

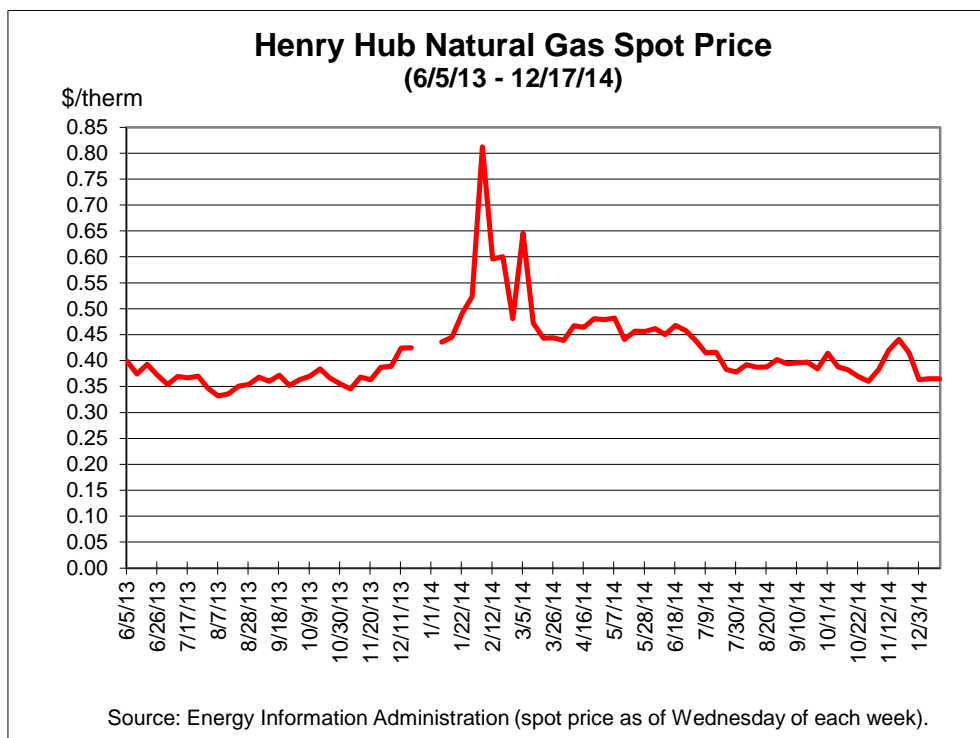
# WHOLESALE NATURAL GAS MARKET ASSESSMENT

## Wholesale Natural Gas Futures Prices as of December 2, 2014

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### Outlook for Wholesale Natural Gas Prices

This report presents the Office of Technical and Regulatory Analysis' ("OTRA") assessment of wholesale natural gas supply and prices for December 2014.<sup>1</sup> OTRA's current assessment of the natural gas market suggests that wholesale natural gas prices may remain around \$0.40 per therm during December 2014 (see Henry Hub Spot Price figure). Recent natural gas spot prices are about 10 percent lower than prices from the same period a year ago.



The Energy Information Administration ("EIA") indicates that the average Henry Hub natural gas spot price for November 2014 was about \$0.41 per therm, up from \$0.38 per therm in the previous month.<sup>2</sup> In its Short-Term Energy Outlook ("STEO") for December 2014, EIA expects "spot prices to remain above [\$0.40 per therm] through January. Projected Henry Hub natural gas prices [are expected to] average [\$0.444 per therm] in 2014 and [\$0.383 per therm] in 2015."<sup>3</sup> Natural gas prices averaged \$0.373 per therm in 2013.

<sup>1</sup> This assessment is based on information collected from various sources. Projecting future conditions is a difficult task at best, so these comments are subject to change as new information becomes available.

<sup>2</sup> EIA, *Short-Term Energy Outlook* (December 2014) at 8.

<sup>3</sup> Ibid.

As of December 12, 2014, natural gas in storage stood at 3,295 billion cubic feet (“Bcf”). The working gas in storage is slightly higher than the same period a year ago, but is down by 7 percent compared to the 5-year average.

Commodity prices, together with the costs Washington Gas Light (“WGL”) incurs for storage, peaking, and balancing, have resulted in a higher retail price than what was experienced last year. Specifically, the costs WGL incurs to acquire and deliver natural gas to customers are reflected in WGL’s retail commodity price, called the Purchased Gas Charge (“PGC”).<sup>4</sup> The PGC for December 2014 is 58.66 cents (\$0.59) per therm compared with 57.56 cents (\$0.58) per therm for the same period a year ago—up 2 percent. The PGC for December 2014 was up about 6 percent from the previous month.

