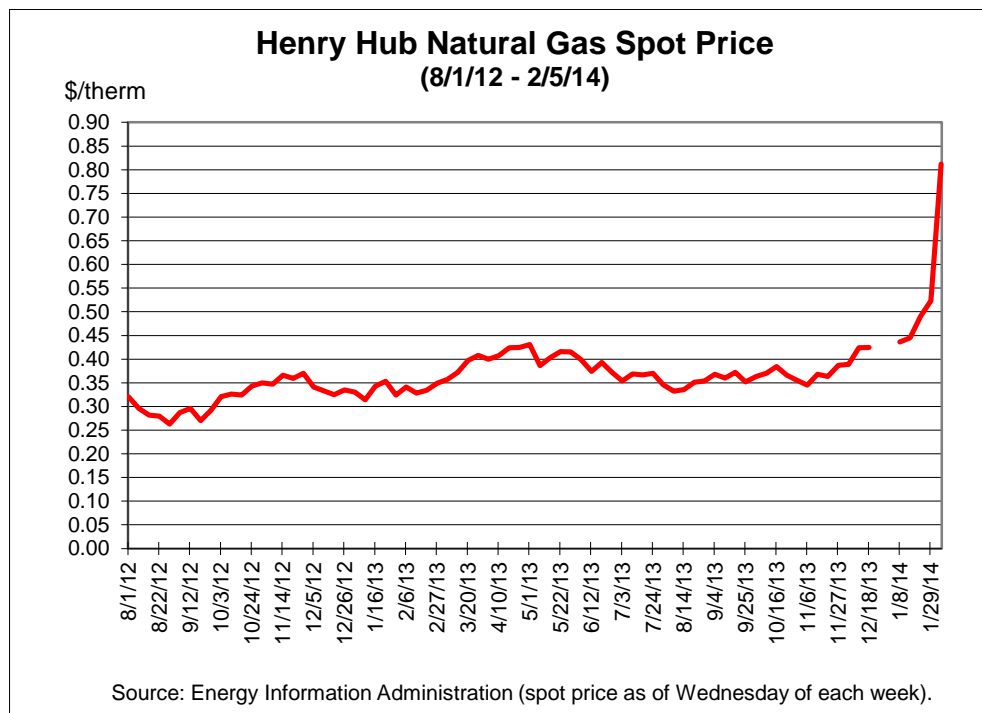


# WHOLESALE NATURAL GAS MARKET ASSESSMENT Wholesale Natural Gas Futures Prices as of February 3, 2014

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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 February 2014.<sup>1</sup> OTRA's current assessment of the natural gas market suggests that wholesale natural gas prices may remain above \$0.50 per therm during February 2014 (see Henry Hub Spot Price figure). Recent natural gas spot prices are more than 70 percent higher 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 January 2014 was about \$0.47 per therm, up from the \$0.42 per therm average for the previous month.<sup>2</sup> In its Short-Term Energy Outlook ("STEO") for February 2014, EIA expects that "[p]rojected Henry Hub natural gas prices [are expected to]

<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* (February 2014) at 7.

**average [\$0.417 per therm] in 2014 and [\$0.411 per therm] in 2015.”**<sup>3</sup> Natural gas prices averaged \$0.373 per therm in 2013.

As of February 7, 2014, natural gas in storage stood at 1,686 billion cubic feet (“Bcf”). The working gas in storage is down about 34 percent from the same period a year ago, and is also down by 27 percent compared to the 5-year average.

Commodity prices, together with the costs Washington Gas Light (“WGL”) incurs for storage, peaking, and balancing, have still resulted in lower retail prices 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 February 2014 is 65.76 cents (\$0.66) per therm compared with 66.41 cents (\$0.66) per therm for the same period a year ago—down 1 percent. The PGC for February 2014 was, however, up nearly 9 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 February 13, 2014, the National Oceanic and Atmospheric Administration (“NOAA”) indicated that its outlook for the latter half of the month of February generally calls for below normal temperatures across much of the central and western portions of the nation.<sup>5</sup> Above normal temperatures are possible for parts of the southwestern U.S, as well as the eastern portion of the nation. Elsewhere, there are equal chances of below, near, or above normal temperatures. Cold weather over much of the nation should provide support for natural gas prices.

