U.S. Natural Gas Rig Count No Longer A Barometer Of Production Capabilities

View from the Observation Deck

1. Today’s blog post is an update of one we did on 6/26/12 (“Natural Gas Is A Perplexing Market”). We have updated the original chart through 9/5/14.

2. From 6/25/10-9/5/14, the number of active natural gas rigs in the U.S. plunged from a high of 992 (8/13/10) to 340 (9/5/14), according to Baker Hughes. The number stood at 541 on 6/22/12.

3. Looking at the chart one might think that the price of natural gas began to rise in the first half of 2012 due to lower production levels stemming from the steep decline in the active U.S. rig count, but that is not the case.

4. Production levels of natural gas actually increased as the number active rigs were plunging. As it turns out, natural gas producers are garnering more from each rig, especially from such shale reserves as the Marcellus formation.

5. In 2007, one active rig averaged approximately 422 million cubic feet of production per day (mcf/d) for Marcellus producers, compared to nearly 8,000 mcf/d, on average, in 2014, according to Chris Pederson at oilprice.com.

6. The point is that U.S. natural gas producers have the potential to increase output without necessarily having to significantly boost their active rig count.

7. The Farmer’s Almanac correctly forecasted last year’s frigid winter season in the U.S., according to MarketWatch.com. The price of natural gas rose from $3.55 per million British thermal units on 8/22/13 to a high of $6.15 on 2/19/14.

8. The 198-year-old publication is predicting more of the same for this winter.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur.