Five factors New England energy buyers should consider about today's and tomorrow's natural gas market - by Jamie Collins

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With extremely mild weather for most of the winter season in much of the Northeast – and a record amount of natural gas in storage – many commercial and industrial energy users may be wondering if the best time to buy is now. Before you lock in your next procurement deal, consider these five factors influencing the regional natural gas market and both near- and long-term buying decisions.

1. The 2015-2016 winter season: Broadly speaking, market analysts agree that ISO-NE has benefited from the same two factors that have put downward pressure on natural gas prices across the rest of the nation: mild winter weather combined with an oversupplied market. Andrew Weissman, chief executive officer of EBW Analytics Group and publisher of Energy Risk Report, says, “Outside of national market influences, prices in New England have performed remarkably well over the 2015-2016 winter season – even during the extreme dip in temperatures we saw in the second week of February.”

According to Weissman, there have been only a handful of times when prices have risen sharply or when prices have been higher in New England than in the rest of the U.S., which is impressive. The increase of LNG imports – combined with the use of oil as a backup generation fuel – has supported a noticeable stabilization of prices.

2. The forward curve outlook for 2016: The downward pressure on natural gas prices is likely to persist if warmer-than-normal weather continues to prevail in 2016. “Since falling to as low as $1.53/MMBtu over Christmas weekend, Henry Hub spot prices showed life and recovered to as high as $2.53/MMBtu in early to mid-January,” said Weissman. “The balance of 2016 has since receded to just under $2.05/MMBtu.”

He points to December’s and February’s mild weather as the primary factor behind the likelihood of depressed natural gas and electricity prices during the first half of the year. “The price of electricity in ISO-NE is often set by natural gas, unless natural gas prices are high enough that oil generation becomes a cheaper alternative,” Weissman said. “With fewer instances of very cold weather this year and ample supplies of natural gas, prices have spiked far less often. This has reduced the average price for both natural gas and electricity in ISO-NE – perhaps more than anywhere else in the country.”

He estimates natural gas prices to be 55-65¢ lower than in normal-weather circumstances, which could push prices in many ISOs, including ISO-NE, $5 to $7/MWh lower than 2015 averages.

Weissman believes, however, that the current forward curve is unsustainable and would not be surprised if prices continued to drop over the next few weeks. Later in the year, the forward curve could jump sharply.

3. The increasing prevalence of natural gas-fueled generation: With the 2014 retirement of Vermont Yankee – a 615 MW coal-fired plant – ISO-NE has grown even more dependent on natural gas generation. That trend is expected to continue with the recently announced retirement of the 680 MW Pilgrim Nuclear Power Station, which is scheduled to close by June 2019 but could be accelerated to 2017, and of the 1,500 MW Brayton Point Power Station. The latter, which has been called the “workhorse of the New England power grid” by The Providence Journal, will close in 2017.

These retirements are likely to have an impact on natural gas prices during winter months. Without these facilities, a higher proportion of electricity demand will be sourced from natural gas-fired generation. Additionally, fuel resource redundancy through LNG imports means that the New England power grid is well positioned as far as supply.

Weissman emphasizes, though, that winter weather remains critical. He cautions that, despite the success of measures to reduce price spikes this winter, New England remains vulnerable to extended periods of much higher prices if winter temperatures are colder. A severe winter on the heels of the Brayton Point retirement will almost certainly mean significantly higher electricity costs

for consumers.
4. The potential impact of LNG exports on natural gas prices: The United States shipped its first LNG export cargo from shale fields in the lower 48 states just before press time. Although exports to locations abroad could ultimately increase the price of natural gas, it will take some time before consumers see that happen. Weissman says LNG exports are a factor to consider in long-term buying. He said, “LNG exports will need to ramp up significantly before a sizable difference is seen in U.S. prices.”
5. Your facility’s load flexibility: Peak demand in the United States has been growing at a slower pace, and the diffusion of energy efficient technologies and processes have resulted in a more stable and reliable grid. In order to help maintain the grid – and make money during peak times – it is important to understand the level of load flexibility/curtailment you can undertake. Several different versions of notification technologies are available to support those efforts, all with their own respective advantages and disadvantages. At a minimum, it is recommended that large energy users monitor and reduce peak load contribution, understand load curtailment options, and assign budget reduction targets.

At the end of the day, knowing the market conditions in addition to your organizational goals and drivers is key to making the right procurement decision for your business. Talk with a broker like Secure Energy, which has extensive relationships with retail providers at the forefront of today’s energy environment. As seasoned energy professionals, we can help you understand the options, determine the right supplier, and build the best energy strategy for your business.

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