreement for LNG supplies from EDP (Energais de Portugal) with Corpus Christi Liquefaction – a Cheniere Energy Inc. subsidiary. The approval also includes construction of a 23-mile bidirectional pipeline from the facility to a point near Sinton, Texas. In addition, two LNG cargoes arrived off the coast of Boston at the Everett, MA onshore import facility and the offshore Northeast Gateway early in January. With global LNG prices remaining relatively week, prices around $10 at Algonquin sent the right signal to draw supplies to the US Northeast. For the whole US, LNG vaporization and placement into the pipeline grid rose to 2.2 Bcf per day (the strongest in four years) at times during the first two weeks of January with Northeast Gateway, Elbe Island, GA and Cove Point, MD posting positive volumes. Another example of supply diversity and flexibility on the margin in the US.

Natural Gas Market Summary – colder temperatures pushed demand to 129 Bcf on January 7 and then to 131 Bcf, marking the fifth and second highest demand pulls ever exactly one year from the peak of the polar vortex event in 2014. One week earlier domestic demand had been below 95 Bcf. What a swing! But that is was local gas utilities do – manage those weather-induced demand fluctuations. However, it is more than just weather – some of the demand is structural, some market related. Natural gas burn for electric generation has jumped and is now 3.5 Bcf per day higher than last year's record pull. Coal and nuclear retirements compounded by greater volumes from re-dispatch from coal to gas because of relatively low natural gas prices has strengthened the pull on natural gas for power generation despite the weather not being quite "polar vortex" severe. And now the Environmental Protection Agency (EPA) has announced plans to delay (by about six months) finalizing its CO2 rules for new, existing and modified power plants. More to come.