Seeking natural gas price equilibrium

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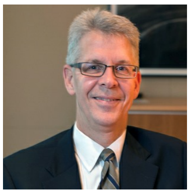
Natural Gas prices are once again testing $2.00 per MMBtu on the NYMEX exchange. This article from Platts provides a good summary of the factors that are driving down prices. Those factors include:

1. **Total Supply** – Even with low prices, US production is up 5 percent year to year.
2. **Lower Demand** – “For all the talk about a recovering economy, the numbers for industrial demand tell a different story.” Not only is industrial demand down year to year but commercial and residential demand has also decreased.
3. **Weather** – Predictions for the 2015-16 winter are almost universally for moderate temperatures in the Midwest and Northeast. A cold winter is almost a necessity for price recovery.
4. **Storage** – The US is on pace to set a record for the amount of gas in storage entering the winter months.
5. **Infrastructure Constraints** – As low as current pricing is on the major exchanges, the price within the Marcellus and Utica basins can be almost half that posted price because of the lack of pipeline transportation out of these basins. The Northeast Gas Association recently outlined the pending projects that might improve the transportation picture.

Prices this low are a real head wind on the industry and all the derived economic benefits. Tens of billions of dollars have flowed into the Appalachian basin and thousands of jobs have been created by the oil and gas industry over the last six years, but this activity is jeopardized by volatile and depressed pricing. Hopefully a new equilibrium can be reached that will allow the US to enjoy both low pricing and the economic benefits of the industry.



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