

New England Winter: Chance for Fireworks?

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Data Sources Used in This Publication

ISO New England

NOAA

To discover more about the data sources used, [click here](#).

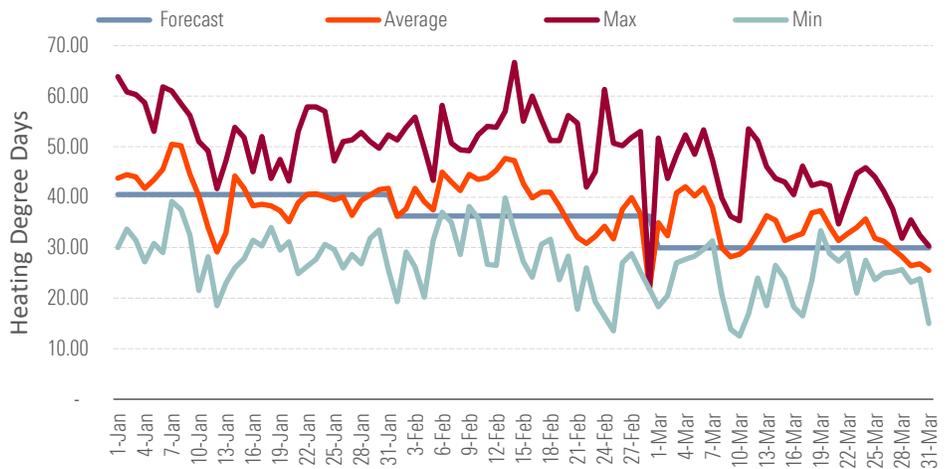
Forgiving So Far

The New England winter has been mild so far with bearish consequences for power markets. But forecasts turned colder in November, adding heating degree days and the potential for the back half of winter to prove a little more exciting compared with what's been seen until now. This note looks at the potential for ISO New England to repeat the price fireworks seen with last year's polar vortex or whether a continued bearish view is on the cards.

Flat Forecast

NOAA's latest monthly degree-day forecast from November shows the potential for an average winter, in line with the five-year average, to one slightly leaning under (Exhibit 1). New England's forecast mirrors national outlooks that have driven the natural gas remaining winter price curve to flatline with the Henry Hub — dropping from \$2.70/mmBtu to \$2.20/mmBtu over recent weeks. In line with Nymex, the Algonquin Citygate basis has not seen any stress this year either, staying in the lower range of its five-year average.

Exhibit 1 New England Heating Degree Forecast versus -Five Year Average, Maximum and Minimum



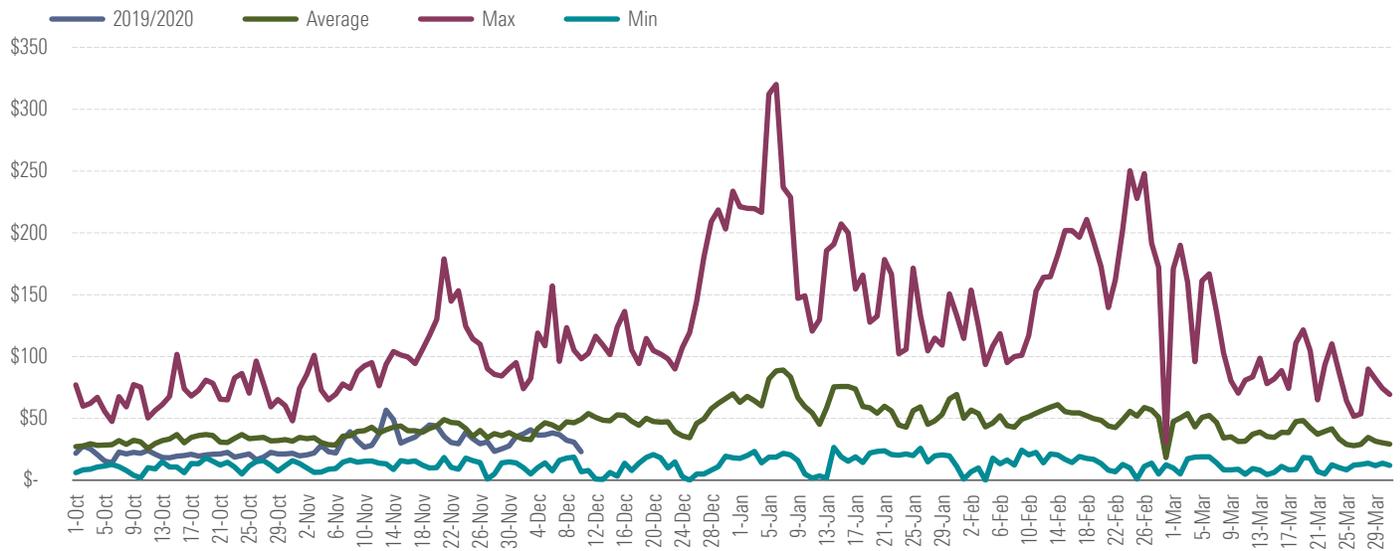
Source: NOAA, Morningstar.

