

July 7, 2014

Natural Gas Trends

Highlights

Supreme Court decision may signal problems for new EPA rules: Analysts

The Supreme Court’s decision earlier this month could signal more changes for Environmental Protection Agency emission rules still in draft form than for the completed rules the decision addressed. The Supreme Court’s June 23 decision largely upheld the EPA’s rules limiting greenhouse gas emissions from new sources, such as power plants and refineries. Even though it rejected the approach the EPA took to limit the scope of GHG emissions from new sources that would come under its jurisdiction by crafting its “tailoring” rule, the court said almost all of the sources it is seeking to limit in its rule could be gathered up using its existing power to issue prevention of significant deterioration, or PSD, permits. But the language the court used in striking down EPA’s tailoring rule could spell trouble for the second portion of the EPA’s program to limit GHGs, namely, the draft rules for existing sources EPA issued June 23, commonly referred to as 111(d) for the pertinent section of the Clean Air Act.

In the 5-4 decision (*Utility Air Group v. EPA*), Justice Antonin Scalia wrote, “When an agency claims to discover in a long-extant statute an unheralded power to regulate ‘a significant portion of the American economy,’ ...we typically greet its announcement with a measure of skepticism.”

That language shows that the EPA could have an “uphill battle with 111(d),” Jeffrey Holmstead, a partner with Bracewell & Giuliani and a former assistant administrator at the EPA in the first Bush administration, said. And while the criticism the court leveled at the new source rules are specific to that section of the Clean Air Act and the proposed rules for existing sources are based on a different section of the law, the common theme is regulatory overreach.

“You can be sure that what the Supreme Court said will come up” in filings to challenge the rules that are certain to be filed with the US Court of Appeals for the District of Columbia Circuit, Thomas Lorenzen, a partner at Dorsey & Whitney, who used to be in the environmental division at the Department of Justice.

In the proposed 111(d) rules, EPA lays out four building blocks that states can use to fashion their own emissions reduction program, as long as it meets the 2030 targets set out by the agency. The blocks include measures such as efficiency improvements at power plants, changes in how plants are dispatched, the building of more renewable energy plants, and energy efficiency measures. The proposed rules are not just about electricity generation – what comes out of a power plant stack – but also about how it is distributed and dispatched, Lorenzen said.

When the case appears at the DC Circuit, as it is very likely to do, that section is likely to be treated critically, particularly from the court’s conservative judges – Janice Rogers Brown, Thomas Griffith and Brett Kavanaugh – because the Supreme Court has given them license, Lorenzen said.

In fact, the proposed rules have already been challenged. Coal company Murray Energy files a writ of mandamus in the DC Circuit court on June 18 arguing that the rules are so “illegal, irrational and destructive” that the EPA should not even be allowed to propose them. Since then attorneys general from nine states – Alabama, Alaska, Kentucky, Nebraska, Ohio, Oklahoma, South Carolina, West Virginia, and Wyoming – have filed a brief with the DC court supporting Murray’s action.

Source: Platts Gas Daily

Data

- August 2014 Natural Gas Futures Contract (as of July 3), NYMEX at Henry Hub closed at \$4.406 per million British thermal units (MMBtu)
- August 2014 Light, Sweet Crude Oil Futures Contract WTI (as of July 3), closed at \$104.06 per U.S. oil barrel (Bbl.) or approximately \$17.94 per MMBtu

Last week: Texas warmer than normal

For the week beginning 6/29/14 and ending 7/05/14, cooling degree days (CDD) were higher than normal (warmer) for the week and for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 7/5/14	*Week CDD + / - from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	77	-10	560	22%
Austin	128	-3	1049	-8%
DFW	133	1	1093	18%
El Paso	152	26	1217	31%
Houston	133	7	1165	1%
SAT	134	1	1348	12%
Texas**	121	-1	1026	-1%
U.S.**	73	7	466	10%

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

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 1,929 Bcf

For the week ending 6/27/2014 working gas in storage increased from 1,829 Bcf to 1,929 Bcf. This represents an increase of 100 Bcf from the previous week. Stocks were 666 Bcf lower than last year at this time and 790 Bcf below the 5 year average of 2,719 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 6/27/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	923	858	65	-28.4%
West	331	315	16	-22.5%
Producing	675	656	19	-32.8%
Lower 48 Total	1,929	1,829	100	-29.1%

