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Natural Gas Hasn't Been This Cheap in Decades

The lowest inflation-adjusted prices in at least 34 years have drillers throttling down from record production

By Ryan Dezember Follow *and David Uberti* Follow
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An unusually warm winter and roaring U.S. output have pushed natural-gas prices to some of the lowest levels of the shale era.

Adjusted for inflation, natural-gas futures recently hit their cheapest prices since trading began on the New York Mercantile Exchange in 1990.

This is good news for American consumers, who can look forward to lower utility bills, as well as for businesses that use a lot of natural gas making basic materials like steel, concrete, cardboard and fertilizer. Americans' gas costs in January were about 18% lower from a year earlier, according to the Labor Department.

But the plunge is weighing on gas producers, who are dialing back their drilling plans and pushing for more exports to relieve the domestic glut.

Natural-gas futures for March delivery ended this past week at $1.603 per million British thermal units, down 35% from a year ago. On Tuesday, futures closed at $1.576, an inflation-adjusted all-time low.

"The market is clearly oversupplied," said Chesapeake Energy Chief Executive Nick Dell'Osso. "We think we should hold back our supply to better meet that demand."

U.S. gas prices have been on a roller coaster in the two decades since

energy producers **began tapping shale formations** using hydraulic fracturing and horizontal drilling techniques.

Repeatedly, the frackers have flooded the gas market until prices crash. The low prices discourage drilling, prompt the plugging of piddly wells and weed out inefficient operators. Eventually, cheap gas stokes demand, prices recover and producers send drilling rigs back into the field.

Aside from a dip below $1.50 per million BTUs during the 2020 Covid market crash, natural-gas prices haven't been so low in nominal terms since 1995. Adjusted for inflation, however, $1.50 today would be about $3 back then.

Chesapeake, one of the country's biggest producers, said this past week it would cut its 2024 spending by 20% from earlier plans and throttle back output by roughly 20% compared with last year. The Oklahoma City company said it would drill but not complete wells for the remainder of the year, leaving gas in the ground until prices rise.

Spending cuts by gas producers could take months to be reflected in production numbers, analysts and executives say. PHOTO: RORY DOYLE FOR THE WALL STREET JOURNAL

Analysts and executives expect that to happen late this year and in 2025, when the next wave of new export terminals start shipping out liquefied natural gas,

or LNG.

Gas futures rose more than 12% Wednesday in response to Chesapeake's cuts, the biggest daily gain since June 2022, when prices were surging in the wake of Russia's invasion of Ukraine. Shares of Chesapeake had their best day in more than a year. So did those of rivals EQT and Comstock Resources, which have announced their own plans to reduce drilling.

"This is exactly how companies should be responding to historically low natural-gas prices," said Mark Viviano, a managing partner at energy investment firm Kimmeridge. The firm owns stakes in Chesapeake as well as Southwestern Energy, which agreed last month to merge and create the country's largest gas producer.

It could be months before spending cuts are reflected in significantly lower production given that drilling and hydraulic fracturing crews work on contracts, analysts and executives say.

Daily U.S. production has come down to about 104 billion cubic feet this month from a record of more than 106 billion cubic feet in December, but that's still 3.3% more than last February, according to S&P Global Commodity Insights.

Meanwhile, demand has been unusually low. Big heating markets including Minneapolis, Cleveland, Pittsburgh and Fargo, N.D., are experiencing their mildest winters in records dating back to 1950, according to the Midwestern Regional Climate Center.

J.P. Morgan meteorologists expect February to have about 21% less heating-degree days—a population-

weighted measure of temperatures below 65 degrees Fahrenheit that gas traders use to gauge demand—compared with the 10-year average.

All the gas that isn't being burned in furnaces and boilers is backing up in storage facilities, which as of Feb. 16 held 22% more gas than the five-year average for this time of year, according to the Energy Information Administration.

Analysts say that domestic storage capacity is in danger of filling up later this year unless prices are low enough to curtail production and entice electricity generators to switch from burning coal to gas.

The **second straight mild winter** has left coal piled up at power plants, which means its price has come down and gas will have to be even cheaper than it was last year to convince power producers to switch feedstocks, said Matt Palmer, an executive director at S&P Global Commodity Insights.

"We averaged $2.50 last year; we might have to average $2 this year to get that same level of displacement," he said.

Some traders are betting that it could get ugly for gas producers.

Put options, which are contracts that convey the right to sell gas at a certain price, have recently traded as low as 50 cents per million BTUs, said Charlie Macnamara, head of commodities at U.S. Bank.

"The market is of the opinion that we could go there," he said.

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