Natural Gas Market Indicators

American Gas Association

June 15, 2015

Reported Prices – strong domestic natural gas supplies have continued to hold down natural gas market acquisition prices. In fact, on June 8 there was not a single hub across the United States that posted a price above $3 per MMBtu. The lowest price on that day was $0.98 per MMBtu at the Leidy hub in Pennsylvania; the highest in Northern California at the PG&E city gate posting $2.91 per MMBtu. With Henry Hub now at about $2.80, natural gas is a great energy value for customers throughout the market. Meanwhile, crude oil has inched up with WTI prices at $60 per barrel and Brent at nearly $65.

Weather – the hurricane season is off to a roaring start – in the Pacific. So far two storms have materialized, Andres and Blanca, and both achieved a category 4 rating. No named storms so far in the Atlantic. And a rare sight in the Arabian Sea – a tropical cyclone with its projected path threatening an area from the Arabian Desert to India. Wow! An interesting start to the summer season in different parts of the globe. Here in the states a warmer than normal May was followed by a cooler than normal start to June. Cumulatively, however, cooling degree days are running 16.2 percent higher than normal (meaning warmer conditions), with warmer temperatures primarily in the east and cooler conditions in the Pacific and Mountain regions.

Working Gas in Underground Storage – strong natural gas storage builds for the weeks ending May 29 and June 5 have finally pushed stocks above the five-year average. At 2,344 Bcf in working gas inventories, underground storage is now 47 percent higher than last year and two percent above the five year average. What a turnaround from the record drawdown only 15 months before. It took portions of two injection seasons (as anticipated by many analysts following the polar vortex) but storage is back to recent norms. That said, the discussion this summer about ultimate inventory levels without a marginal drop in domestic production or very strong calls on gas for power generation is likely to be – how high can it go.

Natural Gas Production – production growth appears to have flat-lined during the past few months. Average production since January has been 72.3 Bcf per day with dry production for June at 71.9 Bcf per day. However, production volumes are still well above last year's levels. Year to date growth is still 5.1 Bcf per day or about eight percent.

Shale Gas – the long-awaited, six-years-in-the-making, Environmental Protection Agency (EPA) report on hydraulic fracturing and its impact on drinking water has finally been released. EPA summarizes its draft 998 page document findings noting that "there are above and below ground mechanisms by which hydraulic fracturing activities have the potential to impact drinking water sources" but that they "did not find evidence that these mechanisms have led to widespread, systemic impacts on drinking water resources in the United States." EPA did note that data limitations precluded a determination of the frequency of impacts with any certainty – a meaningful conclusion that is likely to lead to additional research and investigation down the line. Nevertheless, the comprehensive EPA assessment and conclusions help to broaden the understanding of the real but manageable effects of oil and natural gas production and inform dialogue among those stakeholders affected by hydraulic fracturing and other production activities. Early reactions from both the upstream production segment of the oil and gas industry and environmental groups is that without a proverbial "smoking gun" it is unlikely that the federal government will step in further, leaving states to principally manage regulation of hydrocarbon extraction, as it is today. To the extent that the report points to critical issues it may help states to further refine their management of these activities.

Rig Counts – rotary rig counts for the US are less than half of what they were one year ago. For the week ending June 5, 2015 the rig count of 868 was 992 less than the same week one year prior. Natural gas directed drilling is actually down less than 100 rigs while oil directed activities are down nearly 900 rigs operating given the fall in oil prices, which began about one year ago. Looking at it another way, directional, horizontal and vertical well operations are all off from last year but since unconventional resources (like shale) tend to require horizontal drilling and it is shale activity that stoked the drilling fire one year ago it is the horizontal drilling operations that have taken the biggest recent hit.

Pipeline Imports and Exports – averaging 5.4 Bcf per day so far in June, natural gas *imports* from Canada are about 0.8 Bcf per day higher than volumes recorded during June 2014 and about 400 MMcf per day more on average when compared to year to date totals. On the flipside, pipeline *exports* of natural gas to Mexico continue to show strength at 2.7 Bcf per day in June. In addition, at 2.5 Bcf per day year to date pipeline exports to Mexico are up 0.6 Bcf compared to the first half of last year.

LNG Markets – currently, LNG import volumes and sendout to the pipeline grid are minimal (near zero to 0.1 Bcf per day) – just don't need the gas right now. In other domestic LNG news, the final Environmental Impact Statement (EIS) for the Jordan Cove project has been delayed once more to September 2015, as modifications to the original pipeline route are considered and investigated.

Natural Gas Market Summary – the release of the nearly 1,000 page EPA study on hydraulic fracturing and drinking water begs the question, "what will be next?" Perhaps the environmental focal point will shift to continued analysis of methane emissions within the value chain. Only time will tell. Natural gas acquisition prices are currently quite modest and the domestic storage position is back to more normal. In fact, from the end of May through the balance of the traditional net injection season daily injections would only have to average about 11.5 Bcf per day to bring national inventories to 4 Tcf entering the winter for the first time in history. Production fundamentals and requirements for natural gas to serve cooling loads will make that determination as the summer progresses.