

NEWS

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Winter Natural Gas Outlook Projects Record Demand, Matched by Robust Storage and Production, Says NGSA Forecast

Washington, D.C. – Colder weather forecasts and greater demand for natural gas than last winter are expected to place upward pressure on natural gas prices this winter compared to last winter's unusually low prices, the Natural Gas Supply Association (NGSA) said today in its 16th annual Winter Outlook assessment of the wholesale natural gas market.

Using published data and independent analyses, NGSA evaluated the combined impact of weather, economic growth, customer demand, storage inventories and supply activity on the direction of natural gas prices for the winter of 2016-17 compared to last winter. NGSA emphasized that upward pressure on prices was in comparison to last winter, when wholesale winter natural gas prices at the Henry Hub averaged a 16-year low of \$1.98 per MMBtu.

NGSA underscored that natural gas supplies are ample to meet winter demand, and that reliability is further enhanced by an anticipated near-record amount of natural gas in storage.

"The picture that emerged for the upcoming winter is one of a flexible natural gas market that is able to respond to changes in weather and customer demand with ample supply and full storage facilities. Because of colder weather and growth in demand for natural gas, NGSA anticipates upward pressure on prices compared to last winter," said Bill Green, Chairman of NGSA and Vice President, Downstream Marketing, for Devon Energy Corp.

Green said, "We'd like consumers to keep in mind that wholesale natural gas prices were unusually low last winter due to record warm winter weather. Last winter, wholesale prices averaged less than \$2 per MMBtu, the lowest since the '90s and that's not just because the winter was so mild. It's also because of abundant gas from shale, with even more gas on tap from storage and a flexible and responsive pipeline infrastructure system."

Key Demand Factor for Winter 2016-17 – Weather Projected 12% Colder Than Last Winter

Combining demand from all the major customer sectors – residential and commercial, industrial, electric and exports-- Energy Ventures Analysis (EVA) projects record demand of 92.3 Bcf/day, primarily because the forecasted 12 percent colder winter is predicted to increase winter demand from the residential and commercial sectors by a combined 4 Bcf/day on average.

Expectations for growth in industrial demand of 0.7 Bcf/day this winter contribute to the forecasted increase in total winter demand for natural gas. New builds and capacity expansions in the natural gas-intensive petrochemical and fertilizer industries continue to drive natural gas demand. NGSA said 71 capacity expansions and new-build projects in the petrochemical and fertilizer industries are planned over the 2015-21 time period, consuming an estimated 3.7 Bcf/day more of natural gas annually by 2021.

And growth in exports to Mexico as well as exports of LNG contribute to the increased demand – winter over winter, EVA projects Mexican exports to grow 0.8 Bcf/day and LNG exports to average an additional 0.8 Bcf/day. "While LNG exports are growing, they remain a very small slice of overall demand," Green said.

A decline in winter demand from the electric sector of 3.3 Bcf/day is expected to somewhat offset the other sectors' growth. The drop in electric sector demand is attributable to less "fuel switching," a temporary phenomenon that occurs when electric utilities temporarily switch to running gas-fired power plants because of lower fuel costs. EVA forecasts significantly less short-term fuel switching to gas than last winter because of expected higher natural gas prices.

"NGSA anticipates temporary fuel-switching to natural gas to continue this winter, but at about half the volumes that took place during last winter's record-setting fuel switching," said Green. In fact, the U.S. Energy Information Administration credits the power sector's increased use of natural gas in 2015 to reducing CO2 emissions to the lowest levels since 1993.

Key Supply Factor for Winter 2015-16 – Record Storage, Slight Drop in Production

Turning to this winter's natural gas supply fundamentals, the *Outlook* projects a winter of robust production, although production will drop slightly from last year's record high. Green said, "The shale revolution has ushered in a remarkable era, as evidenced by dramatic growth in production over the last nine years. Despite the low rig count, this winter's supply is expected to remain robust because of drilling efficiencies and new infrastructure coming online to move natural gas to customers."

According to Green, "The important takeaway is the strength and responsiveness of natural gas supply. When you take into account the expectation for record storage and the strength and flexibility of the natural gas pipeline system, the industry is well-positioned to meet record demand from consumers."

In brief, NGSA's analysis of individual supply and demand factors showed:

Weather – Anticipated 12 percent colder than last winter but still 3 percent warmer than the 30-year average. *Upward pressure.*

Economy – Average growth in GDP similar to last winter is expected. *Neutral pressure.*

Overall Demand – Customer demand projected to average 92.3 Bcf/day. Major growth of 12 percent expected in the **residential/commercial sector**, due to colder weather. **Industrial sector** demand is projected to set a new record, although it will increase only slightly compared to last winter. **Electric** demand will decrease compared to last winter due to less short-term fuel switching. Exports to Mexico and LNG exports will increase compared to last winter. *Upward pressure.*

Storage – Potential for record inventory of gas in storage, similar to last winter. About 16 percent of winter supply comes from storage on average. *Neutral pressure.*

Supply – Although ample supply to meet demand, a small decrease in production of 0.5 Bcf/day is expected. The difference between last winter and this winter's supply is not significant. *Neutral pressure.*

NGSA used data from EVA and the EIA for its demand and supply projections and IHS Economics for its economic projections. **The NGSA analysis is based on publicly reported data; the association does not project actual price figures for wholesale or retail markets.**

For more information, please see NGSA's *2016-17 Winter Outlook Executive Summary*, *NGSA's 2016-17 Winter Outlook PowerPoint* presentation and the EVA report, *2016-17 Winter Outlook for Natural Gas* at www.ngsa.org.

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The Natural Gas Supply Association (NGSA) represents integrated and independent companies that supply natural gas in the U.S. Established in 1965, NGSA is the only Washington, DC-based trade association that solely focuses on producer/marketer issues related to the downstream natural gas industry. NGSA works to ensure natural gas customer and policymaker support for competitive and efficient markets that support the long-term viability of natural gas in the United States. For more information, please visit www.ngsa.org and www.naturalgas.org.

Markets Matter: Representing America's Major Producers and Suppliers of Natural Gas Since 1965