BARRY T. SMITHERMAN, Chairman | **RAILROAD COMMISSION OF TEXAS**
DAVID PORTER, Commissioner | **Gas Services Division**
CHRISTI CRADDICK, Commissioner | **Market Oversight Section**

February 3, 2014

Natural Gas Trends

Highlights

Deficits balloon after 230-Bcf storage drawdown

Another hefty storage pull reported Thursday by the Energy Information Administration left inventories more than 600 Bcf below the year-ago level, with analysts expecting the deficit to keep growing thanks to cold February forecasts. EIA said operators drew 230 Bcf during the week ending January 24, which was within consensus expectations but well above both the year-ago withdrawal of 191 Bcf and the five-year average of 162 Bcf. As a result, the 598-Bcf deficit to the same week of 2013 rose to 637 Bcf, while the 369-Bcf deficit to the five-year average of 2.63 Tcf climbed to 437 Bcf. Stocks now stand at 2.193 Tcf.

The net withdrawal "was neutral relative to market expectations, but bullish compared with the five-year average," said analyst Tim Evans at Citigroup. "It also affirms a supportive background supply/demand balance that points to ongoing withdrawals above the five-year average rate."

Indeed, just two weeks ago the market set an all-time record with a 287-Bcf drawdown, replacing the previous record set in December of 285 Bcf.

In Thursday's release, EIA reported a 124-Bcf withdrawal in the East to 1.063 Tcf, compared with 1.409 Tcf a year ago; a 22-Bcf draw in the West to 327 Bcf, compared with 401 Bcf a year ago; and an 84-Bcf draw in the producing region to 803 Bcf, compared with 1.02 Tcf a year ago.

"The producing region pulled a lot more than what I had expected, which was offset by a weaker withdrawal in the East," said Jeff Moore, an analyst at Platts unit Bentek Energy. Looking forward, Moore said the strong production-region pull "sets the stage for next week's report, as the majority of the demand from last week was in the second-half of the storage week and trended into the week that is just now ending."

"We should see stronger withdrawals in the East and West" in next week's report, Moore added. "The producing region is always the wild card. Texas pulled more last week than expected, and with this past week's cold reaching down into Texas and the Deep South, we might expect stronger withdrawals from [next] week's report as well."

Analyst Aaron Calder at Gelber & Associates concurred. "Next week looks to be similar to the December cold that led to a large amount of frozen production," he said. "Drillers are likely more prepared this time around, but subzero temperatures in West Texas could lead to another record withdrawal and further rallies." Some "brief warmth in the Northeast is leading some to call for the end of winter, but our private [forecasters] assure us that is not the case," Calder emphasized.

More analysts this week have lowered their storage inventory estimates for the end of the heating season, with most, including RBC Capital Markets and Bentek, predicting stocks will end March about 500 Bcf below the five-year average. "With the next three and possibly four storage numbers exceeding 200 Bcf, the expected end-of-March inventory has fallen to [1.164 Tcf], nearly 700 Bcf below the five-year average," said Citi Research analyst Anthony Yeun. "I think the withdrawals we're possibly going to see in the next three reports are going to continue to tighten the end-of-season supply outlook," keeping a floor under prices, said TFS Energy Futures broker Gene McGillian, who expects inventories of 1.24 Tcf at the end of March. Price Futures Group analyst Phil Flynn was even more bullish, saying the market could be "knocking on that door" to 1 Tcf or below if the frigid weather pattern lingers.

Meanwhile, the cold winter and record-setting weekly storage withdrawals have ushered in a new era of volatility to gas markets, one analyst noted. After surging 52.4cents/MMBtu on Wednesday, the front-month NYMEX contract tumbled 45.4 cents Thursday. "It has long been assumed that the dramatic increase in US natural gas resources would prevent high prices and volatility from returning," said BNP Paribas analyst Teri Viswanath. "And yet, this winter has witnessed all-time record high prices for spot gas deliveries, raising questions on whether pipeline constraints have introduced a level of artificial tightness in the industry." Source: Platts Gas Daily

Data

- March 2014 Natural Gas Futures Contract (as of January 31), NYMEX at Henry Hub closed at $4.943 per million British thermal units (MMBtu)
- March 2014 Light, Sweet Crude Oil Futures Contract WTI (as of January 31), closed at $97.49 per U.S. oil barrel (Bbl.) or approximately $16.81 per MMBtu

Last week: Texas cooler than normal

For the week beginning 1/26/14 and ending 2/1/14, heating degree days (HDD) were higher than normal (cooler) for the week and 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 2/1/14	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	222	22	2629	-3%
Austin	118	17	1441	27%
DFW	132	-7	1686	5%
El Paso	88	-43	1546	-12%
Houston	96	5	1163	12%
SAT	89	-7	1064	-2%
Texas**	125	11	1494	11%
U.S.**	233	29	2739	2%

-999 = Normal Less Than 100 or Ratio Incalculable

* A minus (-) value is warmer than normal; a plus (+) value is

* 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

Last week: U.S. natural gas storage at 2,193 Bcf

For the week ending 1/24/2014 working gas in storage decreased from 2,423 Bcf to 2,193 Bcf. This represents a decrease of 230 Bcf from the previous week. Stocks were 637 Bcf lower than last year at this time and 437 Bcf below the 5 year average of 2,630 Bcf.

