

# Storage Shortage in the East

## U.S. Power and Gas Weekly

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**Data Sources Used in This Publication**  
Energy Information Administration  
OPIS PointLogic Energy  
NOAA  
ICE

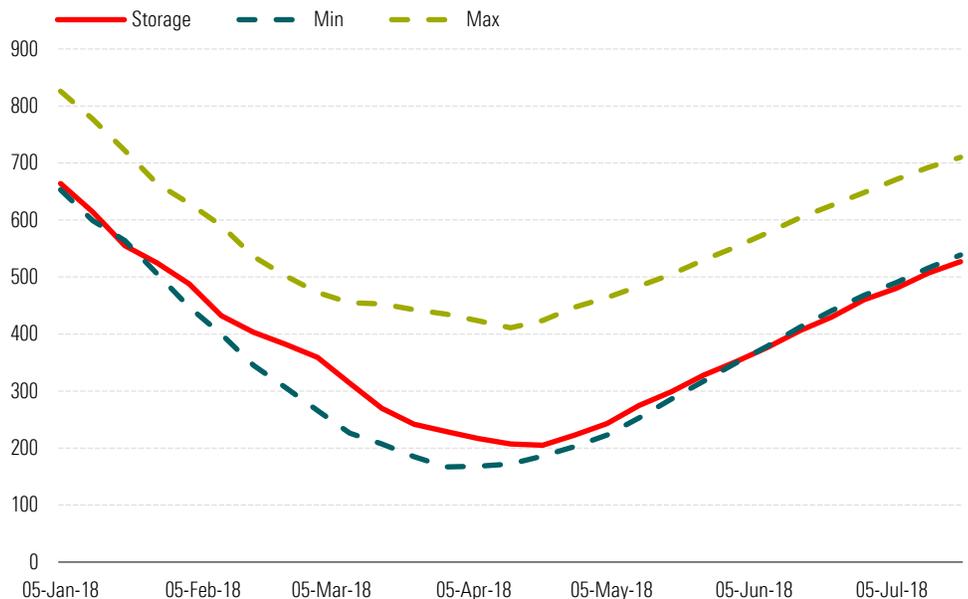
### Slow Storage Builds

Since the beginning of the year natural gas storage numbers have remained below the five-year average and increased weather-related demand has impacted the change in weekly storage. The week ended July 20 saw a modest 24 billion cubic feet build in the lower 48. This build is higher than the 17 bcf injection seen the week ended July 21, 2017, but overall storage levels are significantly lower today. The week ended July 21, 2017 had 2.98 Tcf of working gas in storage, versus 2.27 Tcf in working storage today. The low storage levels are more prominent in the East, where inventories stayed near the historical minimum level this week.

### East Storage Shortage

Since the beginning of this year's injection season in April, storage builds in the East have seen slow growth of 298 bcf to total 527 bcf at the end of July. Over the same period last year, the East saw working inventories grow 360 bcf to 626 bcf, which is a year-over-year difference of 99 bcf. Current Eastern storage levels sit below the five-year range. With about 15 weeks remaining in the injection season, and no sign of temperatures retreating over the next few weeks, the question is whether inventories can return to normal levels before winter demand season.

**Exhibit 1** East Natural Gas Storage (bcf)



Source: EIA

The seven-year average of working natural gas in Eastern storage at the beginning of November is 937 bcf, with the seven-year range between 925 and 960 bcf. From current levels the East would need to inject on average 27 bcf a week for the next 15 weeks to bring winter storage levels to the historical average. A weekly injection of 27 bcf has not been seen in the past seven years—the average is 19 bcf per week. The range over this period is between 13 and 24 bcf per week, which means the region would need to inject a record amount of natural gas to return storage to the historical average.

The ability to refill storage to healthier levels hinges on Eastern production and remaining summer demand. Regional demand this season has shown strength, outpacing this point last year by around 4%, but futures prices have been exceptionally range bound for most of the season. The explanation for the lack of a firm price signal may appear to be strong production. While demand for natural gas is up around 4% from last year, supply has seen an 18% increase. Regional production went from 24 bcf/d at this time last year to a little over 28 bcf/d today. Although gas production has seen significant growth, relief of pipeline constraints has helped to move Eastern gas west and south as more areas across the country put additional demands on Eastern production.

Over the remaining injection season, demand will be the primary variable affecting storage. Although the one-month outlook shows slightly higher temperatures for most of the East Coast, the more granular assessments show a different picture. Most of the heat is expected in the near term, through the next 10 days, and primarily having an impact on the northern half of the East Coast. In the longer-range three- to four-week outlook, the probability of below-average temperatures from New York down to Florida is higher than the opposite scenario of temperatures being higher. Therefore, absent a significant change in the forward forecast, demand for natural gas will drop slightly, moving storage in the right direction.