The major factors that contribute to this outlook are described below. These factors include the weather, the economy, the storage situation, the supply situation, and national security.

## **Weather**

Weather variations always have an effect on natural gas price formation. As of December 18, 2014, the National Oceanic and Atmospheric Administration (“NOAA”) indicated that its outlook for the remainder of December generally calls for below normal temperatures initially for Northern Rockies, the Northern and Central Plains, the Mississippi Valley, and the Great Lakes and extending eastward toward the end of the month.<sup>5</sup> Above normal temperatures are generally expected for the southwestern portion of the U.S. Elsewhere, there are equally likely chances of below, near, or above normal temperatures. The expected weather for the remainder of December may provide some upward pressure on natural gas prices.

## **Economic Conditions**

National economic factors also contribute to the formation of wholesale natural gas prices. The Federal Open Market Committee (“FOMC”) indicated in its latest statement that economic activity is expanding at a moderate pace.<sup>6</sup> Labor market conditions improved somewhat further, with solid job gains and a lower unemployment rate—at 5.8 percent in November 2014, down from 6.6 percent in January 2014—and a range of labor market indicators suggesting that underutilization of labor resources continues to diminish. Household spending also continues to rise moderately and, similarly, business fixed investment continues to advance, while the recovery in the housing sector remains slow. Inflation has continued to run below the FOMC’s longer-run objective of 2 percent, partly reflecting declines in energy prices. As a result, the FOMC maintained its low short-term interest rate target range. At present, the current state of economic activity may still be relatively neutral for natural gas prices.

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<sup>4</sup> The current Purchased Gas Charge reflects current market conditions and current collections. The current cost of gas (including commodity, demand, and other cost adjustments) reflects the seasonal market. Alternative suppliers’ newer fixed price offers should generally reflect the PGC benchmark, with anticipated price changes as well, over the next twelve months.

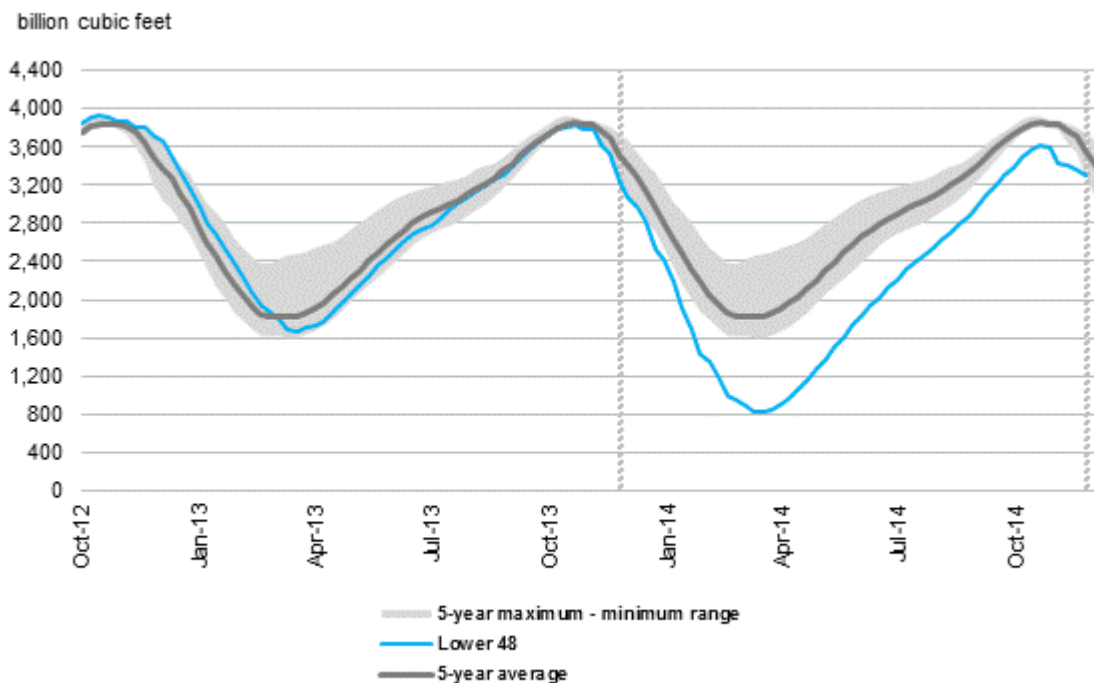
<sup>5</sup> NOAA at <http://www.cpc.ncep.noaa.gov/>.

<sup>6</sup> Statement of the Federal Open Market Committee (released December 17, 2014).