## **Economic Conditions**

National economic factors also contribute to the formation of wholesale natural gas prices. The latest release (January 29, 2014) from the Federal Open Market Committee (“FOMC”) indicated that growth in economic activity picked up in recent quarters. Labor market indicators were mixed but on balance showed further improvement, with the unemployment rate declining but still relatively high—6.6 percent for January 2014. Household spending and business fixed investment advanced more quickly in recent months, while the recovery in the housing sector slowed somewhat. Fiscal policy continues to restrain economic growth, although the extent of such restraint is diminishing. Inflation has been running below the FOMC’s longer-run objective, but longer-term inflation expectations have

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<sup>3</sup> Ibid at 7.

<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.

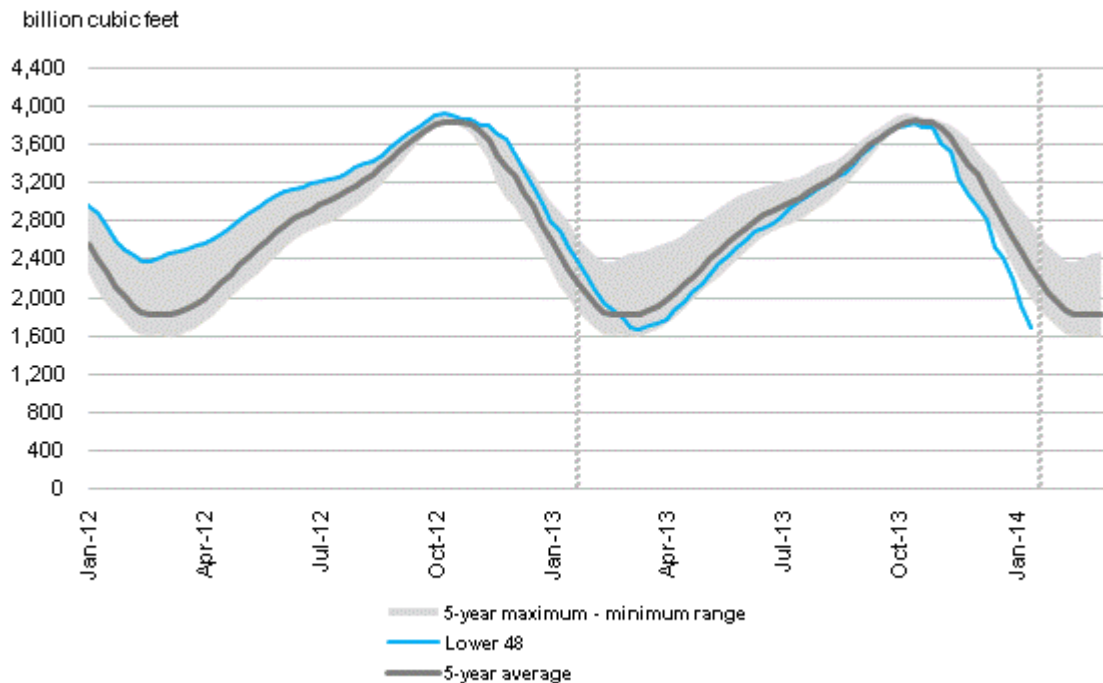
<sup>5</sup> NOAA at <http://www.cpc.ncep.noaa.gov/>.

remained stable.<sup>6</sup> Analysts suggest that the economy’s fundamentals remain strong—as businesses are profitable and competitive, household debt loads have fallen and credit conditions are improving, and commercial banks are well-capitalized and liquid. While cold weather over the past few months has slowed economic activity and dampened hiring, analysts expect the economy to bounce back as warmer weather settles in. At present, the current state of economic activity may be neutral for natural gas prices.