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

U.S. WORKING GAS IN STORAGE

Region	Week ending 1/24/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,063	1,187	-124	-20.2%
West	327	349	-22	-12.6%
Producing	803	887	-84	-13.1%
Lower 48 Total	2,193	2,423	-230	-16.6%

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

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

The gas rig count for the U.S. was up two compared to the prior week but down 70 when compared to twelve months ago. The total rig count for the U.S. was up eight for the week and up 21 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

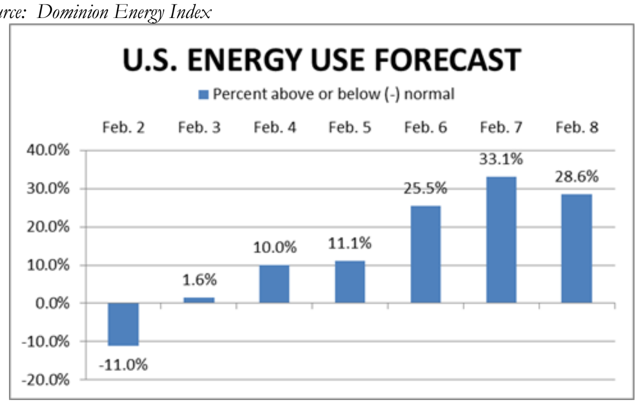
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 1/31/2014	+/- prior week	Year ago	+/- year ago
Texas	842	3	826	16
U.S. gas	358	2	428	-70
U.S. oil	1422	6	1332	90
U.S. total	1785	8	1764	21
Canada	608	18	625	-17

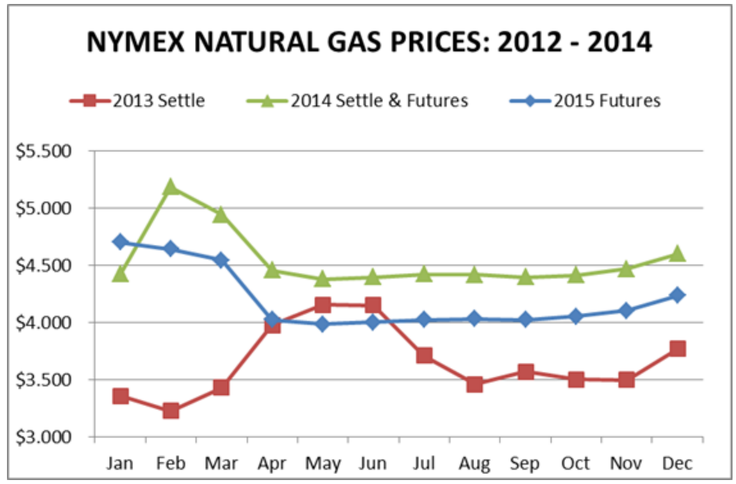
This week: U.S. energy use above normal

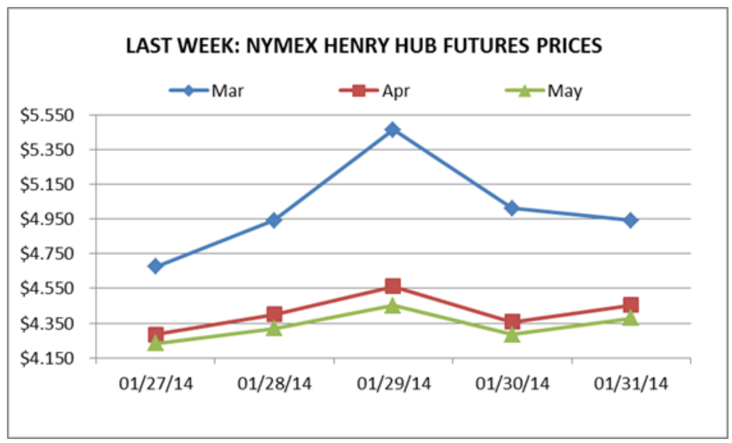
U.S. energy use is predicted to be above normal this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



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





NATURAL GAS PRICE SUMMARY AS OF 1/31/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US March futures				
NYMEX	$4.943	-$0.055	$1.516	$4.563