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RAILROAD COMMISSION OF TEXAS
Gas Services Division
Market Oversight Section

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Natural Gas Trends

Highlights

'Depressed' market cited in Tres Palacios case

Facing fervent opposition, the operator of a Texas gas storage facility seeking to abandon roughly 60% of its working capacity has struck back at its detractors, arguing that the move is necessary to survive gas market conditions. Abandoning up to 22.9 Bcf of working storage capacity "will enable it to survive in the currently depressed market for natural gas storage services," lawyers for the operators of Tres Palacios Gas Storage said in a motion filed Tuesday with the Federal Energy Regulatory Commission.

Tres Palacios' motion was aimed at countering a flurry of resistance from the firms that stand to lose millions of dollars if FERC makes a potentially unprecedented decision to allow storage abandonment due to weak market fundamentals. "Under the Natural Gas Act, [FERC] has exclusive jurisdiction to grant abandonment of certificated facilities and services," Tres Palacios wrote. "Abandonment is to be granted unless it is not permitted by the public convenience and necessity."

The operator contends it meets these requirements because the abandonment "will have no adverse effects on existing customers, competing pipelines or their customers, landowners or local communities, while meeting [Tres Palacios'] need to reduce its fixed costs in order to enhance its financial viability and promote its long-term success. The abandonment will "enable it to survive in the currently depressed market for natural gas storage services," the company wrote.

In December, Tres Palacios, a subsidiary of Crestwood Equity Partners, filed an application with FERC to abandon up to 22.9 Bcf of capacity from a three-cavern underground complex it operates roughly 100 miles southwest of Houston. The facility has a working gas capacity set by FERC at 38.4 Bcf, but Tres Palacios argues that it cannot maintain this capacity profitably due to weak demand and gas prices with limited volatility. But the firms leasing the capacity to Tres Palacios argue that the issue is simply a contract dispute outside FERC's jurisdiction – and that the FERC process is being improperly used by Tres Palacios since it cannot charge the market price it originally expected.

In a February 6 motion, Riverway Storage Holdings, a Houston-based company also subleasing the facility to Tres Palacios, said FERC "should not act precipitously based on temporary market conditions." The abandonment could "distort price signals" since the storage capacity would not exist on paper, but could come on line quickly, and capacity removal could increase the likelihood of a shortage, spurring other operators to seek the removal of capacity, said Underground Services Markham, another Houston company that subleases the facility to Tres Palacios. But in its motion this week, Tres Palacios said the abandonment is needed for the operator to "remain an active competitor in the Gulf Coast storage market." "Thus the proposed abandonment will serve the public interest by enabling Tres Palacios to take steps to enhance its financial viability," the company said.

Tres Palacios denied that the move would cause a "wave of copycat applications" or impact storage market fundamentals, pointing out that the abandonment accounts for just 2.5% of the working gas storage capacity in the Gulf Coast market. "Through FERC's efforts over the past 25 years, the United States has developed a robust and resilient natural gas market," Tres Palacios wrote. "The market readily adapts to new information.

Earlier this month, Underground Services, a subsidiary of Texas Brine, filed a civil lawsuit in Harris County District Court seeking to prevent Tres Palacios from reducing its working gas capacity and, in turn, avoiding millions of dollars in contract fees it would need to pay as part of its lease agreement.

FERC issues a certificate in 2007 for Tres Palacios to operate the storage facilities and the authority to charge market-based rates.

Source: Platts Gas Daily

Data

- March 2014 Natural Gas Futures Contract (as of February 21), NYMEX at Henry Hub closed at $6.135 per million British thermal units (MMBtu)
- April 2014 Light, Sweet Crude Oil Futures Contract WTI (as of February 21), closed at $102.20 per U.S. oil barrel (Bbl.) or approximately $17.62 per MMBtu

Last week: Texas cooler than normal

For the week beginning 2/16/14 and ending 2/22/14, heating degree days (HDD) were lower than normal (warmer) for the week but higher than normal (cooler) on average 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 2/22/14	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	97	-71	3207	-1%
Austin	25	-49	1748	26%
DFW	32	-72	2081	6%
El Paso	30	-70	1757	-16%
Houston	17	-52	1431	13%
SAT	9	-61	1282	-4%
Texas**	36	-49	1837	13%
U.S.**	153	-24	3352	3%

* 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.