## Storage

EIA reports that the working gas in storage was 1,686 Bcf as of February 7, 2014, a net decrease of 237 Bcf from the previous week. Stocks were 863 Bcf lower than the same period a year ago—down 33.9 percent—and down 631 Bcf from the 5-year average of 2,317 Bcf—a decrease of 27.2 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 February 13, 2014)

EIA indicates that colder than normal temperatures during the month of January resulted in increased heating demand, prompting larger than normal withdrawals from storage, and a new record high monthly withdrawal (surpassing the previous record set in December 2013).<sup>8</sup> EIA

<sup>6</sup> Statement of the Federal Open Market Committee (released January 29, 2014).

<sup>7</sup> EIA, *Weekly Natural Gas Storage Report* (released February 13, 2014).

<sup>8</sup> EIA, *STEO* (February 2014) at 7.

projects inventories will end this heating season at 1,331 Bcf, the lowest end-of-season level since 2008.<sup>9</sup> Colder weather is weighing down working gas stocks, which are now significantly below both year ago levels and the 5-year average, supporting upward pressure for 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 February 2014 STEO, EIA indicated that **“[n]atural gas marketed production will grow at an average rate of 2.2% in 2014 and 1.2% in 2015. Rapid Marcellus production growth is causing natural gas forward prices in the Northeast to fall even with or below Henry Hub prices outside of peak-demand winter months. Consequently, some drilling activity may move away from the Marcellus back to Gulf Coast plays such as the Haynesville and Barnett, where prices are closer to the Henry Hub spot price. EIA projects Gulf of Mexico production will increase by 1.7% in 2014 before falling 2.3% in 2015. Liquefied natural gas (LNG) imports have declined over the past several years because higher prices in Europe and Asia are more attractive to sellers than the relatively low prices in the United States. Several companies are planning to build liquefaction capacity to export LNG from the United States. The first of the new facilities to liquefy gas produced in the lower-48 states for export is expected to come online in the fourth quarter of 2015. Growing domestic production over the past several years has replaced pipeline imports from Canada, while exports to Mexico have increased. EIA expects these trends will continue through 2015. EIA projects net imports of 3.5 Bcf/d in 2014 and 2.6 Bcf/d in 2015, which would be the lowest level since 1987. Over the longer term, the EIA Annual Energy Outlook 2014 projects the United States will be a net exporter of natural gas beginning in 2018.”**<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 \$0.66 per therm for February 2014 is up 8.6 percent from the previous month, but is down 1.0 percent compared to the same period a year ago. Last month, OTRA suggested that the February 2014 PGC should be around an adjusted amount of \$0.61 per therm (assuming that the commodity market adjustment factor is zero), based on near-term NYMEX futures prices generally remaining between \$0.43 and \$0.51 per therm, as well as

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<sup>9</sup> EIA, *STEO* (February 2014) at 6.

<sup>10</sup> EIA, *STEO* (February 2014) at 7.

<sup>11</sup> As of February 14, 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.

other cost assumptions. For January 2014, the near-term NYMEX futures prices ranged between \$0.40 and \$0.56 per therm and the adjusted PGC for February 2014 was about \$0.61 per therm.<sup>12</sup>

The March 2014 PGC (assuming that the commodity market adjustment factor is zero) may be around \$0.63 per therm, based, in part, on the expectation that near-term NYMEX futures prices trade between \$0.44 and \$0.54 per therm, among other things. 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 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).

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<sup>12</sup> The commodity market adjustment factor for the February 2014 PGC was \$0.05 per therm, resulting in the adjusted PGC (excluding the commodity market adjustment factor) being equal to \$0.6076 per therm.

