Natural Gas Market Indicators

American Gas Association

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Reported Prices – prompt-month (Aug) oil prices tumbled below $60 per barrel - $58 and $53 per barrel at Brent and WTI respectively, during the first week of July. Natural gas pricing at Henry Hub slid into the $2.70s per MMBtu, which is not surprising given continued supply strength in the current market. On the futures market, forward prices for Henry Hub natural gas ultimately break above $3 per MMBtu—but not until December 2015.

Weather – by the end of the first week of July every region of the country had been warmer than normal on a cumulative basis, as measured since the beginning of April, except the East and West North Central regions, which were slightly cooler. New England, Middle Atlantic and Pacific regions remain the warmest parts of the country, with 43, 45 and 59 percent more cooling degree days than normal, respectively.

Working Gas in Underground Storage – working gas in storage inventories finished the month of June at 2.6 Tcf – a strong showing for this early in the net injection season but not unprecedented. Inventories are 1.7 percent above the five year average but are, of course, significantly higher (+33%) than this time last year.

Natural Gas Production – the domestic daily dry gas production average for natural gas continues to hover at 72 Bcf per day even though the year-to-date average exceeds last year by 4.8 Bcf per day. Obviously, if production remains flat for the balance of the year, the year-to-date averages for 2014 and 2015 will ultimately converge.

Shale Gas – the New York State Department of Environmental Conservation has finally issued a firm NO to hydraulic fracturing until further notice in New York state. Given widespread Marcellus development in Pennsylvania, West Virginia, and eastern Ohio it is very unlikely that such restrictions will have a material impact on Marcellus shale gas production overall. At the same time, a recent annual study from the Susquehanna River Basin Commission cited several years of real measurements from headwaters and waterways and pointed to the conclusion that shale gas extraction does not appear to be significantly impacting surface waters in northeastern Pennsylvania. Go figure. And finally, a first-of-its-kind effort funded by the federal government, West Virginia University, and Ohio State University is beginning a drilling program near Morgantown, WV that will feature two horizontal wells with a vertical well in between, which will serve as research opportunities for scientists from the universities to study everything from fracturing designs to air, noise, and water conditions at the site. Frankly, it’s about time a research project like this was implemented.

Rig Counts – the number of US rigs in operation appears to have bottomed out. The gas rig count has oscillated between 217 and 228 now for fourteen straight weeks. At 219 currently, gas drilling activity remains relative consistent since late March. And for the first time since December, oil rigs had a net addition for the week ending July 2. After adding 12 rigs, oil-directed activity looks like it may have bounced off the bottom. The coming weeks will tell regarding this notion.

Pipeline Imports and Exports – averaging 5.6 Bcf per day in July, natural gas *imports* from Canada are about 0.7 Bcf per day higher than volumes recorded during July 2014 and about 500 MMcf per day more on average when compared to year to date totals. This seems remarkable given the strong US domestic supply position, but temperatures in the Pacific Northwest have been warmer than normal this early summer and hydro-based power generation has responded with record low output. Natural gas generation is taking up the slack and cross-border imports from Canada are a viable option for gas supply in the area. Farther south, since the second week of June, exports of pipeline gas from the United States to Mexico have reached and exceeded 3 Bcf per day. That number may expand once again as Mexico's state owned electricity provider has proposed about $10 billion dollars in infrastructure projects to increase and improve electric service in the country, including natural gas pipelines (with at least two originating in the United States). Current planning could bring another 2.6 Bcf per day to the border from south Texas but, of course facilities must first be bid, pass environmental scrutiny, and be constructed. For July, daily pipeline volumes to Mexico are averaging 3.4 Bcf, which is 1.0 Bcf per day more than in June 2014.

LNG Markets – in late June, the US department of Energy issued final approval to Cheniere Energy's Sabine Pass LNG export facility allowing an additional 1.38 Bcf per day to be exported to non-Free Trade Agreement (FTA) countries, which raises the current allowable to 3.58 Bcf per day. LNG import volumes and sendout to the pipeline grid are in the 0.1 to 0.3 Bcf per day range.

Natural Gas Market Summary – with a 5-4 ruling, the Supreme Court of the United States remanded to a lower court the EPA Mercury and Air Toxic Standards (MATS) rule that would limit pollution from coal-fired power plants. The Court said that the EPA did not properly account for the costs of the rule when determining emissions standards and needs to do so. The ruling may have larger implications for future rulemakings under the Clean Air Act, but one question remains for these observations of the gas market: how much have expectations for MATS already been baked into the electricity system. In other words, will this ruling do much to reverse existing trends with coal-fired power? The natural gas market today is supplying nearly 20 percent more natural gas to power generators than last July. In fact, EIA data on electric generation share by fuel for April showed that natural gas overtook coal for the first time ever – natural gas with nearly 32 percent compared with coal's 30 percent. Part of the reason is price. The spot at Henry Hub is nearly $1.70 per MMBtu below last year. But part of the reason is structural. Compliance with the EPA MATS began in April and analysts expected between 13 and 20 GW of coal-fired power plants to be either retired or repowered in 2015 alone. Some of the shift has already occurred and is contributing, at least in part, to the gas volumes to power generation. Does this market transformation render the Supreme Courts' decision moot?