

Natural Gas Market Indicators



November 24, 2015



Reported Prices – checking NYMEX energy prices as we normally do, West Texas Intermediate oil was below \$40 per barrel on the morning of Friday, November 20, then up to \$41.30 on Monday morning, November 23. Prompt-month gas contracts called for \$2.23 per MMBtu during the same viewing of the data on November 20, which is relatively low compared to recent history entering the Thanksgiving Holiday. Prices then fell to \$2.07 per MMBtu on the heels of working gas in storage reaching 4 Tcf following a report of gas inventories released November 19. So there you are. We are not willing to pick an over-under for the January-February gas acquisition price in the heart of the winter heating season, but current pricing outlooks remain tame through 2016.

Weather – a substantially warmer start to the winter heating season as cumulative heating degree days posted since October indicate temperatures 24.2 percent warmer than normal and 25.4 percent warmer than last year. No region has yet to post colder than normal cumulative temperatures since October, however in a small demonstration of seasonal temperatures, the Pacific portion of the US moved to below normal conditions (11.4 percent colder than normal) for the week ending November 14. That said, for the week ending November 21 all regions of the country were back to warmer than normal.

Working Gas in Underground Storage – working gas inventories in the United States finally reached 4.0 Tcf with the release of Energy Information Administration data for the week ending November 13, 2015. This was, of course, the first time in history the volume had been achieved and leaves storage in a very strong position as the winter heating season begins in earnest. In fact, *Bentek Energy* reported double digit daily net withdrawal volumes starting Saturday, November 21. Perhaps winter is on! Looking at storage statistics, the Energy Information Administration is now reporting working gas inventories on a weekly basis utilizing a five region breakout of the lower-48 states rather than the three regions employed first by AGA beginning in 1993, then by EIA for the past decade. Domestic working gas is now 11.2 percent ahead of last year and 5.5 percent higher than the five-year average.

Natural Gas Production – current daily natural gas production remains between 70-72 Bcf and has been flat for months. Essentially, production in the Appalachian region has grown about 2 Bcf per day during the second half of 2015, while dry production in the Midcontinent and Texas has fallen by 2 Bcf per day. At the same time, Rocky Mountain production has remained level.

Shale Gas – domestic natural gas proved reserves increased again in 2014, according to the Energy Information Administration. Data released on November 23, 2015 shows that wet proved reserves (natural gas and natural gas plant liquids) reached 388 Tcf in 2014 resulting in an increase of 9.8 percent from the prior year, which marks the second consecutive year for record reported natural gas reserves. Shale gas, specifically, grew from 159.1 Tcf to 199.7 Tcf YE2014 over YE2013. That means that shale gas now accounts for 51 percent of all domestic natural gas proved reserves. Crude oil and lease condensate reserves grew by 3.4 billion barrels or 9.3 percent, also, reaching their highest level since 1972.

Rig Counts – US rig counts took another hit the week ending November 20, bringing drilling activity to a low that hasn't been reached since April 2002. Total rigs in operation now count 757 and are down 61 percent year over year. The oil count shed 10 rigs to 564 as the natural gas-directed count remained unchanged at 193.

Pipeline Imports and Exports – natural gas pipeline volumes imported from Canada averaged about 5.0 Bcf per day for the month of November, which is about 0.6 Bcf per day lower when compared to November 2014. According to Bentek Energy, that makes pipeline imports from Canada seven percent of flowing supply on average year to date. That said, year to date imports from Canada are running 5.4 Bcf per day – actually up 0.3 Bcf compared to year to date volumes in 2014. Exports to Mexico remain solid at 2.7 Bcf per day for the month of November and are 0.8 Bcf per day higher than in November 2014. Generally, analysts believe that US gas exports to Mexico will increase once again in 2016.

LNG Markets – prompt- and two-month contracts for LNG deliveries to Northeast Asia are \$7.55 per MMBtu according to Energy Intelligence and as reported by Bloomberg. Mild weather has softened demand expectations and increased availability of January cargoes, according to the report. Mild weather and strong gas availability from other sources have limited imports of liquefied natural gas into the US in 2015. Year to date output to the pipeline grid from LNG import facilities has been about 0.3 Bcf per day in 2015 – a relatively small volume in the grand scheme but is actually higher than in 2014 (0.1 Bcf per day).

Natural Gas Market Summary – while domestic natural gas production flops around like a fish on a dock, with volumes between 70 and 72 Bcf per day, colder temperatures finally pushed natural gas demand to over 85 Bcf per day during the third week of November – a clear signal that winter is approaching. Small volume residential and commercial heating loads also went above 35 Bcf per day, remembering that during a “polar vortex” type of event the R/C sector can demand twice that amount of natural gas. Industrial demand for gas has been about flat during 2015 while gas to power generation has been up about 16 percent due to new institutional demand growth, as well as very low, very competitive pricing with coal. In addition, the supply-side broken record continues as EIA now reports a new record for natural gas reserves in the US at about 388 Tcf for year-end 2014, along with record domestic production and record working gas inventories entering the winter heating season. Indeed, market conditions are good, especially if you are a consumer of energy.

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