

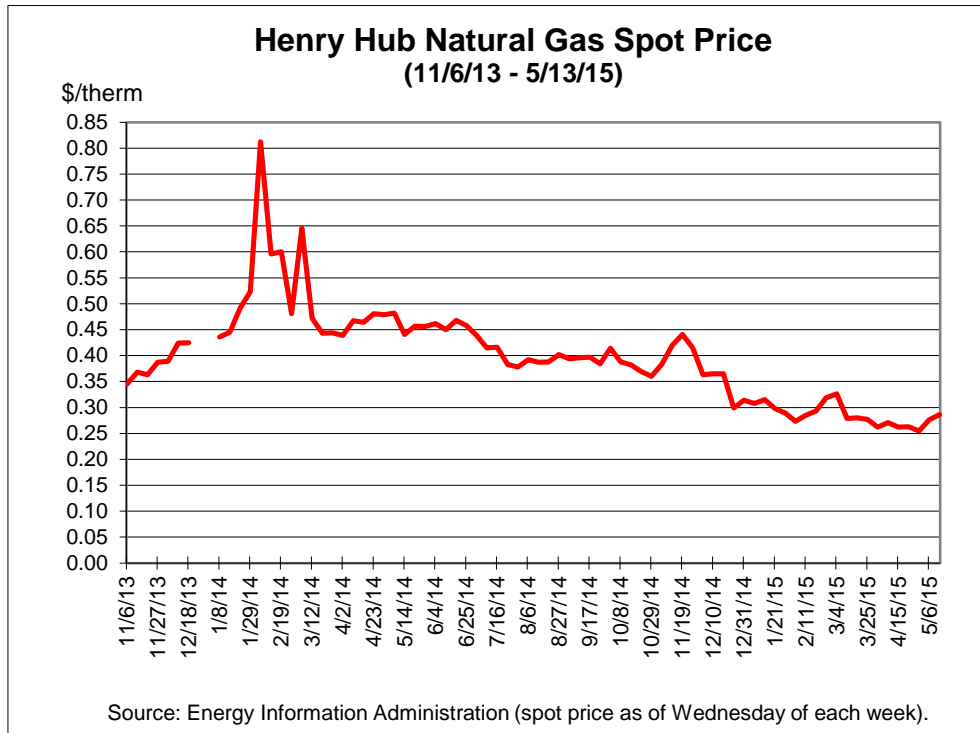
# WHOLESALE NATURAL GAS MARKET ASSESSMENT

## Wholesale Natural Gas Futures Prices as of May 6, 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 May 2015.<sup>1</sup> 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 May 2015 (see Henry Hub Spot Price figure). Recent natural gas spot prices are at least 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 April 2015 was about \$0.26 per therm, down from \$0.28 per therm in the previous month.<sup>2</sup> In its Short-Term Energy Outlook ("STEO") for May 2015, EIA expects **"monthly average spot prices to remain lower than [\$0.30 per therm] through August, and lower than [\$0.40 per therm] through the remainder of the forecast. The projected Henry Hub natural gas prices [are expected to average \$0.293 per therm] in 2015 and [\$0.332 per therm] in 2016...."**<sup>3</sup> Natural gas prices averaged \$0.437 per therm in 2014.

<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* (May 2015) at 8.  
<sup>3</sup> Ibid.

As of May 8, 2015, natural gas in storage stood at 1,897 billion cubic feet (“Bcf”). The working gas in storage is up 66 percent from the same period a year ago, but is down by about 2 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”).<sup>4</sup> The PGC for May 2015 is 63.91 cents (\$0.64) per therm compared with 73.24 cents (\$0.73) per therm for the same period a year ago—down 13 percent. The PGC for May 2015, however, is unchanged 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 May 14, 2015, the National Oceanic and Atmospheric Administration (“NOAA”) indicated that its outlook for the remainder of May generally calls for below normal temperatures for the southwestern quarter of the nation.<sup>5</sup> Above normal temperatures are generally expected for the northwestern and southeastern portions of the U.S. The expected weather for the remainder of May should be neutral for 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 growth slowed during the winter months, in part reflecting transitory factors.<sup>6</sup> While the pace of job gains moderated, and the unemployment rate remained steady, a range of labor market indicators suggests that underutilization of labor resources was little changed. Growth in household spending declined, although households’ real incomes rose strongly, partly reflecting previous declines in energy prices. Business fixed investment softened and the recovery in the housing sector remained slow. Inflation continued to run below the FOMC’s long-run objective, partly reflecting earlier declines in energy prices and decreasing prices of non-energy imports.