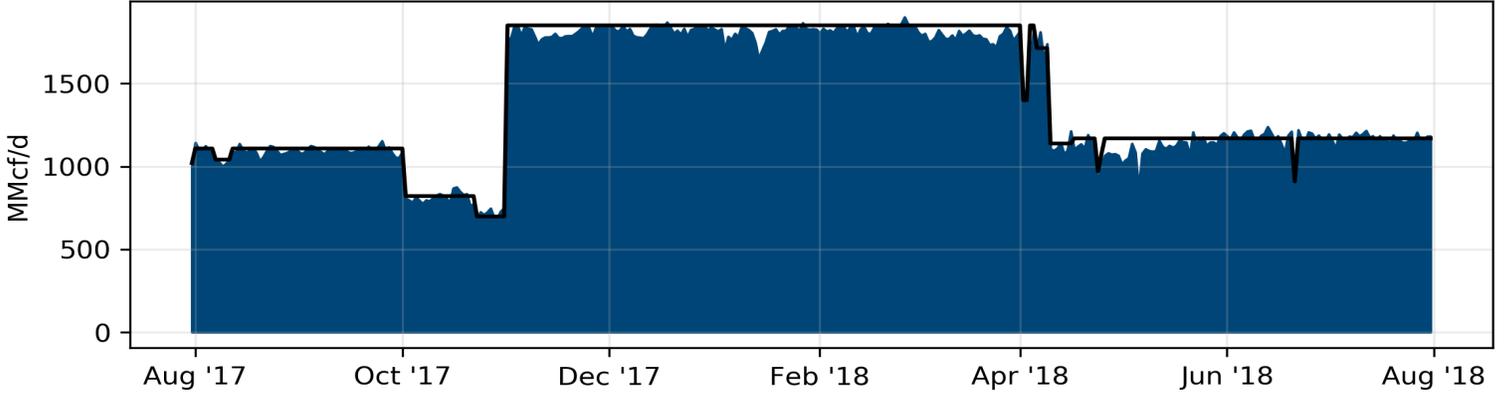
### ***Winter Preparation***

The tighter storage environment in the East sets up an interesting test for the region going forward. Does stronger supply in the region make up for any perceived deficit in regional working natural gas in storage? At the current pace, storage will fall well short of the lowest starting inventory level in recent history, and some of that sentiment has translated into price. However, the storage alone has not caused a breakout signal. Henry Hub futures prices have moved up slightly over the last week, but generally stayed in a narrow \$2.75/mmBtu-\$2.85/mmBtu range. Basis prices at Tetco-M3 likewise, have moved up from negative \$0.55/mmBtu to around negative \$0.35/mmBtu.

Over the next few weeks, prices may continue the move up on short-term heat before retreating in the second half of August as demand moderates. Looking longer term to the upcoming heating season, the perception of a natural gas shortage will likely push prices up, as storage levels stay lower, but flat to moderate growth in production may make tighter storage levels less of a bullish signal. If prices fail to react in a significant way this season, and storage remains at historically lower levels through the winter, conventional U.S. natural gas market wisdom about the relationship between storage and price may no longer apply. ■■■

