Natural Gas Market Indicators

American Gas Association

October 30, 2015

Reported Prices – sub-$3 prices for November Henry Hub natural gas has been par for the course most of this year and certainly headed into this winter. Currently at below $2.10 per MMBtu, prices have not risen above $3 since May, and that was for only a short period. As a result, sustained $3+ per MMBtu prices have proved elusive since last winter. Where gas has seen mostly downward pressure for the year, Brent and West Texas Intermediate oil prices have yo-yoed up and down but are now on a downward trend with a less than $4 spread between Brent and WTI – $47.28 and $43.66 per barrel, respectively.

Weather – just as we begin to get serious about counting heating degree days with the colors of fall and the coming winter heating season, temperatures remained significantly warmer than normal for the first three weeks of October, resulting in 24.4 fewer heating degree days than normal for the nation as a whole. The cold will come, of course, as winter approaches, but every region of the country has been warmer in October and as much as 68 percent warmer in areas such as the Pacific coast.

Working Gas in Underground Storage – a solid storage injection of 81 Bcf for the week ending October 16 seemed to couple with additional downward pressure on Henry Hub gas prices. Further reductions have since occurred with prompt-month pricing retreating to $2.35 by Friday, October 23 and another 15 cents lower on Monday, October 26 – yet another signal of relative supply strength going into the 2015-16 winter heating season. Net injections fell 63 Bcf for the week ending October 23, putting current inventories at 3,877 Bcf – just below the all-time record and within striking distance of 4.0 Tcf. Inventories are 11.8 percent ahead of last year and 4.1 percent higher than the five-year average.

Natural Gas Production – year-to-date dry natural gas production at 72.0 Bcf per day on average exceeds last year’s comparable volume by 3.6 Bcf, even with the drilling slowdown in 2015 and the fact that production has been essentially flat for months.

Shale Gas – hydraulic fracturing activities are sometimes publicly credited as a source of earthquakes in gas producing regions when, in fact, recurring seismicity in specific areas is much more likely to be associated with high volume wastewater injection into deep disposal wells. Recognizing this, the Oklahoma Corporation Commission’s Oil and Gas Division has restricted disposal or shut-in 13 disposal wells in the vicinity of Cushing, Oklahoma – an epicenter of recent earthquake activity. Back east, some producers are taking a closer look at the deep Utica shale play (stratigraphically below the Marcelles shale) in western Pennsylvania and northern West Virginia because early results from initial wells have been extraordinary. High volumes and high pressures have caught the attention of producers and it is expected that a new productive Utica fairway will be sorted out over the next several years.

Rig Counts – no net change in rig counts for the week ending October 23, 2015 according to Baker Hughes data. One oil rig loss offset one gain in natural gas. The week's non-movement is a departure from the steady decline in rigs since August and may be reversing the steep decline trend that first gained momentum with the oil price collapse in October of 2014. This reversal may be a bounce off the bottom, recognizing that both oil and natural gas rig counts have declined 12 and 4 percent, respectively, since late August. Total rig activity is now down 59 percent year over year.

Pipeline Imports and Exports – natural gas volumes from Canada averaged 5.2 Bcf per day in October 2015, which is 0.2 Bcf per less than in October one year ago. That said, year to date imports from Canada are running 5.4 Bcf per day – actually up compared to year to date 2014 by 0.3 Bcf per day. Exports to Mexico remain solid at 2.9 Bcf per day for the month of October and are 1.0 Bcf per day higher than in October 2014.

LNG Markets – the US Department of Energy has granted license to Emera CNG to export *compressed natural gas* to non-free trade agreement countries for a period of 20 years. In addition, the department granted permission to export to free trade nations too. More specifically, the company is proposing to build a compression facility near Palm Beach, Florida and export CNG to the Bahamas. The compressed gas would be transported in roll-on/roll-off containers and be carried to Freeport, Grand Bahama Island. In LNG related news, the Federal Energy Regulatory Commission has authorized Transco to construct the Gulf Trace expansion project, which would supply additional natural gas to the Sabine Pass LNG export facility. Transco anticipates and in-service date of January 2017. Current US *imports* of LNG and subsequent injection into the US pipeline grid are running at about 0.2 Bcf per day.

Natural Gas Market Summary – natural gas to power generation this October has exceeded the volume from October 2014 by more than 2.5 Bcf per day and the gas share of generation has climbed 3 percent in most ISO/RTO regions despite total electric load remaining flat compared with October 2014. Higher incidence of coal to gas dispatch corresponds with year-to-date low Henry Hub prices as October comes to a close, reinforced by the evaluation of the national generation mix and structural changes to natural gas for electric power. Noting this evolution, big news in the industry came this week with the announcement of Duke Energy Corporation's planned acquisition of Piedmont Natural Gas Company ($4.9 billion cash and $1.8 billion assumption of debt). This deal comes on the heels of Southern Company's planned acquisition of AGL Resources. Among the many reasons put forward for the acquisitions is a broader recognition of the long-term potential for natural gas in the nation's energy mix and the key role gas will continue to serve in the US clean energy economy.