## Storage

EIA reports that the working gas in storage was 3,295 Bcf as of December 12, 2014, a net decrease of 64 Bcf from the previous week. Stocks were 6 Bcf higher than the same period a year ago—up 0.2 percent—and down 258 Bcf from the 5-year average of 3,553 Bcf—a decrease of 7.3 percent.<sup>7</sup>

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U. S. Energy Information Administration

Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2009 through 2013. The dashed vertical lines indicate current and year-ago weekly periods.  
Source: EIA, *Weekly Natural Gas Storage Report* (released December 18, 2014)

EIA indicates that the “[a]fter a strong injection, inventories were 237 Bcf below the five-year average on November 7. EIA projects that the end-of-March 2015 inventories will total 1,431 Bcf, which is 225 Bcf below the five-year (2010-14) average.”<sup>8</sup> A faster pace of withdrawal from storage will tend to place upward pressure on natural gas prices.

## Supply

Flexibility in the nation’s domestic production has helped to soften upward price pressure, especially with the continued development of natural gas in shale formations. In the December 2014 STEO, EIA expects “natural gas marketed production to grow by an annual rate of 5.5% in 2014 and 3.1% in 2015. EIA projects that the strong increases already seen in the Lower 48 states for most of this year will continue through 2015, more than offsetting the long-term trend of declining production in the Gulf of Mexico. As of

<sup>7</sup> EIA, *Weekly Natural Gas Storage Report* (released December 18, 2014).

<sup>8</sup> EIA, *STEO* (December 2014) at 8.

September [2014], the most recent month for which EIA data are available, dry natural gas production was 4.6 Bcf/d greater than it was in September 2013. Production usually declines in September due to seasonal maintenance; however, production this year increased slightly from August to September.”<sup>9</sup> EIA goes on to say that “[g]rowing domestic production is expected to reduce demand for imports from Canada and spur exports to Mexico. EIA expects exports to Mexico, particularly from the Eagle Ford Shale in South Texas, to increase because of growing demand from Mexico's electric power sector and flat Mexican production.”<sup>10</sup>

## National Security

As noted in previous reports, we see little danger to the natural gas supply.<sup>11</sup> Most of the U.S. supply is secure, in that it is generally domestically produced or imported from Canada.

## Future Natural Gas Prices

The PGC rate of roughly \$0.59 per therm for December 2014 is up 5.8 percent from the previous month, and is also up 1.9 percent compared to the same period a year ago. Last month, OTRA suggested that the December 2014 PGC (assuming that the commodity market adjustment factor is zero) may remain around \$0.57 per therm, based, in part, on the expectation that near-term NYMEX futures prices trade between \$0.39 and \$0.45 per therm, as well as other cost assumptions.<sup>12</sup> For November 2014, the near-term NYMEX futures prices ranged between \$0.38 and \$0.46 per therm and the adjusted PGC for December 2014 was about \$0.59 per therm.

The December 2014 PGC (assuming that the commodity market adjustment factor is zero) may be around \$0.58 per therm, based, in part, on the expectation that near-term NYMEX futures prices trade between \$0.34 and \$0.40 per therm, among other things.<sup>13</sup> OTRA's assessment of natural gas prices may be significantly different from actual market prices if: (i) there are significant variations in weather-related factors, (ii) crude oil prices change significantly, (iii) other substantial disruptions to the energy market occur, or (iv) certain cost-related assumptions are significantly different.

As always, investments in energy efficiency and conservation measures are important ways toward reducing energy consumption and lowering energy bills. Ratepayers are encouraged to invest in measures such as insulation, weather stripping, or replacing an old inefficient water heater and/or furnace. Finally, for those residential consumers whose budgets are severely challenged, arrangements for assistance should be made as soon as possible in anticipation of need. Contact either the District Department of the Environment's Energy Office

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<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

<sup>11</sup> As of December 19, 2014, there were no credible or impending threats against the United States. The National Terrorism Advisory System, or NTAS, replaces the color-coded Homeland Security Advisory System.

<sup>12</sup> The commodity market adjustment factor for the December 2014 PGC was \$0.0 per therm, resulting in the adjusted PGC (excluding the commodity market adjustment factor) being equal to \$0.5866 per therm.

<sup>13</sup> Although the range for futures prices is lower than the previous month, storage costs are at the higher end of the range and represent the majority of the commodity costs.

or the D.C. Public Service Commission's Office of Consumer Services for advice and/or solutions as well as programs such as the Washington Area Fuel Fund (888-318-9233).

