

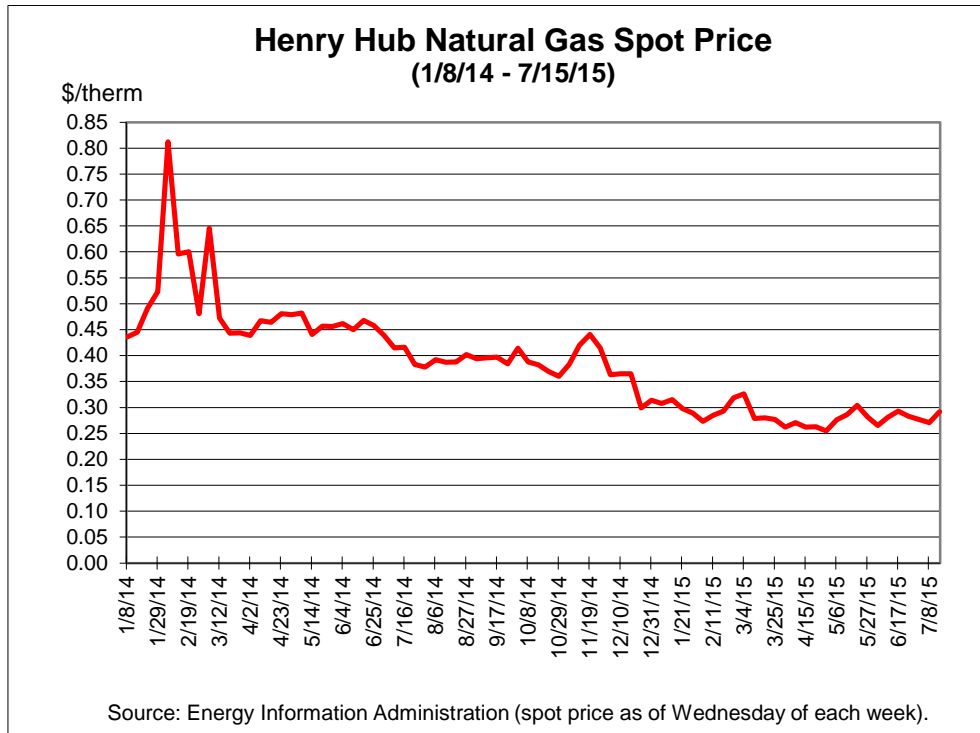
WHOLESALE NATURAL GAS MARKET ASSESSMENT

Wholesale Natural Gas Futures Prices as of July 2, 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 July 2015.¹ OTRA's current assessment of the natural gas market suggests that wholesale natural gas prices may remain around \$0.30 per therm, or less, during July 2015 (see Henry Hub Spot Price figure). Recent natural gas spot prices are around 30 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 June 2015 was about \$0.28 per therm, down from \$0.29 per therm in the previous month.² In its Short-Term Energy Outlook ("STEO") for July 2015, EIA expects **"monthly average spot prices to remain lower than [\$0.30 per therm] in July, and lower than [\$0.40 per therm] through the remainder of the forecast. The projected Henry Hub natural gas prices [are expected to average \$0.297 per therm] in 2015 and [\$0.331 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* (July 2015) at 8.

³ *Ibid* at 8 and 9.

As of July 10, 2015, natural gas in storage stood at 2,767 billion cubic feet (“Bcf”). The working gas in storage is up 31 percent from the same period a year ago, and is up by about 3 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”).⁴ The PGC for July 2015 is 46.01 cents (\$0.46) per therm compared with 70.51 cents (\$0.71) per therm for the same period a year ago—down 35 percent. The PGC for July 2015 is down 20 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 July 14, 2015, the National Oceanic and Atmospheric Administration (“NOAA”) indicated that its outlook for the remainder of July generally calls for above normal temperatures for the West Coast, Plains, Mid-Atlantic and Southeast portion of the nation.⁵ Below normal temperatures are generally expected for certain western portions of the U.S. The expected weather for the remainder of July should be neutral for natural gas prices. Looking ahead to the next couple of months—August and September—NOAA anticipates above normal temperatures for areas west of the Rocky Mountains and along the Eastern Seaboard. Below normal temperatures are likely for parts of the Central and Southern Plains. Thus, the next two months may still provide limited upward pressure to natural gas prices.

As of July 1, 2015, researchers at Colorado State University provided an updated report on the 2015 Atlantic hurricane season and continue to expect a below average hurricane season—due to a strong El Niño underway and cooler than normal temperatures for the tropical Atlantic.⁶ They estimate that 2015 will have eight (8) named storms (median is 12.0), about three (3) hurricanes (median is 6.5), and only one (1) major hurricane (median is 2.0) rated at Category 3 or above. As of July 14, 2015, there have been three (3) named storms, none of which developed into hurricanes. Any significant storm-related disruption to the energy infrastructure—in the Gulf of Mexico, for example—will tend to contribute to upward pressure on natural gas prices.

⁴ 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.

