BARRY T. SMITHERMAN, Chairman
DAVID PORTER, Commissioner
CHRISTI CRADDICK, Commissioner

RAILROAD COMMISSION OF TEXAS
Gas Services Division
Market Oversight Section

May 5, 2014

Natural Gas Trends

Highlights

Pipe funding woes threaten shale boom: Report

A lack of financial incentives to encourage new pipelines to carry gas to downstream markets could hinder the full development of the US shale gas bonanza, according to a White & Case study released this week. As a result, gas producers, pipeline companies, legislators, regulators and end-users such as power generating companies all need to work together to solve that financing challenge, White & Case partner Daniel Hagan said in an interview Tuesday.

The Master Limited Partnership Parity Act, a bill pending before Congress, is one such potential solution, he said. The bill would extend the use of the tax-advantaged MLP financial structure – which companies have traditionally used to finance pipeline deals – to include renewable energy projects. This would help gas pipeline companies "by allowing the existing MLP structure to bolt on renewable projects, thus bringing in additional revenue while lowering the operating cost by generating electricity for its own use or selling it to an off-taker," Hagan said. "The pipeline companies are intimately familiar with siting requirements and right-of-way issues."

A further drag on investment for gas pipelines lies in the differences between the dispatch schedules of the gas and power industries, the study found.

"A good example of the lack of coordination in gas and electricity industries is demonstrated in New England, where we've seen extremely high gas prices this winter. It's a constrained region," Hagan said. "You have a mismatch between how the gas and electric markets are dispatched. In addition, in New England there is not a requirement for generators to have long-term [gas supply] contracts and many of them do not."

However, "there are proposals in play that would incentivize the build-out of the pipelines to New England that would bring the gas that's literally sitting next door into the region," he said.

Among these proposals: funding construction of new pipeline projects in the region "through the electric consumers that would take the service through the ISO tariff." Such a funding mechanism would help "to bring much-needed natural gas to a region that is seeing an increasing reliance on natural gas instead of being forced to use fuel oil," Hagan commented.

"The United States has a golden opportunity to become a powerhouse in global energy markets, to truly achieve full energy independence and to use natural gas to power our economy. But that path is far from assured without a major expansion of the long-distance pipeline network," Hagan said in the study.

Source: Platts Gas Daily

Data

- June 2014 Natural Gas Futures Contract (as of May 2), NYMEX at Henry Hub closed at $4.674 per million British thermal units (MMBtu)
- June 2014 Light, Sweet Crude Oil Futures Contract WTI (as of May 2), closed at $99.76 per U.S. oil barrel (Bbl.) or approximately $17.20 per MMBtu

Last week: Texas cooler than normal

For the week beginning 4/27/14 and ending 5/3/14, heating degree days (HDD) were higher than normal (cooler) for the week and for the year to date for most Texas cities shown and for the US. Source: www.cpc.ncep.noaa.gov

HEATING DEGREE DAYS (HDD)

City or Region	Total HDD for week ending 5/3/14	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	58	15	4173	-1%
Austin	9	7	2172	32%
DFW	12	5	2594	10%
El Paso	22	12	2008	-21%
Houston	3	-3	1736	14%
SAT	0	-3	1550	-1%
Texas**	17	10	2301	16%
U.S.**	60	4	4561	5%

-999 = Normal Less Than 100 or Ratio Incalculable

* A minus (-) value is warmer than normal; a plus (+) value is cooler than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which HDDs are calculated.
** State and U.S. degree days are population-weighted by NOAA.

Last week: U.S. natural gas storage at 981 Bcf

For the week ending 4/25/2014 working gas in storage increased from 899 Bcf to 981 Bcf. This represents an increase of 82 Bcf from the previous week. Stocks were 790 Bcf lower than last year at this time and 984 Bcf below the 5 year average of 1,965 Bcf.