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

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

The gas rig count for the U.S. was down three for the week and down 44 when compared to twelve months ago. The total rig count for the U.S. was up one from last week and up 117 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

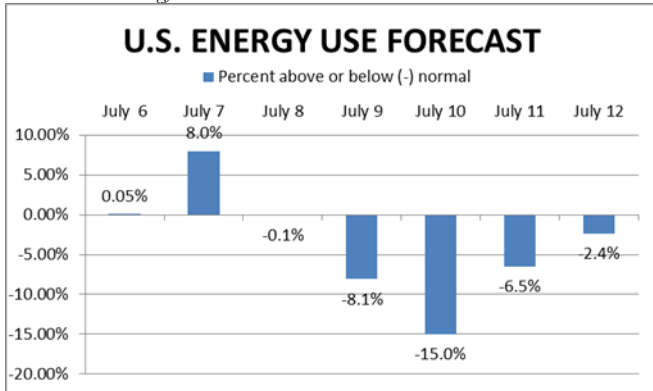
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 7/03/2014	+/- prior week	Year ago	+/- year ago
Texas	796	7	835	-39
U.S. gas	311	-3	355	-44
U.S. oil	1562	4	1395	167
U.S. total	1874	1	1757	117
Canada	309	73	214	95

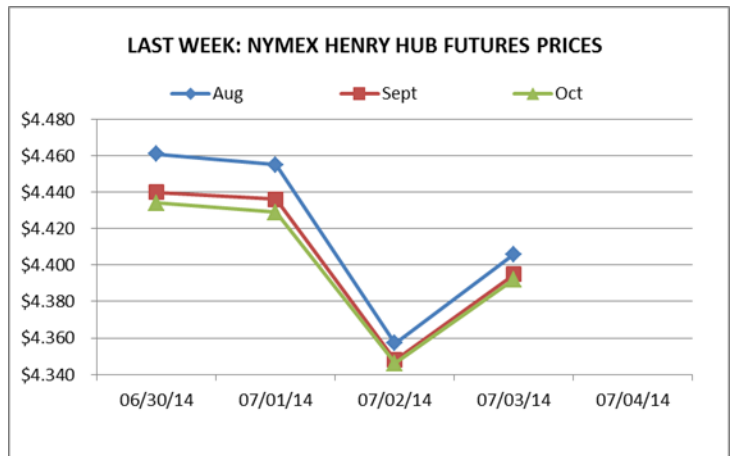
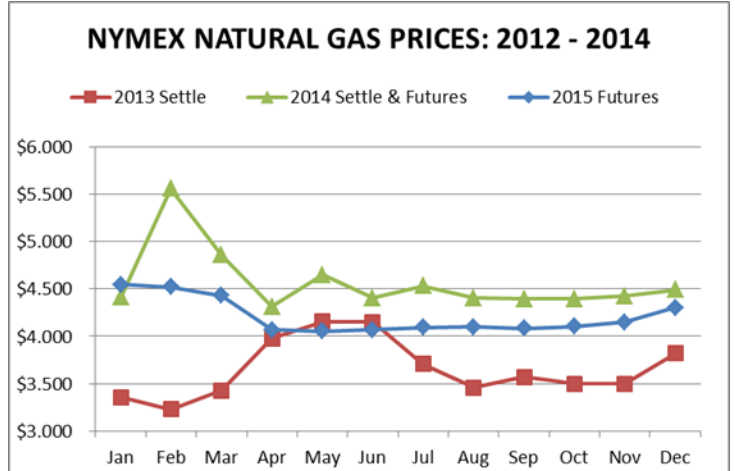
This week: U.S. energy use varies

U.S. energy use is predicted to vary 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.-July and futures prices for the remainder of the year.



*Data for July 4, 2014 is unavailable due to the Independence Day holiday.

NATURAL GAS PRICE SUMMARY AS OF 7/03/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US Aug. futures				
NYMEX	\$4.406	-\$0.003	\$0.947	\$4.324