## Wholesale Natural Gas Price/Supply Assessment Information

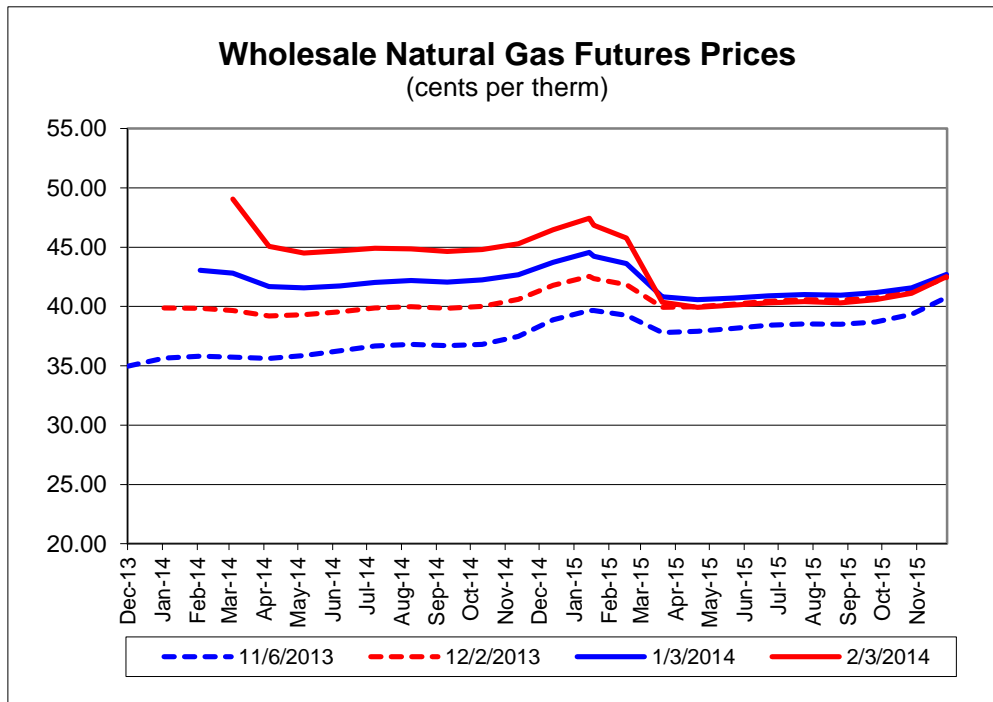
Current for February 3, 2014

### Price Information

Twelve Month NYMEX Strip Components  
2/3/14, cents per therm

Henry Hub Spot Market Price  
2/3/14, cents per therm

<u>Current Month</u>	<u>Previous Month</u>	<u>Current Only Available</u>
Mar 14 49.05	Mar 14 42.82	50.4
Apr 14 45.07	Apr 14 41.68	
May 14 44.50	May 14 41.56	
Jun 14 44.69	Jun 14 41.74	
Jul 14 44.90	Jul 14 42.04	
Aug 14 44.85	Aug 14 42.18	
Sep 14 44.64	Sep 14 42.06	
Oct 14 44.79	Oct 14 42.24	
Nov 14 45.29	Nov 14 42.68	
Dec 14 46.46	Dec 14 43.73	
Jan 15 47.44	Jan 15 44.56	
Feb 15 46.84	Feb 15 44.24	



The current PGC for February 2014 is about \$0.66 per therm. Assuming, among other things, that near-term futures prices remain around \$0.44 to \$0.54 per therm, the PGC rate (excluding the commodity market adjustment factor) for March 2014 may be around \$0.63 per therm. However, given the uncertainty about the weather, as well as other factors, this assessment could easily change. The assessment for February 2014 is that wholesale prices may remain above \$0.50 per therm, resulting in wholesale prices that are higher by 70 percent, or more, 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**  
**February 14, 2014**

<b>Factors</b>	<b>This Month</b>	<b>Winter Season</b>
Oil Prices	Yellow	Yellow
Weather - Temperature	Red	Red
Weather - Hurricanes	White	White
Economic Conditions	Yellow	Yellow
Storage	Red	Red
Natural Gas Supply	Yellow	Yellow
National Security	Yellow	Yellow
Overall	Red	Red

Code: Red - Upward Pressure

Blue - Downward pressure

Yellow - No Change

No color - N.A.  
 Not Applicable