

Energy Market Update: Factors and Trends to Consider this Winter

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As we enter the winter season, there are a variety of factors that influence natural gas – and, thus, electricity – prices across the nation. Weather, production, and supply have the greatest influence on natural gas prices. And, though, natural gas production is at record highs, this is the season with historically low natural gas supplies.

Additionally, there's the long-term factor of increasing natural gas exports and the effect that may have on domestic prices. Winter is traditionally a time of price volatility with higher electricity and natural gas prices during the colder months.

As 50 percent of U.S. households and businesses are heated by natural gas, and the price of natural gas is directly linked to the price of electricity, everyone has a vested interest in understanding what the market is doing and will do during the winter season.

Unsurprisingly, the weather is the most influential factor on natural gas. The National Oceanic and Atmospheric Administration has predicted a 13 percent increase in heating degree days for 2018 compared to 2017.

The weather has been unpredictable throughout the late autumn, with cold snaps giving way to widespread warming, and vice versa. If we have a terribly cold winter, we may see prices climb to historic highs, reminiscent of the 2013-14 polar vortex event. However, there are no infallible predictions.

It can't be understated that the market is severely weather-driven, and while other factors act as a balancer, we will see the market rise or fall by the thermostat.

Balancing the effect of the weather, natural gas production is currently at record highs, largely due to the Marcellus/Utica basins. Production in the lower 48 states reached an all-time high of 77 billion cubic feet per day (Bcf/d).

Sustainable growth in production could signal a bearish market after the winter heating season, and a more imminent drop in prices if winter weather proves to be mild.

It should be noted that sustainable growth in production is exactly what the Energy Information Agency is projecting. The 2018 natural gas production is expected to be 4.9 Bcf/d higher than 2017 levels, and new pipeline projects should come online within the next few years.

Despite the strong production, we are entering the season with the lowest natural gas storage levels since 2014 with natural gas stocks 7.7 percent lower than their year ago levels, and 2.8 percent below the five-year average. Most analysts view this as an adequate storage level, assuming normal winter weather and our current levels of natural gas production.

Given that storage is largely a product of supply (which most closely relates to production) and demand (of which weather is a major driver), this factor shouldn't be considered as influential as the components which drive it, but still should be observed as an indicator of any tips in the balance of supply and demand.

Of course, domestic consumption is far from the only driver of demand.

Though a long-term influencer and not limited to the winter season, exports of natural gas are at record highs.

In late 2017, natural gas exports to Mexico reached an all-time high of 4.7 Bcf/d, pushing the U.S. into yet another record-setting 7.8 Bcf/d in overall exports.

Liquefied natural gas exports, too, are expected to continue increasing, going from 2 to 9 Bcf/d over the next three years. While not exactly a short-term trend, the increase in demand may place upward pressure on pricing.

Weather prediction, like price prediction, is no simple science and a severe winter could escalate prices significantly. So, it would be prudent to prepare for anything, including checking that electricity supply contracts are not due to expire during the winter season.

Allowing a facility's energy to be exposed to market-based rates creates significant risk of increased costs due to market volatility. APPI Energy can assist in reviewing your current supply contract. For more information call 800-520-6685.

Editor's Note: APPI Energy is the Endorsed Energy Supplier of the Pennsylvania State Association of Boroughs.