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

⁶ Department of Atmospheric Science, Colorado State University, *Forecast of Atlantic Seasonal Hurricane Activity and Landfall Strike Probability for 2015* (July 1, 2015).

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 growth has expanded moderately after having changed little during the first quarter.⁷ The FOMC noted that the pace of job gains picked up while the unemployment rate remained relatively steady—with the June unemployment rate at 5.3 percent. In addition, a range of labor market indicators suggests that the underutilization of labor resources diminished somewhat. Growth in consumer spending has been moderate and the housing sector has shown some improvement; however, business fixed investment and net exports remained soft. Inflation continued to run below the FOMC’s longer-run objective, partly reflecting earlier declines in energy prices, which appear to have stabilized, and decreasing prices of non-energy imports.

The FOMC expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators continuing to move toward levels the Committee judges consistent with its dual mandate. The FOMC continues to see the risks to the outlook for economic activity and the labor market as nearly balanced. Inflation is expected to remain near its recent low level in the near term, but the FOMC anticipates inflation to rise gradually toward 2 percent over the medium term as the labor market improves further and the transitory effects of earlier declines in energy and import prices dissipate. To support continued progress toward maximum employment and price stability, the FOMC reaffirmed its view that the current low target range for the short-term interest rate remains appropriate. Thus, at present, the current state of economic activity may still be relatively neutral for natural gas prices.

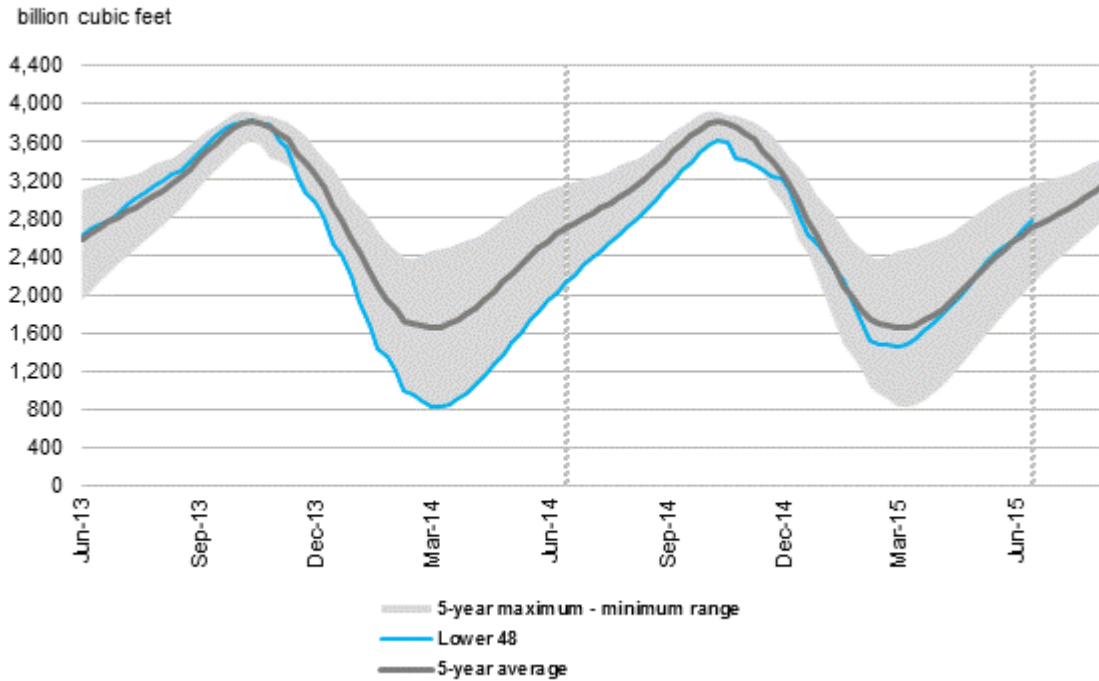
Storage

EIA reports that the working gas in storage was 2,767 Bcf as of July 10, 2015, a net increase of 99 Bcf from the previous week. Stocks were 653 Bcf higher than the same period a year ago—up 30.9 percent—and up 73 Bcf from the 5-year average of 2,694 Bcf—an increase of 2.7 percent.⁸

⁷ Statement of the Federal Open Market Committee (released June 17, 2015).

⁸ EIA, *Weekly Natural Gas Storage Report* (released July 16, 2015).

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 July 16, 2015)

EIA indicates that “[t]o this point in the inventory refill season, injections have surpassed the five-year average by a wide margin. EIA projects end-of-October 2015 inventories will total 3,919 Bcf, 121 Bcf (3.2%) above the five-year average for that time.”⁹ Although unexpected hot weather during the summer cooling season could slow the storage build, the current picture may suggest some downward 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 July 2015 STEO, EIA expects natural gas marketed production to grow by an annual rate of 5.7% in 2015 and 2.0% in 2016. EIA indicates that this is a reflection of “continued growth through 2016, with increases in the Lower 48 states expected to more than offset long-term production declines in the Gulf of Mexico. Increases in drilling efficiency will continue to support growing natural gas production in the forecast despite relatively low natural gas prices. Most of the growth is expected to come from the Marcellus Shale, as the backlog of uncompleted wells is reduced and new pipelines come online to deliver Marcellus natural gas to markets in the Northeast. Increases in domestic natural gas production are expected to reduce demand for natural gas imports from Canada and to support growth in exports to Mexico. EIA expects natural gas exports to Mexico, particularly from the Eagle Ford Shale in South Texas, to increase because of growing demand from Mexico’s electric power