Year-on-Year Price Action

With its sizable natural gas footprint and Algonquin Citygate prices seeing little stress due to the weather so far, the region's power prices are down. ISO New England's daily day-ahead average has stayed below or in line with its five-year historical average (Exhibit 2). Absent colder weather in the forecast, this could turn out to be one of the cheapest winters the region has seen with ISO day-ahead

around-the-clock averages for October, November, and December so far coming in \$10 lower than the five-year historical normal.

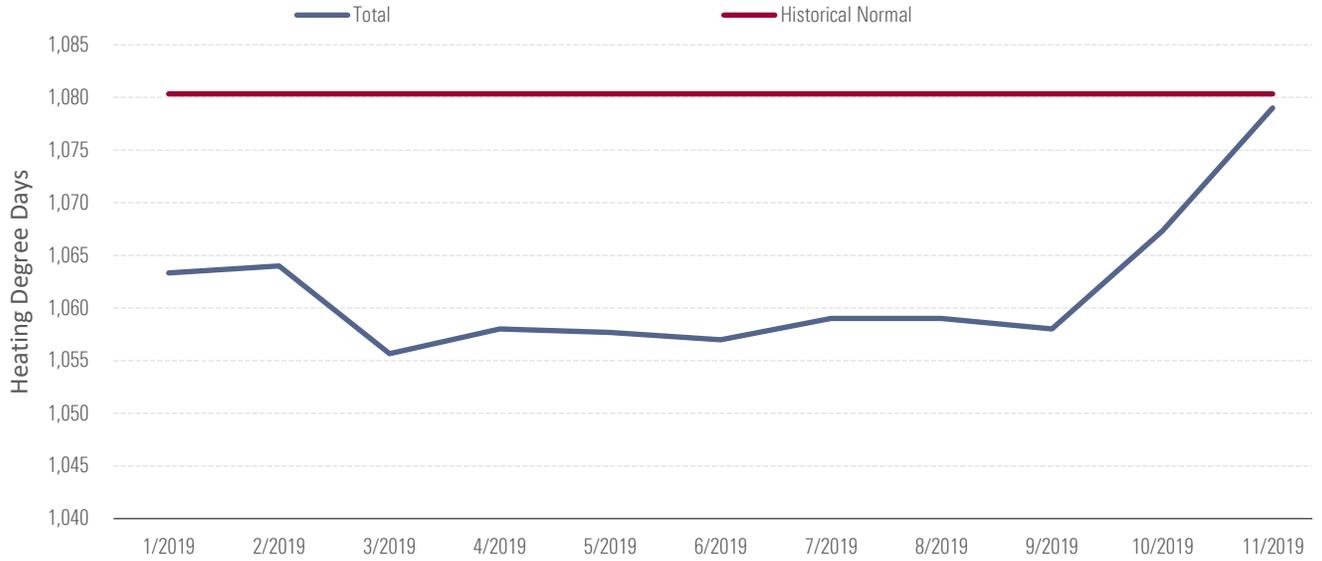
Exhibit 2 ISO New England Day-Ahead Average Daily Price Versus Five-Year Average, Maximum and Minimum



Source: ISO New England, Morningstar.

Added Heating Demand

NOAA has been adding heating degree days to its most recent first-quarter 2020 forecasts. Exhibit 3 shows the January, February, and March forecast as it evolved from January through November 2019. Both October and November added degree days along with a spark of potential for the back end of winter. With these added heating degree days in the forecast, we see potential for at least one polar vortex event in January or February causing a short-term shortage. However, any such shortage will be short-lived and won't touch stockpiles, and will likely not be touched going into peak winter. With the Everett terminal also bringing in liquefied natural gas imports, the potential for upside price action will be more of a spark than any real sustained fireworks this winter even if New England does turn colder.

Exhibit 3 January-March Historical Heating Degree Day Forecast

Source: NOAA, Morningstar.

Bearish 2020

Weather forecasts for New England are still showing a tame remainder for winter even with growing degree day forecasts. Recent November forecasts have turned colder and added some bullish potential. Yet, this potential is still limited, and the overall outlook portends a bearish 2020. Unless some fireworks go off soon — in the shape of a winter vortex — that creates sustained increases in demand, storage levels will still push gas prices down and break the \$2.00 threshold in 2020. This effect should result in a bearish ISO New England in 2020. ■■

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