# Wholesale Natural Gas Price/Supply Assessment Information

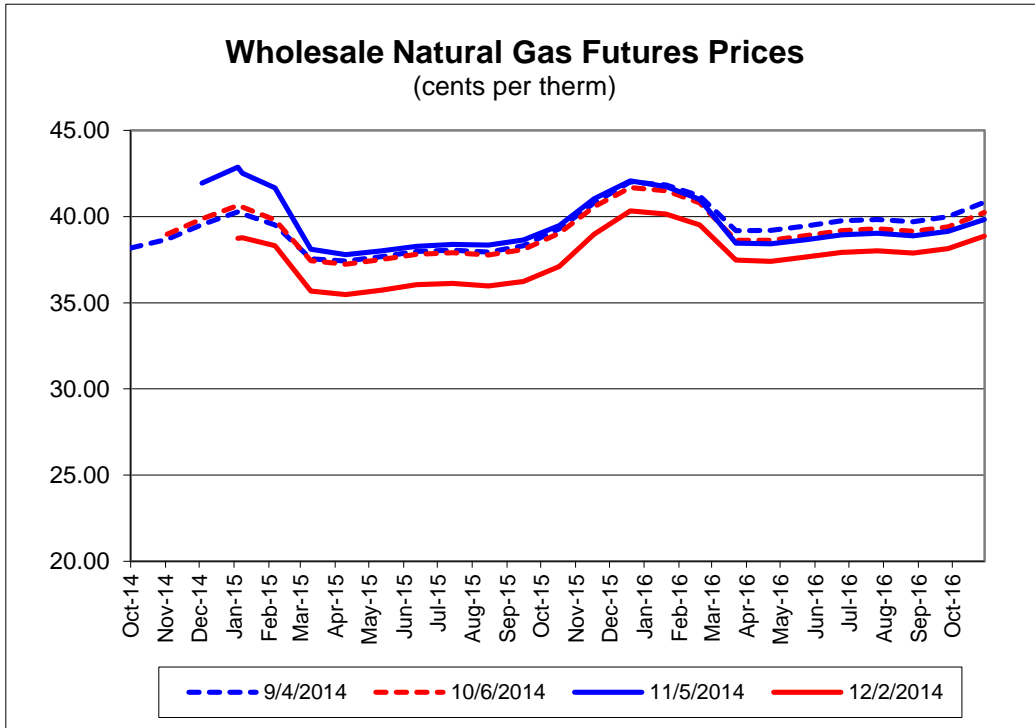
Current for December 2, 2014

## Price Information

Twelve Month NYMEX Strip Components  
12/2/14, cents per therm

Henry Hub Spot Market Price  
12/2/14, cents per therm

<u>Current Month</u>	<u>Previous Month</u>	<u>Current Only Available</u>
Jan 15 38.74	Jan 15 42.87	37.7
Feb 15 38.77	Feb 15 42.53	
Mar 15 38.31	Mar 15 41.67	
Apr 15 35.68	Apr 15 38.10	
May 15 35.48	May 15 37.80	
Jun 15 35.74	Jun 15 38.01	
Jul 15 36.05	Jul 15 38.27	
Aug 15 36.13	Aug 15 38.39	
Sep 15 35.97	Sep 15 38.35	
Oct 15 36.23	Oct 15 38.64	
Nov 15 37.10	Nov 15 39.49	
Dec 15 38.98	Dec 15 41.04	



The current PGC for December 2014 is about \$0.59 per therm. Assuming, among other things, that near-term futures prices remain around \$0.34 to \$0.40 per therm, the PGC rate (excluding the commodity market adjustment factor) for January 2015 may be around \$0.58 per therm. However, given the uncertainty about the weather, as well as other factors, this assessment could easily change. The assessment for December 2014 is that wholesale prices may remain around \$0.40 per therm, resulting in wholesale prices that are lower by roughly 10 percent, compared to year ago levels (see Market Conditions Summary).

### Weather Forecast

1. Current for next few days to one week:

<http://www.cnn.com/Weather/>  
<http://home.accuweather.com/>

2. National Oceanic and Atmospheric Administration Forecast for the Winter

<http://www.noaa.gov/>

3. U.S. Weather Service Atlantic Hurricane and Storm Reports

<http://www.nhc.noaa.gov/>

## Wholesale Natural Gas Market Conditions Summary December 19, 2014

Factors	This Month	Winter Season
Oil Prices		
Weather - Temperature		
Weather - Hurricanes		
Economic Conditions		
Storage		
Natural Gas Supply		
National Security		
Overall		

Code: Red - Upward Pressure

Blue - Downward pressure

Yellow - No Change

No color -  
Not Applicable N.A.