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 predicts inflation will rise gradually toward 2 percent over the medium term as the labor market improves further and the transitory effects of declines in energy and import

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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/>.

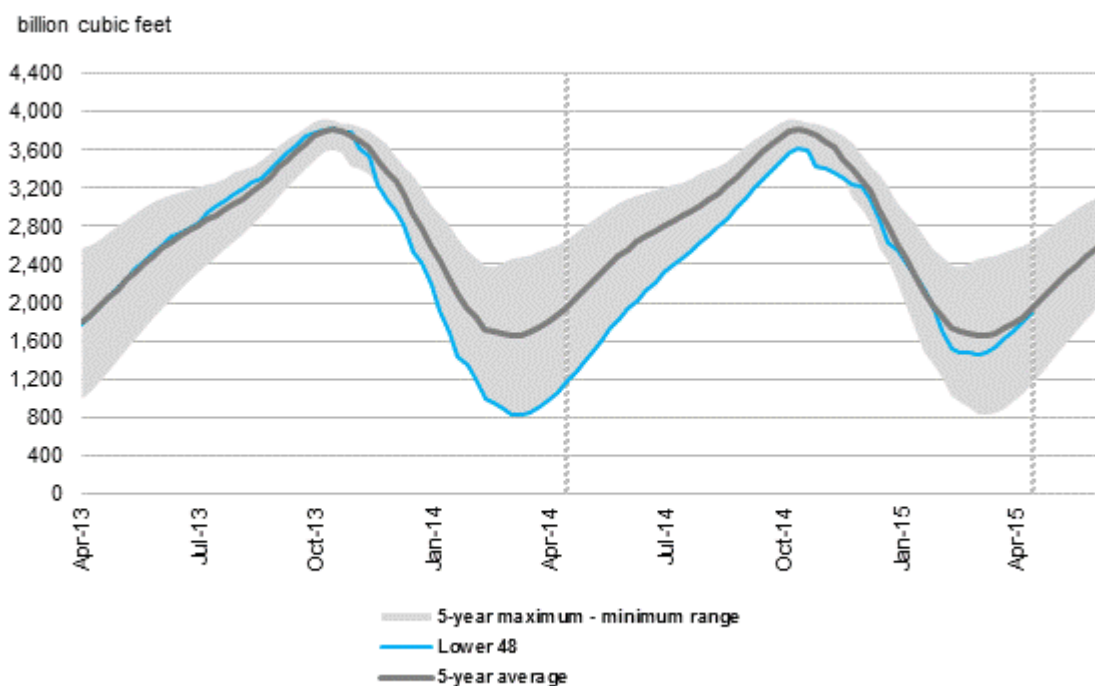
<sup>6</sup> Statement of the Federal Open Market Committee (released April 29, 2015).

prices weaken. 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 1,897 Bcf as of May 8, 2015, a net increase of 111 Bcf from the previous week. Stocks were 752 Bcf higher than the same period a year ago—up 65.7 percent—but down 38 Bcf from the 5-year average of 1,935 Bcf—a decrease of 2.0 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 2010 through 2014. The dashed vertical lines indicate current and year-ago weekly periods.  
Source: EIA, *Weekly Natural Gas Storage Report* (released May 14, 2015)

EIA indicates that “[s]o far during the refill season, injections have surpassed the five-year average injections by a wide margin. EIA projects end-of-October 2015 inventories will total 3,890 Bcf, 92 Bcf above the five-year average.”<sup>8</sup> 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.

<sup>7</sup> EIA, *Weekly Natural Gas Storage Report* (released May 14, 2015).

<sup>8</sup> EIA, *STEO* (May 2015) at 8.

## 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 May 2015 STEO, EIA expects natural gas marketed production to grow by an annual rate of 6.0% in 2015 and 1.7% in 2016. EIA indicates that this is a reflection of **“continuing production growth in the Lower 48 states, which more than offsets the long-term declining production in the Gulf of Mexico. Although EIA expects natural gas prices to remain low, 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. Most growth is expected to come from the Marcellus shale, as a backlog of drilled wells are completed and new pipelines come online to deliver Marcellus gas to markets in the Northeast. Preliminary data indicate significant production growth in April and the beginning of May. 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 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. 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.”**<sup>9</sup>

## National Security

As noted in previous reports, we see little danger to the natural gas supply.<sup>10</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 \$0.64 per therm for May 2015 is unchanged from the previous month, but is down 12.7 percent compared to the same period a year ago.<sup>11</sup> The June 2015 PGC (assuming that the commodity market adjustment factor is zero) may be around \$0.45 per therm, based, in part, on the expectation that near-term NYMEX futures prices continue to trade between \$0.26 and \$0.31 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

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<sup>9</sup> EIA, *STEO* (May 2015) at 8.