# Natural Gas Important Points

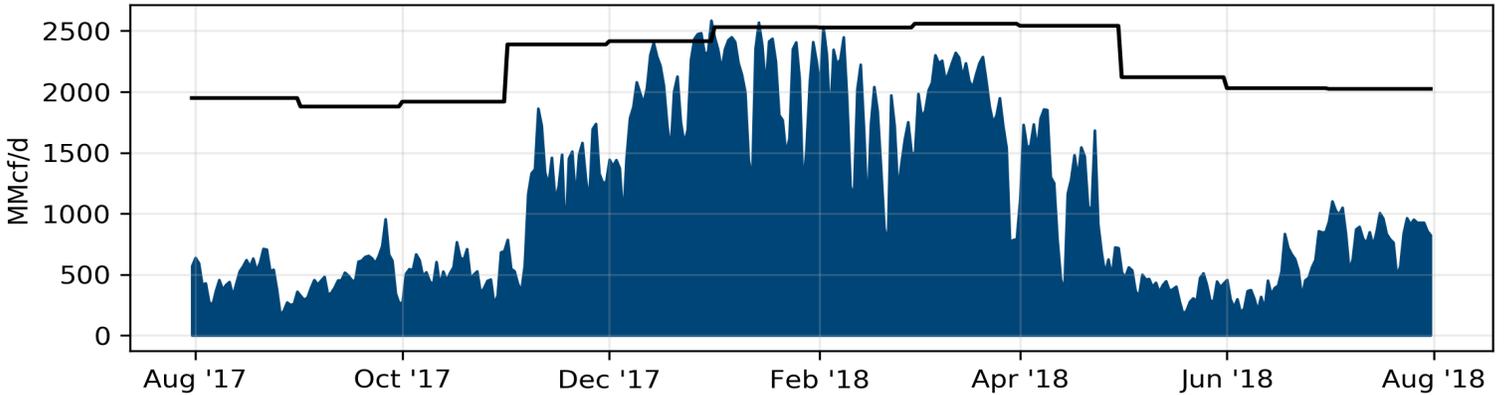
Algonquin: Stony point Compressor



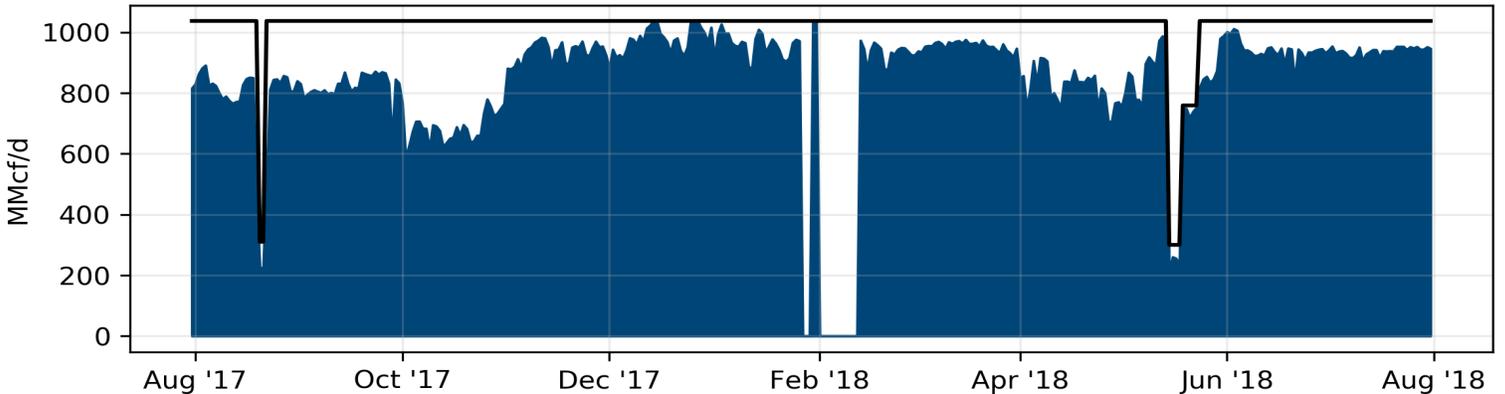
Transcontinental: Leidy Line Station 505



