

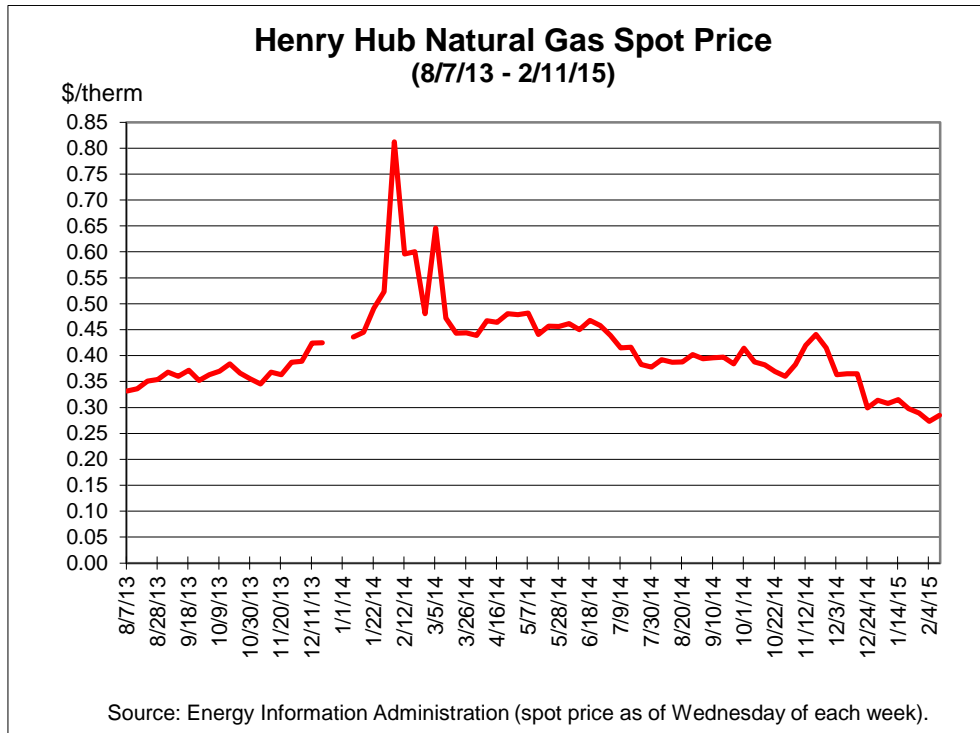
WHOLESALE NATURAL GAS MARKET ASSESSMENT

Wholesale Natural Gas Futures Prices as of February 5, 2015

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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 2015.¹ OTRA's current assessment of the natural gas market suggests that wholesale natural gas prices may remain around \$0.30 per therm during February 2015 (see Henry Hub Spot Price figure). Recent natural gas spot prices are at least 50 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 January 2015 was about \$0.30 per therm, down from \$0.35 per therm in the previous month.² In its Short-Term Energy Outlook ("STEO") for February 2015, EIA expects "monthly average spot prices to remain less than [\$0.30 per therm] through the winter, and less than [\$0.40 per therm] through the remainder of the forecast. The projected Henry Hub natural gas prices [are expected to average \$0.305 per therm] in 2015 and [\$0.347 per therm] in 2016."³ Natural gas prices averaged \$0.437 per therm in 2014.

¹ 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.
² EIA, *Short-Term Energy Outlook* (February 2015) at 8.
³ Ibid.

Regional natural gas prices, however, show significant variation from the Henry Hub pricing. For example, EIA reported that natural gas spot prices for delivery on February 18, 2015 for the New England and New York City regions were over \$2.50 per therm.⁴ In addition, prices in the Mid-Atlantic and Midwest regions were reported at about \$1.80 per therm and \$0.39 per therm, respectively. The reporting on the remaining markets to the west and south, including the Henry Hub, were below \$0.30 per therm.

As of February 6, 2015, natural gas in storage stood at 2,268 billion cubic feet (“Bcf”). The working gas in storage is up 31.4 percent from the same period a year ago, but is down by about 1 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 lower 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”).⁵ The PGC for February 2015 is 50.66 cents (\$0.51) per therm compared with 65.76 cents (\$0.66) per therm for the same period a year ago—down 23 percent. The PGC for February 2015 is down about 14 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 15, 2015, the National Oceanic and Atmospheric Administration (“NOAA”) indicated that its outlook for the remainder of February generally calls for below normal temperatures for eastern half of the nation.⁶ Above normal temperatures are generally expected for the western portion of the U.S.—from Idaho down through Utah and Arizona and extending to the coast. Elsewhere, there are equally likely chances of below, near, or above normal temperatures. The expected weather for the remainder of February should 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 solid pace.⁷ Labor market conditions have improved further,

⁴ The New York City area pricing is still well below the record prices experienced during the polar vortex last year.

⁵ 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.

⁶ NOAA at <http://www.cpc.ncep.noaa.gov/>.

