

Natural Gas Market Indicators



March 27, 2015



Reported Prices – picturing the \$3.00 mark for Henry Hub prompt-month pricing as a pull up bar, during the first quarter of 2015 the natural gas market just couldn't pull itself over the top, even though prices tried to firm the second half of March. Strong growth in 2014 year-end production and first quarter 2015 sector demand that grew only for power generation resulted in a supply abundant market once again and pricing that remained below \$3.00 per MMBtu. Crude oil price movements were more apparent at the end of March, as a final week run up saw West Texas Intermediate move to \$51 per barrel and Brent to \$59 per barrel.

Weather – by scanning the weekly accounting of heating degree days this past winter heating season it becomes very apparent just how up and down the winter was in terms of temperatures compared to normal. Starting with weeks up to 34 percent warmer than normal in October, then weeks 41 percent colder in November, then 27 percent warmer, 15 percent colder, 19 percent warmer, 47 percent colder (finally in February) and so on and so on, it becomes clear that the 0.3 percent colder than normal cumulative for the entire season and the nation as a whole was an aggregation of extremes. As winter closes, in fact, only the Mountain and Pacific regions have been significantly warmer than normal, cumulatively, while most other regions (particularly the central portion of the country) have been colder or slightly colder than normal as measured by heating degree days. In addition, February completely flipped what had been a warmer than normal trend for much of the country in December and January to colder conditions with the statistical result seen today. What a ride this winter for the central and eastern US!

Working Gas in Underground Storage – the storage picture is relatively simple as the 2014-2015 winter heating season comes to a close. Compared to last year when working gas withdrawals took inventories to 822 Bcf by the end of March – hundreds of Bcf more remain in inventory as the industry approaches the end of the 2015 net withdrawal season. In fact, according to Bentek Energy daily net injections began as early as March 10, 2015 and the Energy Information Administration reported a week ending March 20 positive injection into working gas inventories, also. Underground storage now sits at 1,479 Bcf after the net 12 Bcf injection referenced above – 64 percent ahead of last year (at this time) but still 12 percent behind the five-year average.

Natural Gas Production – in general, oil and gas producing companies in the US are reducing exploration and development budgets for 2015 often amounting to significant percentage reductions of 20, 30, 40 percent and more in dollars, according to public announcements. Rig counts are down by the hundreds (mostly oil-directed drilling), however, natural gas daily dry production remains above 72 Bcf per day in March. That volume is still 5.9 Bcf per day higher than in March 2014, which in some ways explains the relatively low pricing environment the natural gas market finds itself in today.

Shale Gas – often there is interest in how shale exploration and other developments are progressing in countries outside of the United States. Recently, the *Oil and Gas Journal* reported some key statistics on that topic. In fact, Wood Mackenzie was cited as noting 620 shale wells had been drilled in 14

countries outside of North America in 2014. Five hundred of those wells were drilled in Argentina (340) and China (160) with 20-30 wells for the year drilled in Australia, Russia and Saudi Arabia, also. A handful of other areas were drilled too, however, Argentina is actually producing about 40,000 barrels of oil per day from its Vaca Muerta shale play – the most significant shale production outside of North America. Additionally, the Bureau of Land Management (BLM) has released its final standards for hydraulic fracturing on federal and Indian lands and (not surprisingly) the issuance immediately brought two lawsuits and criticisms from industry and some law makers. Well integrity and tank storage of fracking returns (rather than ground pits) are focuses of the rule with some producer groups publically decrying overreach and duplicative regulations as unnecessary and costly. This will likely play out for months and years as legal sides are taken and advocated.

Rig Counts – domestic rotary rig counts today are more than 700 rigs below the total from a year ago. At 1,069 rigs operating, oil-directed rigs account for six of every seven that have been idled since last March. That said, the drop of 84 in the gas rig count will likely prove significant this year in terms of limiting gas production growth in 2015.

Pipeline Imports and Exports – at 6.0 Bcf per day, natural gas imports from Canada are 0.3 Bcf per day higher on average for the year compared with the first quarter of 2014. Meanwhile, exports to Mexico at 2.2 Bcf per day are up about 0.4 Bcf per day with strong growth in volumes out of Texas.

LNG Markets – with brief surges during the winter, LNG imports stand at 0.5 Bcf per day year-to-date in 2015, which is 0.3 Bcf per day ahead of the first quarter of 2014. More recent import volumes have been about 0.1 Bcf per day as temperatures have moderated with the arrival of spring.

Natural Gas Market Summary – after natural gas consumption records were set for the nation as a whole during the first quarter of 2014, the same period in 2015 brought a mixed bag of market observations. Although there was no polar vortex, it did get cold, primarily in the central and eastern US and particularly in February. Consumption in the residential/commercial sector was down about four percent, however, consumption in the power generation sector was up 15 percent for the first quarter of 2015 compared to 2014, even with all of the records set last year. Some of that demand increase is structural with shifts in the power source energy mix, however some was due to the relatively low and competitive price of natural gas versus coal in the marketplace. The supply picture remains strong today with hundreds of Bcf more working gas remaining in storage compared to March 31, 2014 although finally domestic production growth seems to be slowing – all indicators of a market seeking balance.

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