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 1,443 Bcf

For the week ending 2/14/2014 working gas in storage decreased from 1,693 Bcf to 1,443 Bcf. This represents a decrease of 250 Bcf from the previous week. Stocks were 975 Bcf lower than last year at this time and 741 Bcf below the 5 year average of 2,184 Bcf.

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

U.S. WORKING GAS IN STORAGE

Region	Week ending 2/14/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	685	814	-129	-34.7%
West	229	259	-30	-30.4%
Producing	529	620	-91	-34.4%
Lower 48 Total	1,443	1,693	-250	-33.9%

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 five compared to the prior week and down 86 when compared to twelve months ago. The total rig count for the U.S. was up seven for the week and up ten when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

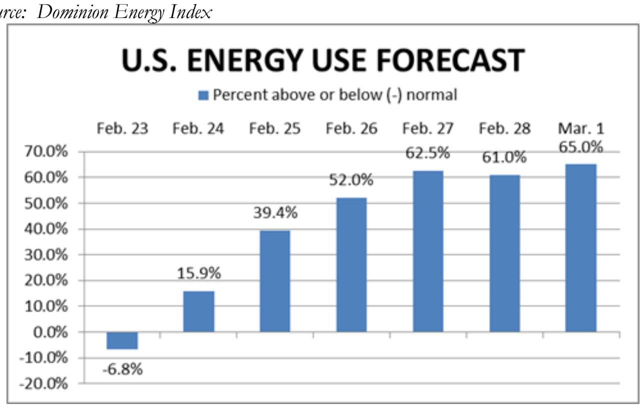
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 2/21/2014	+/- prior week	Year ago	+/- year ago
Texas	846	6	843	3
U.S. gas	342	5	428	-86
U.S. oil	1425	2	1329	96
U.S. total	1771	7	1761	10
Canada	632	8	662	-30

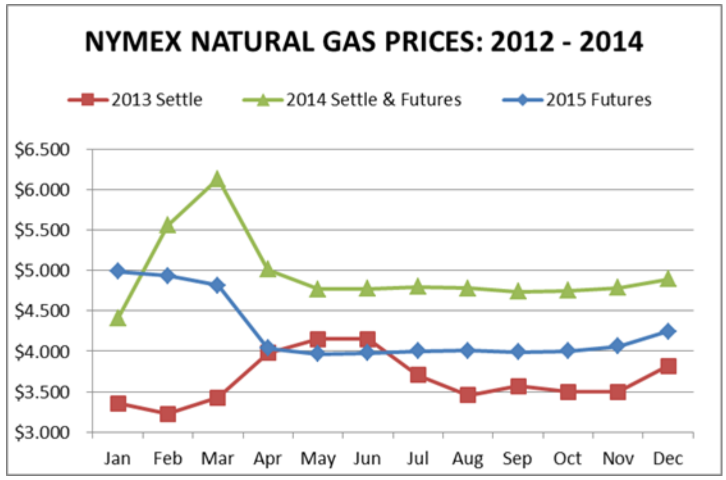
This week: U.S. energy use increasing

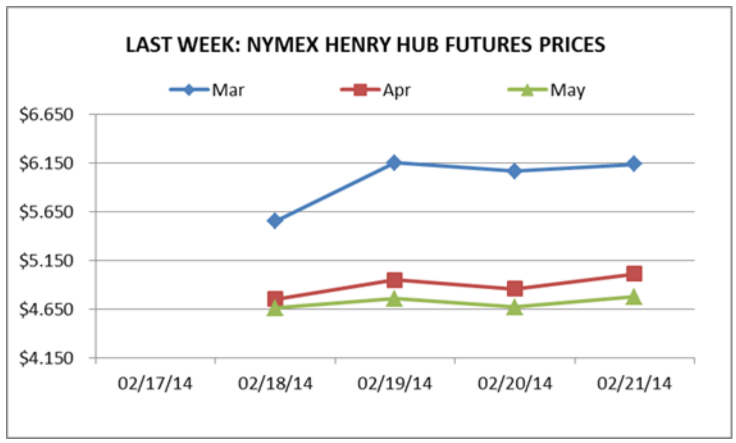
U.S. energy use is predicted to start below normal this week increasing to 65 percent above normal later in the week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



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





*Data for Feb. 17, 2014 is unavailable due to the Presidents' Day holiday.

NATURAL GAS PRICE SUMMARY AS OF 2/21/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US March futures				
NYMEX	$6.135	$0.921	$2.708	$4.998