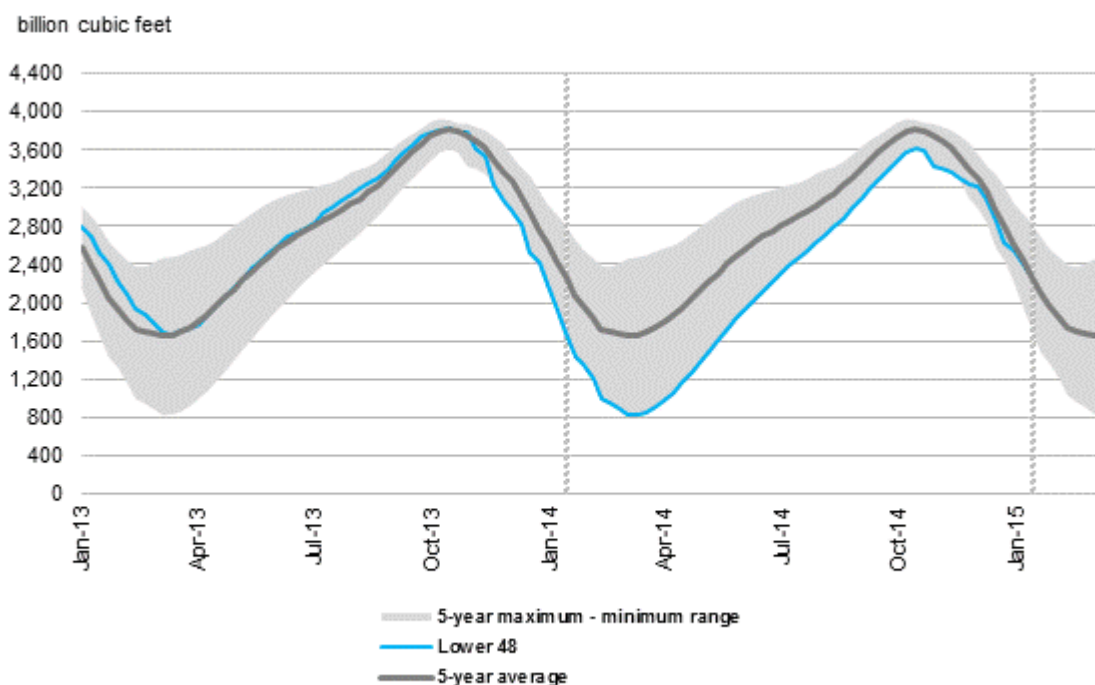
⁷ Statement of the Federal Open Market Committee (released January 28, 2015).

with strong job gains and a lower unemployment rate—the seasonally adjusted unemployment rate stood at 5.7 percent in January 2015, compared to 6.6 percent in January 2014. A range of labor market indicators suggests that underutilization of labor resources continues to diminish. Consumer spending is rising moderately, as recent declines in energy prices have boosted household purchasing power. Business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has declined further below the FOMC’s long-run objective, largely 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.

Storage

EIA reports that the working gas in storage was 2,268 Bcf as of February 6, 2015, a net decrease of 160 Bcf from the previous week. Stocks were 542 Bcf higher than the same period a year ago—up 31.4 percent—and down 11 Bcf from the 5-year average of 2,279 Bcf—a decrease of 0.5 percent.⁸

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 2010 through 2014. The dashed vertical lines indicate current and year-ago weekly periods.
Source: EIA, *Weekly Natural Gas Storage Report* (released February 12, 2015)

EIA indicates that the “[f]ollowing last year’s extremely cold winter, inventories fell 1,000 Bcf below the five-year average in mid-April but since then have consistently narrowed the gap. EIA projects that end-of-March 2015 inventories will total 1,699 Bcf, 43

⁸ EIA, *Weekly Natural Gas Storage Report* (released February 12, 2015).

Bcf more than the five-year (2010-14) average.”⁹ Unless colder weather for the remainder of the winter heating season draws down storage at a faster rate, the current picture may be neutral 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 2015 STEO, EIA expects natural gas marketed production to grow by an annual rate of 3.8% in 2015 and 2.2% in 2016. EIA indicates that “[t]his increase reflects continuing strong production in the Lower 48 states, which more than offsets the long-term declining production in the Gulf of Mexico. Although natural gas prices have fallen dramatically in recent months, EIA expects that increases in drilling efficiency and growth in oil production (albeit at a slower rate) will continue to support growing natural gas production in the forecast. Additionally, preliminary data indicate freeze-offs modestly reduced production in January, but production has quickly recovered and growth continues. With most growth expected to come from the Marcellus Shale, a backlog of drilled but uncompleted wells will continue to support production growth, as new pipelines come online in the Northeast. Increases in domestic natural gas production are expected to contribute to lower demand for natural gas imports from Canada and increasing 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, coupled with flat Mexican natural gas production. Liquefied natural gas (LNG) imports have fallen over the past five years because higher prices in Europe and Asia are more attractive to LNG exporters than the relatively low prices in the United States. Forecast LNG gross imports average 0.2 Bcf/d in both 2015 and 2016. EIA projects that LNG gross exports will increase from an average of 0.04 Bcf/d in 2014 to almost 0.8 Bcf/d in 2016.”¹⁰