<sup>10</sup> As of May 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.

<sup>11</sup> The commodity market adjustment factor for the May 2015 PGC was \$0.15 per therm, resulting in the adjusted PGC (excluding the commodity market adjustment factor) being equal to \$0.4891 per therm.

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

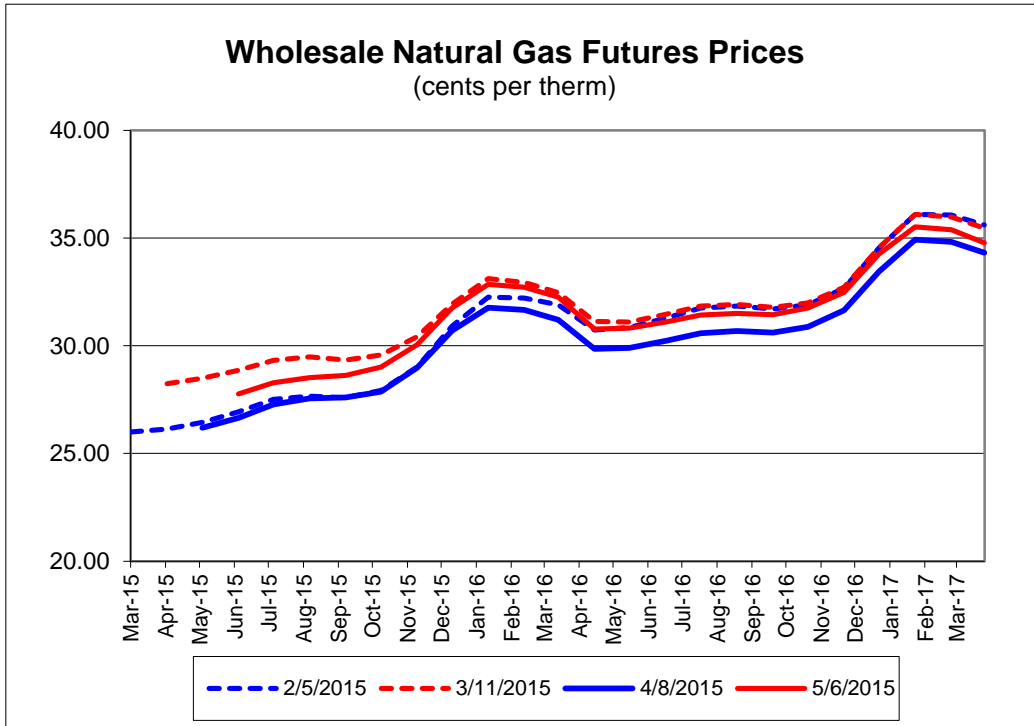
Current for May 6, 2015

## Price Information

Twelve Month NYMEX Strip Components  
5/6/15, cents per therm

Henry Hub Spot Market Price  
5/6/15, cents per therm

	<u>Current Month</u>	<u>Previous Month</u>	<u>Current Only Available</u>
Jun 15	27.76	Jun 15 26.66	27.6
Jul 15	28.28	Jul 15 27.27	
Aug 15	28.52	Aug 15 27.56	
Sep 15	28.63	Sep 15 27.60	
Oct 15	29.02	Oct 15 27.87	
Nov 15	30.05	Nov 15 28.98	
Dec 15	31.76	Dec 15 30.70	
Jan 16	32.85	Jan 16 31.77	
Feb 16	32.72	Feb 16 31.67	
Mar 16	32.26	Mar 16 31.21	
Apr 16	30.78	Apr 16 29.86	
May 16	30.82	May 16 29.91	



The current PGC for May 2015 is about \$0.64 per therm. Assuming, among other things, that near-term futures prices remain around \$0.26 to \$0.31 per therm, the PGC rate (excluding the commodity market adjustment factor) for June 2015 may remain around \$0.45 per therm. However, given the uncertainty about the weather, as well as other factors, this assessment could easily change. The assessment for May 2015 is that wholesale prices may remain around \$0.30 per therm, or less, resulting in wholesale prices that are lower by at least 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 May 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.