⁹ EIA, *STEO* (July 2015) at 8.

sector, coupled with flat Mexican natural gas production. EIA projects LNG gross exports will increase to an average of 0.79 Bcf/d in 2016, with the startup of a major LNG liquefaction plant in the Lower 48 states.”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 \$0.46 per therm for July 2015 is down 19.9 percent from the previous month, and is also down 34.7 percent compared to the same period a year ago.¹² The August 2015 PGC (assuming that the commodity market adjustment factor is zero) may remain around \$0.46 per therm, based, in part, on the expectation that near-term NYMEX futures prices continue to 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 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).

¹⁰ EIA, *STEO* (July 2015) at 8.

¹¹ As of July 15, 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.

¹² The commodity market adjustment factor for the July 2015 PGC was \$0.0 per therm, resulting in the adjusted PGC (excluding the commodity market adjustment factor) being equal to \$0.4601 per therm.

Wholesale Natural Gas Price/Supply Assessment Information

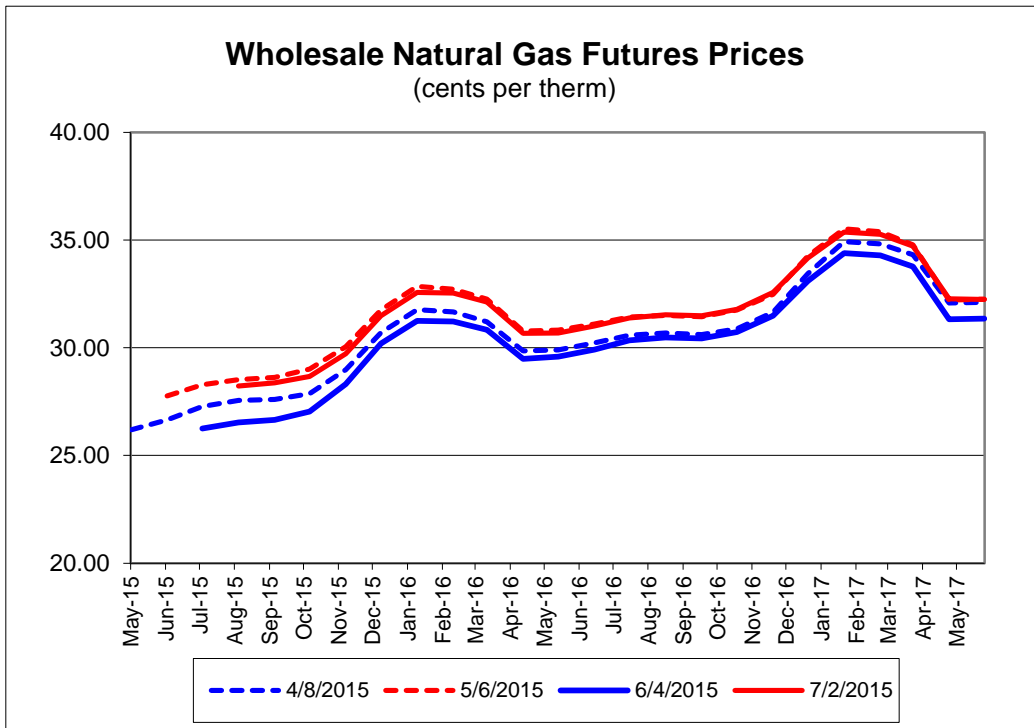
Current for July 2, 2015

Price Information

Twelve Month NYMEX Strip Components
7/2/15, cents per therm

Henry Hub Spot Market Price
7/2/15, cents per therm

	<u>Current Month</u>	<u>Previous Month</u>	<u>Current Only Available</u>
Aug 15	28.22	Aug 15 26.54	27.9
Sep 15	28.37	Sep 15 25.55	
Oct 15	28.67	Oct 15 27.04	
Nov 15	29.72	Nov 15 28.31	
Dec 15	31.49	Dec 15 30.20	
Jan 16	32.57	Jan 16 31.26	
Feb 16	32.54	Feb 16 31.23	
Mar 16	32.13	Mar 16 30.84	
Apr 16	30.67	Apr 16 29.48	
May 16	30.69	May 16 29.59	
Jun 16	31.01	Jun 16 29.92	
Jul 16	31.38	Jul 16 30.35	



The current PGC for July 2015 is about \$0.46 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 August 2015 may remain around \$0.46 per therm. However, given the uncertainty about the weather, as well as other factors, this assessment could easily change. The assessment for July 2015 is that wholesale prices may remain around \$0.30 per therm, or less, resulting in wholesale prices that are lower by around 30 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 July 15, 2015

Factors	This Month	Summer 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.