Stop looking at WTI

Investors should be obsessing about gas, not oil, as the Iran crisis deepens

March 2026

noreva

Forget the 70s, we live in a gas world now

Key Implications:

1. While the prospect of an oil price shock transfixes global financial markets, it is **the link between US and global gas pricing** that investors should be analyzing.

2. North American markets have enjoyed glorious isolation from the compounding upside volatility in global gas over recent decades, but with more US gas than ever hitting the water for exports, **US and global gas fundamentals could converge**.

3. More gas moving to export means less gas to use domestically, and without much more domestic production combined with new transport and storage capacity, US prices will track higher global prices.

4. In fast-growing power markets, the correlation between much tighter gas fundamentals and much higher prices for power and capacity is very close. **For every dollar that the US benchmark gas price rises, the price of grid power in the US rises $8-10/MWh**.

5. For environmental attributes and fuels, gas has contradictory effects. Higher gas prices will incentivize use of renewables on balance, prompting more supply of renewable energy credits (RECs). Higher fossil gas prices create new incentives to switch into renewable natural gas (RNG) but also limit the appeal of a shift to compressed natural gas for heavy transport, a major driver of demand for the fuel.

From oil intensity to electron intensity

The primary question for energy markets right now is not whether prices go higher, but how much higher they go.

As the scale of the second-order impacts from the bombing campaign in Iran and that country's targeting of regional energy and commodity exports grows by the day, the implications for power, capacity, fuels and environmental attributes pricing are all inflationary to varying degrees.

In contrast to the 1970s oil crisis that triggered a massive geoeconomic realignment, the primary transmission vector for higher prices today is natural gas, not oil.

While oil and refined products remain vital inputs to the global economy and shortages that lift prices will create economic scarring, the oil intensity of most economies has fallen sharply in recent decades. That means fewer barrels for each dollar of marginal additional GDP.

The gas-electron interface

At the same time, global economic growth has become much more electron-intensive. Substitution of electrons for molecules is relatively recent, though where electric vehicles have replaced ICE cars and electrified heating has replaced fuel oil boilers a price dispersion between oil-exposed infrastructure and electron-reliant infrastructure is likely to widen further.

The fuel that connects the embedded legacy infrastructure exposed to oil supply and the scaling infrastructure exposed to electron demand is natural gas.

Solar and wind have captured almost all additional global energy demand in recent years, but it has become increasingly evident that dispatchable generation using natural gas has become a crucial component in allowing those low-cost intermittent electrons to match fixed demand. The energy transition to date has been largely about gas replacing oil and coal as wind and solar take the lion's share of marginal growth.

The gas complex has recreated many of the vulnerabilities that persist in oil markets. Roughly the same proportion of global gas supply must travel the same constrained Straits of Hormuz export region as the 20% of global oil supply currently cut off from global markets. And while companies and countries have actively built oil storage over the decades and refinery upgrades have improved flexibility in the oil complex, gas storage and gas handling optionality remains limited.

US gas growth increases price fragility

The US has long been insulated from global gas shocks, but a rush to build liquefied natural gas export facilities as global gas use rose has led to increased linkage between high-priced European and Asian markets and lower-priced North American markets.

And it is the price surge in global gas that will continue to propel the surge in US power, capacity, fuels and environmental attributes prices. The US is only insulated from a lasting surge in global energy price inflation insofar as its domestic gas production remains trapped. An export ban on natural gas, mirroring the ban on US crude exports that persisted for 40 years after the 1970s oil crisis, is far from impossible.

US exports of natural gas has been explosive over the last decade. From only 0.6% of US gas production in 2014 exports hit an 11.6% share in 2024. The US is now the largest natural gas exporter, and current forecasts linked to financed export capacity indicate that exports will surge by more than 250% on this large base in just the next four years.

Sectoral breakdown by market

Some implications of this higher gas price environment will cut across markets. Rising prices for energy will almost certainly drive inflation higher, requiring higher interest rates from central banks and tightening credit conditions. Regulators and policymakers are likely to become even more interventionist in all energy markets, with improvisational and often unpredictable efforts to control price increases.

Power

In power, every dollar increase in the benchmark gas indices directly feeds through to $8-10/MWh in grid power costs. In parts of North America like CAISO where solar and batteries increasingly set the price of marginal supply into most hours of the day, that effect is limited, so that a $1/mmBtu increase in benchmark gas pricing only results in $2-5/MWh of grid power increases.

Capacity

Capacity markets are even more exposed to gas over time. Unlike power, capacity settles through a series of market constructs, including annual auctions, and will take longer to reflect increases in gas pricing.

Without significant gas buildout, capacity pricing across the US is expected to remain at record levels as total power demand remains high but intermittent generation remains cheap and captures all marginal additions.

Developers of natural gas electricity generation facilities must increasingly be compensated via capacity markets twice: once for supplying firm deliverable electrons when renewable energy is driving the cost of power down, and again for taking exposure to increasingly volatile and expensive natural gas fuel markets.

Noreva analysis shows that capacity prices could be four times higher if high US gas prices limit buildout of new gas generation, since the resulting fuel mix would need to compensate for the greater appeal of

intermittent generation. The resulting concentration of capacity value into a small number of hours would require higher prices tojustify meeting the fixed cost of infrastructure investment.

Environmental attributes

Environmental attributes markets reflect the fuel mix in the US power grid, so as the incentives to use natural gas for power and capacity shift the underlying supply and demand of renewable energy credits (RECs) across US voluntary and compliance markets will shift as well.

On balance, more expensive gas means less demand for RECs, as power buyers seek out cheaper renewable energy or cut their energy demand lower altogether. At the same time, regulators tempted to abandon climate objectives when gas prices are lower are likely to rely again on RECs to encourage buildout of generation when they lack other tools to incentivize fuel diversification.

Clean fuels

Pricing for clean fuels like renewable natural gas also faces divergent crosswinds from the storm in fossil natural gas markets. While regulatory programs that support production and transport infrastructure for RNG are more likely to remain robust as policymakers seek to diversify their fuel mix from reliance on fossil gas, the broader shift from oil-derived fuels to gas that drives much of RNG demand becomes less urgent as gas tracks oil and refined products higher.

Contact:

research@noreva.ai

Noreva

675 Third Ave, 31st Floor

NY, NY 10017