Inside FERC's Gas Market Report

Gas marketers face host of Q1 challenges from weather, prices

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ANALYSIS Natural gas marketers faced a multitude of challenges in the first quarter of this year, from mild weather that tamped down demand, to the continued effects — both positive and negative — of sustained low gas prices, including the growing number of bankruptcies among exploration-and-production companies.

The rankings of the top three companies in Platts' quarterly survey of the largest natural gas marketers in North America remained unchanged from the fourth quarter of last year.

BP remained the 800-pound gorilla in the gas marketing business, selling 22.9 Bcf/d of gas in the US and Canada in the quarter, more than twice as much as second-place marketer Shell Energy, which recorded sales volumes of 10.7 Bcf/d in the quarter. Rounding out the top three is Macquarie Energy, which sold 9.8 Bcf/d.

Fourth-place Tenaska marketed 9.2 Bcf/d of gas in Q1 2016. ConocoPhillips, which sold 8.9 Bcf/d in the quarter, captured the fifth place in the survey, behind Tenaska.

Nineteen of the 24 marketers in the survey reported volume declines in the first quarter of 2016, compared with the same quarter of 2015.

Three of the top five natural gas marketers were among the companies with year-over-year declines. BP, which retained its spot as the largest marketer by gas volumes sold, reported a 2 Bcf/d, or 8% decline compared with Q1 2015.

Second-place marketer Shell Energy reported a 700 MMcf/d, or 6%, decline in marketed gas volumes, while privately held Tenaska, fourth in the survey, posted a 400 MMcf/d, or 5%, increase. Integrated oil and gas company ConocoPhillips, which ranked fifth in the quarterly survey, reported a 600 MMcf/d, or 7% drop in marketed volumes of gas, while fifth-place Sequent saw a modest 100 MMcf/d, or 1% increase in marketed volumes.

Some market players blamed the declines on the mild weather experienced across much of the continent in Q1 2016, and its impact on demand.

Top North American gas marketers
by wholesale physical volumes sold, first quarter (in Bcf/d)

	Company	2016	2015	Change
1	BP	22.9	24.9	-2.0
2	Shell Energy	10.7	11.4	-0.7
3	Macquarie Energy	9.8	11.0	-1.2
4	Tenaska	9.2	8.8	0.4
5	ConocoPhillips	8.9	9.5	-0.6
6	AGL/Sequent	7.9	7.8	0.1
7	J Aron/ Goldman Sachs	6.0	7.2	-1.2

8	Direct Energy	5.4	5.7	-0.3
9	EDF Trading	4.3	5.3	-1.0
10	Chevron	4.1	4.5	-0.4
11	ExxonMobil	3.4	3.5	-0.1
12	Chesapeake Energy	3.2	5.0	-1.8
13	Southwestern Energy	3.1	2.9	0.2
14	Castleton Commodities	2.3	3.5	-1.2
	Anadarko Petroleum	2.3	2.7	-0.4
16	Noble Americas Gas & Power	2.1	2.2	-0.1
17	NextEra	1.9	1.8	0.1
	CenterPoint Energy	1.9	2.1	-0.2
19	Cabot	1.7	1.8	-0.1
	NJR Energy Services	1.7	2.2	-0.5
21	Devon	1.6	1.6	-0.1
22	Encana	1.5	1.9	-0.4
23	BNP Paribas	1.2	1.6	-0.4
	Emera	1.2	0.8	0.3
	Total	118.2	129.8	-11.6
	Average	4.9	5.4	-0.5

Source: Data complied from quarterly filings with the Securities & Exchange Commission. In cases where such data was not available, a certified statement from a company executive was required. Data from some producers reflect average production.

Weather was big story in Q1 for gas marketers

“The story of first quarter of 2016 for us and everybody else was the weather. It was extremely warm,” John Schultz, president of Direct Energy Business, said in a May 27 interview.

“By our estimates it was the third warmest quarter on record, particularly February and March. Weather obviously impacted the demand and the overall price environment for gas in the first quarter. Our volumes were down year-on-year something like 5%,” Schultz said.

As a gas and electricity utility company, Direct Energy likely was more impacted by the weather-induced drop in demand than some other companies in the survey, he said.

“Unlike some of the other participants, Direct Energy is primarily a load-serving entity, which means the majority of our obligations come from serving commercial and industrial customers as well as utilities and natural gas-fired generators. There's not a lot of third-party trading and transaction volumes, which you might not see with some of the other folks in the survey,” Schultz said.

“While weather impacts everybody, it certainly affects us, because we are really focused on entities that consume natural gas and on end-users.”

Mark Christie, vice president, marketing and trading for Nova Scotia-based Emera Energy, agreed that weather played a big role in gas marketed volumes in the quarter.

“We certainly experienced much milder conditions in Q1 2016 than we have in the past few years, and particularly so in the Northeast. This manifested itself in materially lower volatility and strong headwinds for volume growth,” he said Friday in an email.

“The lack of wintry weather and the resulting growth in the storage surplus (over last year and the five-year average inventory) was by far the biggest driver this winter,” RBN analyst Sheetal Nasta said in an email.

“I believe it was the warmest on record, and the parts of the Northeast, where a lot of the space heating demand is during winter, in particular were especially record warm.”

Gas sellers continue to deal with low gas prices

Among the other major factors affecting the gas marketing business in the quarter was the continued trend of lower-than-normal natural gas prices.

Low gas prices can be a two-edged sword for gas marketers. Lower prices tend to increase demand for gas, but sustained low prices for both gas and crude oil also have caused financial headaches for many energy producers, leading to a number of bankruptcy filings among exploration-and-production companies, which potentially could influence the gas marketing business segment.

Fred Hunzeker, president and CEO of Tenaska Marketing Group, said the lower gas prices, spurred by the dramatic growth in gas production in recent years, “have created growth in the market as demand grows in response to that.”

This growth in demand in turn “is causing more people to request our services,” he said in a May 27 interview.

Hunzeker added that he has not yet begun to see the impact of E&P bankruptcies, although if the current trend of Chapter 11 filings by gas producers continues, it could eventually lead to a drop in produced volumes of gas for sale.

“They're essentially still producing. You always get this strange effect in any commodity where low prices cause more production, because people try to produce more to get more cash flow. We're still in that phase,” he said.

“With all the bankruptcies, that's going to slow down production, because those entities can't do any drilling or won't do any drilling, so eventually that will add to the slowdown in production, but we're not seeing that yet,” Hunzeker said.

Analysts, marketers see bullish trends

Looking to the rest of the year, some analysts foresee bullish price trends.

“Everyone should expect production declines and firming prices, once we get over the hump!” Michelle Michot Foss, chief energy economist at the University of Texas' Bureau of Economic Geology's Center for Energy Economics, said in an emailed statement.

Foss noted that there is lots of gas in storage, and the upcoming summer cooling season is likely to be very uneven.

“Meanwhile, as producers continue to adjust to the new reality of lower oil prices, with reduced capex affecting associated gas delivery (while low gas prices keep dry gas development off the table), we are building demand,” she said.

“Lots of stuff starts kicking in next year. The question is: what happens after that?”

In the longer term, many gas marketers remain bullish on the continued vitality of the natural gas market. They point to three key centers for demand growth in coming months: increased gas-fired power generation; the growth of gas exports to Mexico and the development of a robust liquefied natural gas export industry.

Direct Energy's Schultz noted that independent system operator PJM recently cleared its 2019-20 capacity auction offering 6,600 MW of new power generation, most of which was for natural gas-fired generation. “If you have low gas prices, particularly if [the Clean Power Plan] goes anywhere and there's a price on carbon, I think that's going to be a gas-advantaged world,” he said.

Increases seen in exports of gas, LNG

He added that he foresees increased exports of natural gas to Mexico. “There's talk of a big 2 Bcf or 2.5 Bcf subsea pipeline that some companies are trying to build into the Mexican market. That'll bolster demand in the US,” he said.

Hunzeker compared the current period of robust supply and low prices for gas to the period of the so-called “gas sausage” of the 1990s.

“The gas bubble turned into the gas sausage and it just went on forever. It does seem to be a little bit different this time in that we're seeing tangible increases in demand to consume this increase in production,” he said.

Hunzeker said he expects that growth in demand for the power generation and industrial sectors, coupled with increased LNG exports and exports to Mexico will help to relieve the market's current oversupplied condition and shore up gas prices.

“There will be some recovery in prices and there needs be a recovering in prices. We're below the cost of sustained production, so the market needs to correct back to some point where producers can produce and consumers can afford to buy the product,” Hunzeker said.

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Average Marketed Volumes and Henry Hub Prices|graph Source: Data compiled from quarterly filings with the Securities & Exchange Commission. In cases where such data was not available, a certified statement from a company executive was required. Data from some producers reflect average production and Platts Bentek

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