

Natural Gas Market Indicators



June 26, 2015



Reported Prices – the prompt-month (July) natural gas price at Henry Hub held at below \$3 per MMBtu for the entire month of June and at publication is now in the \$2.80s. Strong overall supply, lack of weather-induced disruptions, and a moderate call on gas for power generation seem the primary reasons for the pricing stability. Meanwhile, crude oil has closed the gap between WTI and Brent benchmarks with a barrel priced at about \$60 and \$64, respectively.

Weather – after a brief respite during the first week of June, the heat has cranked up noticeably for much of the country. This is driving up aggregate cooling degree days, which are of course a measure of summer cooling loads. Since April 1, New England and the Middle Atlantic have been the warmest parts of the country, cumulatively, with 138 percent and 95 percent more cooling degree days than normal, respectively. The South Atlantic, East South Central, and Pacific regions have been significantly warmer too. Both April and May recorded more cooling degree days than the monthly norm for the country as a whole, meaning they were warmer-than-normal just like June.

Working Gas in Underground Storage – after three straight weeks of triple digit working gas injections, net volumes to storage cooled slightly to 89 Bcf for the week ending June 6, 2015, then 75 Bcf one week later. At 2,508 Bcf underground storage continues to build above the five year average (+1.4 percent) and strongly exceeds the year-over-year storage position by 38 percent. Continuing a pace for injections that exceeds 80 Bcf per week will mean that working gas inventories would reach 4 Tcf by the start of the 2015-2016 winter heating season for the first time ever. Even an average injection of 68 Bcf per week without interruption until November would put storage volumes at 3.8 Tcf to end the season. Changes to current production levels and requirements for natural gas fired power generation will shape these possibilities.

Natural Gas Production – the domestic daily production average for natural gas dropped below 72 Bcf per day to 71.9 Bcf in June. That is still 3.7 Bcf per day more than in June 2014 but down from 73 Bcf per day achieved earlier in 2015. The flattening of the domestic production growth curve seems rational in a market where gas is priced below \$3 per MMBtu and to date only moderate demand growth has cut into the supply overhang in the market.

Shale Gas – modeled production levels in the Midwest and Eastern US, which is primarily shale gas, has risen to over 20 Bcf per day according to Bentek Energy. The modeled total is 20 percent higher than this time last year and 26 percent higher year to date – 2015 over 2014, according to Bentek Energy. The Texas/Midcontinent sample is up less than two percent and the Rocky Mountain sampling up less than one percent year to date comparing this year and last. In addition and just within the last few days, the U.S. District court of Wyoming has issued a stay of the Bureau of Land Management's (BLM) hydraulic fracturing rules, which were to go into effect on June 24. Industry alliances and states have argued that the new rules are duplicative of state laws and regulation regarding oil and gas production and may lead to giving away trade secrets. The stay is expected to provide time to further flush out arguments on both sides of implementing the BLM rules or restraining them.

Rig Counts – for the week ending June 19, 2015 rotary rig counts for the US dropped only by two to 857, however they are still 1,001 fewer than one year ago. What a change! Gas-directed drilling actually increased by two rigs and represents 26 percent of all rigs operating. In fact, rigs are being added in certain states and basins but other areas are seeing reductions in operations. It is spread out all over the country resulting in a net that has slowed the loss of rotary rig operations in recent weeks. Texas is the state with the largest differential in drilling operations compared to last year – down 526 and accounting for half of the operations lost throughout the country. Most of that is attributable to the Permian basin in West Texas and the horizontal oil-directed drilling, which had grown so rapidly the past several years but slowed with the drop in oil prices.

Pipeline Imports and Exports – averaging 5.4 Bcf per day so far in June, natural gas *imports* from Canada are about 0.7 Bcf per day higher than volumes recorded during June 2014 and about 500 MMcf per day more on average when compared to year to date totals. Essentially since the second week of June, exports of pipeline gas from the United States to Mexico have reached and exceeded 3 Bcf per day. For June, daily pipeline volumes to Mexico averaged 3.1 Bcf, which is 0.8 Bcf per day more than in June 2014. 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 – a higher-than-expected liquefaction capacity from the three trains approved at the Freeport LNG facility has caused the partnership to request an increase from the 1.8 Bcf per day filed authorization to 2.14 Bcf per day. Design optimization and an engineering learning curve are primarily responsible for the change. Currently, LNG import volumes and sendout to the pipeline grid are minimal at about 0.1 Bcf per day.

Natural Gas Market Summary – with natural gas abundance, particularly in the eastern United States, has come the need to reorient pipeline infrastructure and assets based on connecting burgeoning supply areas with demand locations. One of those possibilities launched a recent open season as Kinder Morgan reached out with its Utica Marcellus Texas pipeline, which is principally designed to carry propane, butanes, natural gasoline, and condensate from the eastern U.S. to the Texas Gulf Coast. No, it isn't a natural gas pipeline per se. However, the health of gas production in the Utica and Marcellus shale areas may be dependent on the development of midstream and pipeline infrastructure that moves liquids and gas from the supply rich areas pushing back on more traditional transportation corridors. This particular project will require the conversion of nearly a thousand miles of gas pipeline to a liquids pipeline. Yes, folks, it's all connected together – one project, one idea, influencing the next.

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