Natural Gas Market Indicators

AGA American Gas Association

October 14, 2016

Reported Prices – crude has popped up to $50–$52 per barrel for West Texas Intermediate and Brent, while natural gas has nudged up to $3.20 per MMBtu. With the Major League Baseball playoffs in full swing, let's just say that OPEC ministers have promised production limits to be named later and that may account, in part, for the increase in liquids prices. In the meantime, natural gas is building toward the start of the coming winter heating season – the key word here being winter – and the expectation (hope?) that this year it might actually get cold.

Weather – clearly Hurricane Mathew was the major weather event of the past two weeks, having substantially impacted Florida, Georgia, and the Carolinas. Looking back at temperatures, the May through September spring and summer seasons for cooling degree days in 2016 were nothing if not consistent. First, for the five-month period, every monthly accounting was warmer than normal as measured by cooling degree days. Not only that, every region of the country was cumulatively warmer than normal, also, and some regions were off-the-chart warmer like New England (88 percent warmer than normal), the Middle Atlantic (57 percent warmer) and the Pacific region (32 percent warmer). Obviously, this accounts to some extent for a record volume of gas to power generation in 2016. By the way, the first week of October was 54 percent warmer than normal for the country, also.

Working Gas in Underground Storage – working gas inventories increased by 80 Bcf during the last week of September, then rose another 79 Bcf to 3,759 at the end of the first week of October. With the traditional net injection season likely to continue for at least four weeks, even moderate weekly injections compared to history may place season ending working gas inventories near record levels. We will see what happens. Under any circumstances the country will enter this winter heating season with another robust position for gas stocks in underground storage.

Natural Gas Production – domestic dry gas production slipped to below 70 Bcf per day several times during the first two weeks of October just as overall demand dipped, also. Average production has been 70.1 Bcf per day in October 2016, which is 3.7 percent below the 72.8 Bcf per day in October 2015. Is this finally the decline in domestic production we have been looking for at lower wellhead prices? Probably, but how long will it last? Firmer oil and gas pricing is already returning equipment to the field as rigs counts nudge up.

Shale Gas – shale drillers in Pennsylvania have a new set of rules by which to operate unconventional drilling well sites. The new regulations, which went into effect last week, forbid storage of waste fluids in pits and require the use of tanks. Water must be restored to a quality at least as good as or better than original. In addition, the state will presume that the driller is at fault if contaminated water is found near a well site but will consider pre-drilling tests as admissible evidence to rebut contamination claims. Set-back requirements from water resources (100 feet) and notification of authorities if operations are within 200 feet of public parks or forest lands have also been established. The Marcellus Shale Coalition has said that the new regulations will cost industry an additional $2 billion per year to comply with the new regulations.

Rig Count – the Baker-Hughes rig count has shown a little life with weekly numbers increasing from 506 to 524 during the past three weeks. Oil-directed drilling now stands at 428 rigs operating but that is up from 316 at the end of May about four and a half months ago. Even gas-directed drilling is up from 81 at the end of August to 94 this past week– a modest increase to be sure but an increase nonetheless.

Pipeline Imports and Exports – imports of gas from Canada have continued to be part of the swing supply of natural gas to the US in 2016 with daily averages at 5.9 Bcf for this October, which is 0.9 Bcf per day higher than in October 2015. Exports to Mexico have recorded 3.5 Bcf per day in October, which is 0.3 Bcf more than one year ago. Pipeline gas to liquefaction for export has been zero this month, as Cheniere's Sabine Pass facility has been down for maintenance.

LNG Markets – scheduled gas flows to Sabine Pass suggest the planned construction and maintenance that had halted liquefaction operations temporarily may be complete. However, Bentek Energy is still reporting 0.0 Bcf per day of feedstock flows to Sabine Pass, so the small scheduled volumes on the pipeline serving the facility (5,000 Dth per day) may be related to some other aspect of Sabine's operations.

Natural Gas Market Summary – oil-directed drilling is up 35 percent as measured by Baker-Hughes rig activity since late May 2016 and even gas drilling is up 16 percent from the end of August. Much of the drilling increase is attributed to increased oil and natural gas wellhead prices – oil now over $50 per barrel and natural gas above $3 per MMBtu. These energy prices remain great values for consumers while injecting just a little more money into the upstream sector, which is not a bad thing. Now we will watch storage inventories and heating degree day data to see what they will say about the robustness of natural gas demand to begin the winter heating season. Remember, the winter heating season of November 2015-March 2016 was the winter that wasn't, as national heating degree days came in 17 percent fewer (warmer) than normal. A return to any semblance of normal may mean residential and small commercial users consume more natural gas during the heating season and thus overall bills may increase. Time will tell.