Texas Eastern: Lambertville Compressor

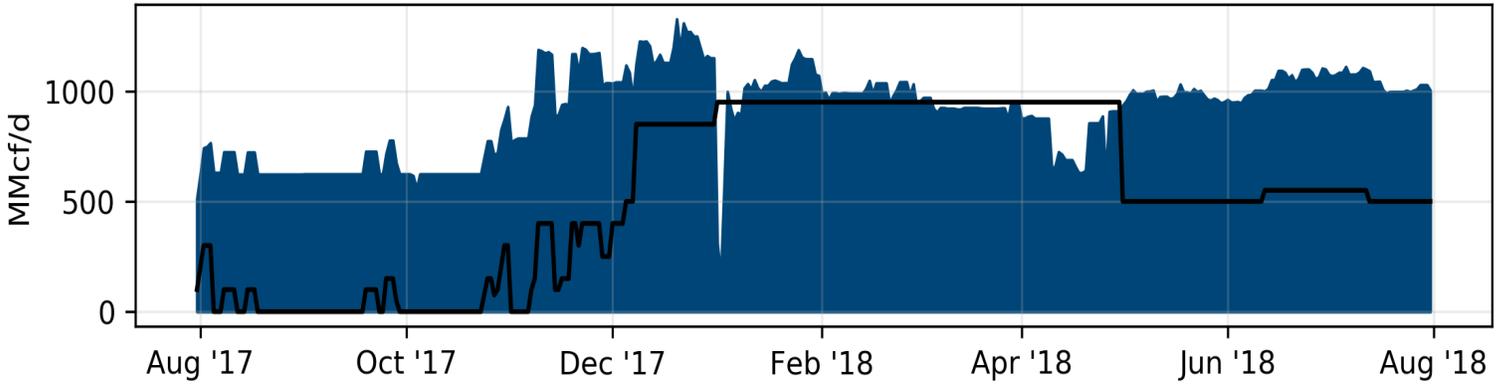


Millennium: Wagner West Compressor

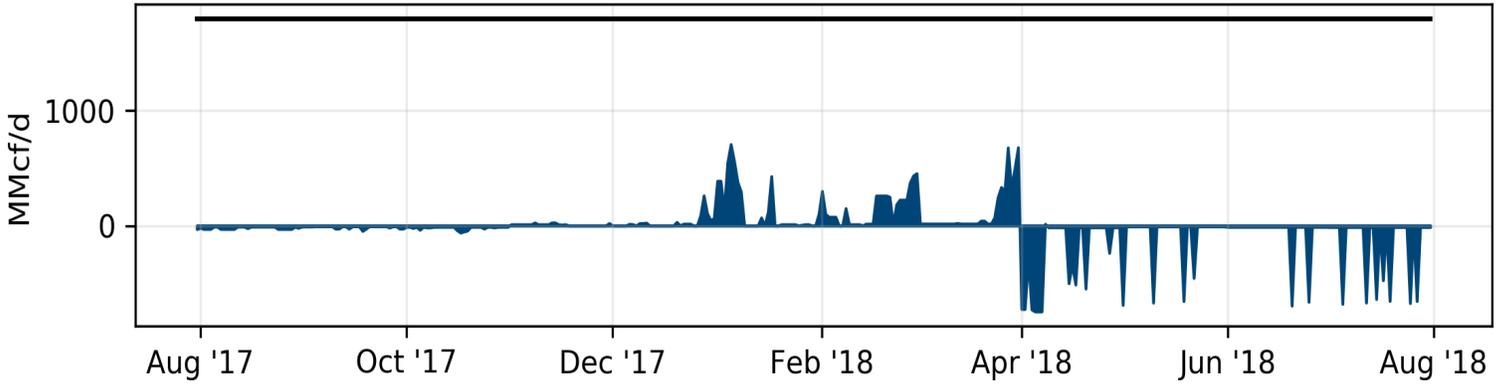


■ Volume — Capacity

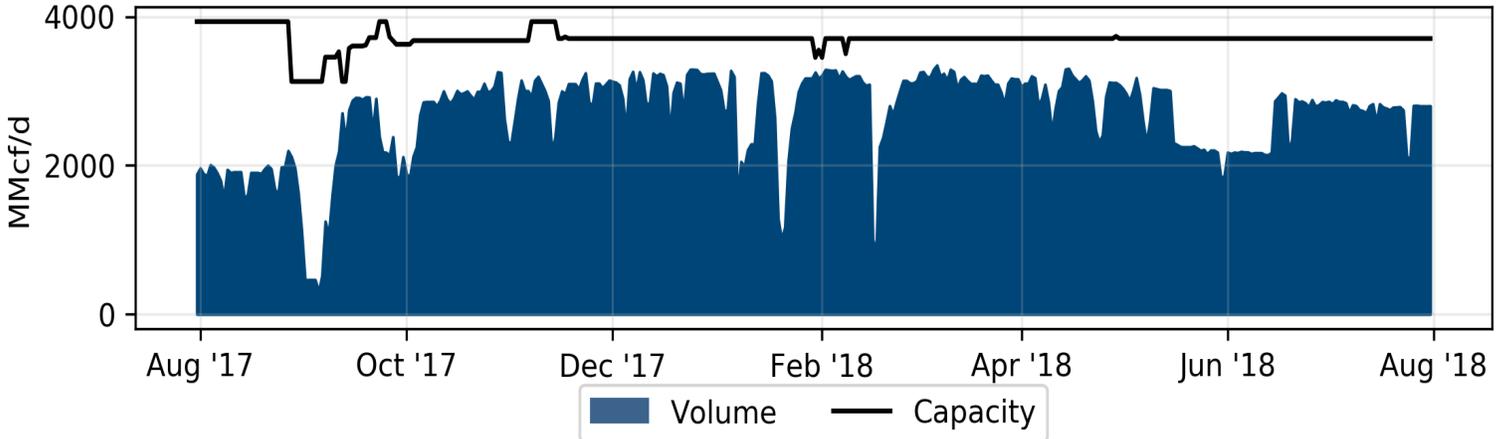
Columbia Gas Trans: Braxton-Stonewall



LNG: Cove Point



LNG: Sabine



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