Source: http://ir.eia.gov/ngs/ngs.html

U.S. WORKING GAS IN STORAGE

Region	Week ending 4/25/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	362	328	34	-56.3%
West	191	178	13	-39.0%
Producing	428	393	35	-48.1%
Lower 48 Total	981	899	82	-50.1%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

Last week: U.S. gas rig count level for the week

The gas rig count for the U.S. showed no change compared to the prior week and was down 31 when compared to twelve months ago. The total rig count for the U.S. was down seven from last week and up 90 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

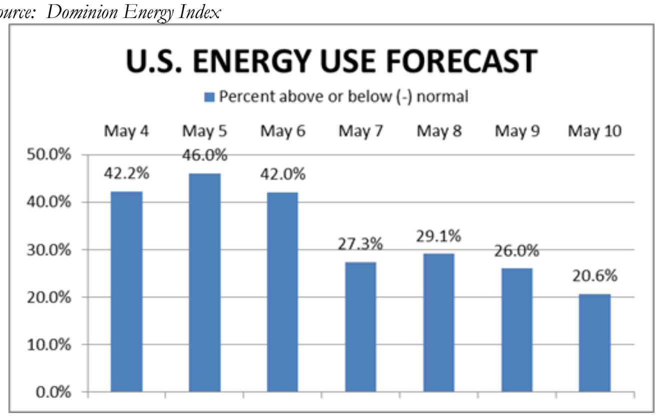
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 5/2/2014	+/- prior week	Year ago	+/- year ago
Texas	892	-2	831	61
U.S. gas	323	0	354	-31
U.S. oil	1527	-7	1403	124
U.S. total	1854	-7	1764	90
Canada	163	-5	121	42

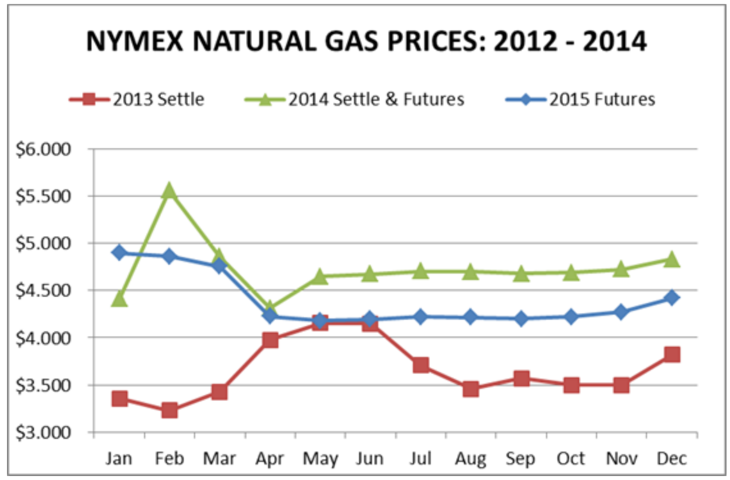
This week: U.S. energy use above normal

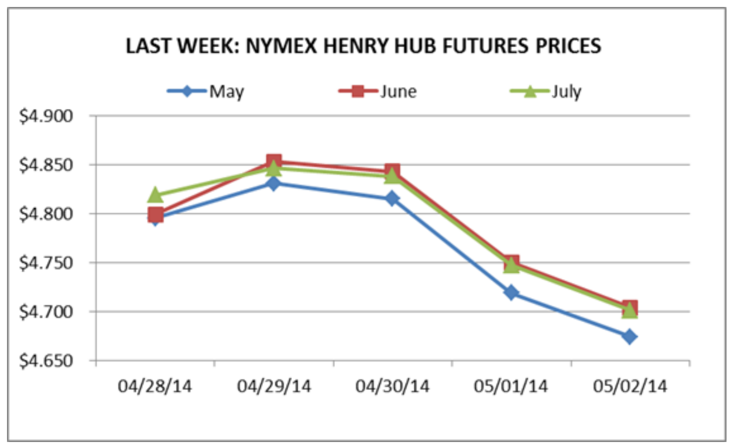
U.S. energy use is predicted to be above normal this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2014 prices. Natural gas prices for 2014, shown below in green, are the NYMEX settlement prices for Jan.-May and futures prices for the remainder of the year.





NATURAL GAS PRICE SUMMARY AS OF 5/2/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US June futures				
NYMEX	$4.674	$0.027	$0.698	$4.699