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Analyst: Natural Gas Prices to Remain High this Year

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Written by John Egan for Industrial Info Resources (Sugar Land, Texas) — U.S. natural gas prices will remain high this year, and could spike upward under some conditions, a consultant told an oil and gas conference in Denver August 16.

The self-employed consultant, Laird Dyer, predicted natural gas prices at Henry Hub will average $8 per thousand cubic feet (Mcf) over the course of 2022, with possible spikes to $13 per Mcf or higher if the U.S. has a cold winter. Prices for full-year 2023 “could be worse unless rig counts start rising,” he said at the “LDC Gas Forums Energy Innovations: Rockies and West” conference, sponsored by Access Intelligence L.L.C. (Rockville, Maryland), which drew about 185 registrants.

Dyer's price outlook was significantly different from that offered by credit analysts at Fitch Ratings (New York, New York) at a different oil and gas conference held earlier this month in Denver. For more on that Fitch price outlook, see August 10, 2022, article - Fitch Offers Conservative Price Outlook for Oil and Gas.

One force shaping Dyer's outlook is the continued emphasis on “financial discipline” among U.S. oil and gas producers. By returning surplus cash flow to investors, rather than investing it in exploration and drilling, producers are winnowing their future opportunities. “I have yet to hear of a producer saying they're going to increase drilling,” he told attendees at the conference.

Dyer observed, “There's lots of demand for gas, but where is the new supply?”

Strong demand growth from the U.S. electricity segment, driven by fuel switching from coal, and exports, mainly in the form of liquefied natural gas (LNG) exports, will exert significant upward pressures on natural gas prices, he predicted. And on the supply side, gas drillers are pursuing a number of short-term band-aid solutions that sooner or later will stop working.

“There are fewer and fewer options out there,” Dyer said August 16, a day that natural gas sold for over $9 per Mcf at Henry Hub. In a market where demand exceeds supply, prices tend to rise.

Focusing on LNG exports, the analyst said the U.S. is exporting the equivalent of about 12 billion cubic feet per day (Bcf/d) of gas currently, and that is scheduled to shoot up to about 17.5 Bcf/d by 2024, as new LNG export facilities are completed and begin operating.

“Increased exports of LNG are not a great thing if you're not adding production,” he commented. Dyer added that European and Asian countries are paying very high prices for their LNG, as much as $45-$55 per million British thermal units (MMBtu).

“Lower 48 gas supply is at risk,” Dyer said, partly because he asserted that President Joe Biden is "at war" with the oil and gas industry. “As a substitute for drilling, producers are using every tool at their disposal to sustain production,” including:

- drawing down on their inventory of drilled but uncompleted (DUC) wells
- recompleting wells via re-perforating and/or re-fracking
- reducing flaring through pipeline expansions.

“These actions are not a long-term substitute for drilling,” Dyer continued. Rather, they are “discrete, short-term efforts that boost production with little, if any, required regulatory approval.”

Oil and gas producers “confront hostile federal and state bureaucracies, relatively low rig deployments, and the exhaustion of producers’ cache of viable DUCs and other short-term production-boosting tools.”

Meanwhile, “demand is robust and resilient,” he continued, pointing to a high use of gas to generate electricity domestically and to export to other countries. “In the very near term, natural gas prices are principally at risk from weather,” including this winter heating season. Gas storage rates also are low, he observed. “Unless more drilling rigs are deployed soon, Lower 48 natural gas supply-demand balance is at risk of severe tightening through 2024.”

He rates as a low probability that an energy export ban will be imposed. He also said there was a low possibility that drillers will shift from their current strategy and deploy substantially more rigs.

What could avert significantly higher prices over the next two years? More unplanned outages at U.S. gas export facilities and “extremely mild weather.” As a quantitative supply-and-demand fundamentals analyst, Dyer seemed unlikely to be comfortable relying on those options, which basically amount to luck, to bring supply and demand into balance absent a sharp escalation of prices.

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