National Security

As noted in previous reports, we see little danger to the natural gas supply.¹¹ 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 \$0.51 per therm for February 2015 is down 13.6 percent from the previous month, and is also down 23.0 percent compared to the same period a year ago. The March 2015 PGC (assuming that the commodity market adjustment factor is zero) may be around \$0.48 per therm, based, in part, on the expectation that near-term NYMEX futures prices trade between \$0.26 and \$0.30 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

⁹ EIA, *STEO* (February 2015) at 8.

¹⁰ *Ibid.*

¹¹ As of February 16, 2015, 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.

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).

Wholesale Natural Gas Price/Supply Assessment Information

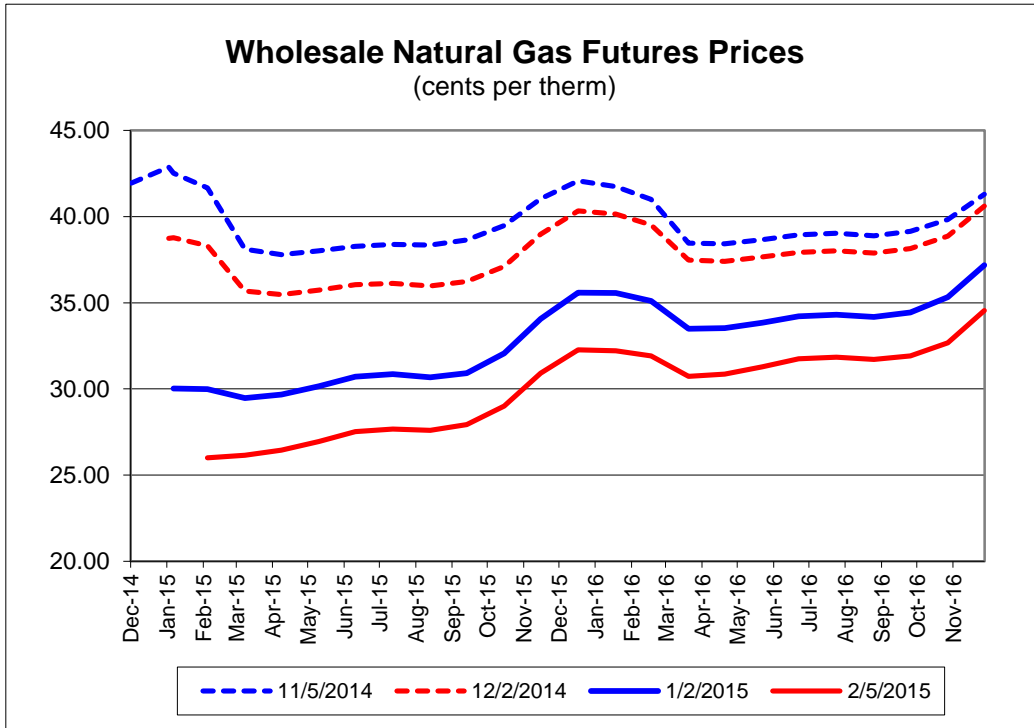
Current for February 5, 2015

Price Information

Twelve Month NYMEX Strip Components
2/5/15, cents per therm

Henry Hub Spot Market Price
2/5/15, cents per therm

	<u>Current Month</u>	<u>Previous Month</u>	<u>Current Only Available</u>
Mar 15	26.00	Mar 15 29.99	26.6
Apr 15	26.14	Apr 15 29.46	
May 15	26.45	May 15 29.67	
Jun 15	26.94	Jun 15 30.15	
Jul 15	27.52	Jul 15 30.71	
Aug 15	27.66	Aug 15 30.85	
Sep 15	27.59	Sep 15 30.67	
Oct 15	27.93	Oct 15 30.92	
Nov 15	29.01	Nov 15 32.06	
Dec 15	30.91	Dec 15 34.06	
Jan 16	32.26	Jan 16 35.58	
Feb 16	32.21	Feb 16 35.56	



The current PGC for February 2015 is about \$0.51 per therm. Assuming, among other things, that near-term futures prices remain around \$0.26 to \$0.30 per therm, the PGC rate (excluding the commodity market adjustment factor) for March 2015 may be around \$0.48 per therm. However, given the uncertainty about the weather, as well as other factors, this assessment could easily change. The assessment for February 2015 is that wholesale prices may remain around \$0.30 per therm, resulting in wholesale prices that are lower by at least 40 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 February 17, 2015

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.