

May 26, 2014

Natural Gas Trends

Highlights

Sanchez plans to ramp up drilling on newly acquired Eagle Ford acreage

Shell has agreed to sell its 100% working interest in Eagle Ford shale gas and oil acreage in Texas to Sanchez Energy for \$639 million, part of the Anglo-Dutch major's strategy to offload noncore assets. For Sanchez, a Houston-based independent, the deal will double its production and reserves as it looks to build up a bigger position in the Eagle Ford by ramping up drilling activity. The deal includes some 106,000 net acres in Dimmit, LaSalle and Webb counties in Texas. "This transaction is part of Shell's restructuring of its North American resources plays (shale oil and gas) portfolio, to focus on acreage positions that can reach the scale required by Shell," Shell said Wednesday.

In addition to this sale, Shell previously divested its acreage position in the Mississippian Lime in Kansas, its Utica Shale position in Ohio and a portion of its acreage in the Sandwash Niobrara basins in Colorado as part of this strategy. The sale to Sanchez includes approximately 176 operated producing wells and associated field facilities and infrastructure. Net production in the first quarter was approximately 24,000 b/d of oil equivalent, with 60% crude and natural gas liquids. The agreement is effective January 1 and is expected to close at the end of the second quarter.

For Sanchez, the additional acreage is expected to bring the total company position in the Eagle Ford to 226,000 acres, with up to 3,000 potential drilling locations and average first-quarter pro forma production of around 42,800 boe/d. In a statement Wednesday, Sanchez said its guidance for production at year-end 2014 is 45,000-49,000 boe/d. For year-end 2015 it is targeting output of 55,000-60,000 boe/d. "This transaction is a catalyst in our strategy to grow through both the drillbit and prudent asset acquisitions," company CEO and President Tony Sanchez said.

In a conference call with analysts Thursday, Sanchez said production from the acreage will ramp up dramatically since Shell has not put any wells in production there since late 2013. "We've got a huge inventory of wells waiting to be fracked," Sanchez said. Sanchez told analysts that it is forecasting production in the asset for next year to be 52% oil and condensate and the rest natural gas and NGLs. He said the addition of the asset included at least 200 identified drilling locations and up to 800 additional potential locations that can be added through planned appraisal work on the rest of the asset. He said the acquisition would increase Sanchez's total proved reserves by 60 million boe and proved developed reserves by 36 million boe. "Our initial internal estimates puts the resource potential of the acquisition at up to 500 million boe."

The CEO said midstream infrastructure in the Catarina area is "very robust." "It was built for substantially larger takeaway volumes than the amount it's producing today," he said. "There are no issues we have with expansion to accommodate volumes we see coming on over the next several years." He said the company would like to emphasize organic growth rather than growth by acquisitions. In 2013, about 60% of its growth was organic and 40% was acquired.

Source: Platts Gas Daily

Data

- June 2014 Natural Gas Futures Contract (as of May 23), NYMEX at Henry Hub closed at \$4.405 per million British thermal units (MMBtu)
- June 2014 Light, Sweet Crude Oil Futures Contract WTI (as of May 23), closed at \$104.35 per U.S. oil barrel (Bbl.) or approximately \$17.99 per MMBtu

Last week: Texas cooler than normal

For the week beginning 5/18/14 and ending 5/24/14, cooling degree days (CDD) were lower than normal (cooler) 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 5/24/14	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	58	33	159	-999%
Austin	82	2	384	-17%
DFW	93	25	390	41%
El Paso	91	23	317	22%
Houston	82	1	461	-5%
SAT	97	11	613	22%
Texas**	77	5	385	-6%
U.S.**	24	-2	136	5%

* 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 1,266 Bcf

For the week ending 5/16/2014 working gas in storage increased from 1,160 Bcf to 1,266 Bcf. This represents an increase of 106 Bcf from the previous week. Stocks were 774 Bcf lower than last year at this time and 943 Bcf below the 5 year average of 2,209 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 5/16/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	522	457	65	-46.2%
West	231	219	12	-33.2%
Producing	513	484	29	-42.5%
Lower 48 Total	1,266	1,160	106	-42.7%

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 one for the week and was down 29 when compared to twelve months ago. The total rig count for the U.S. was down four from last week and up 95 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

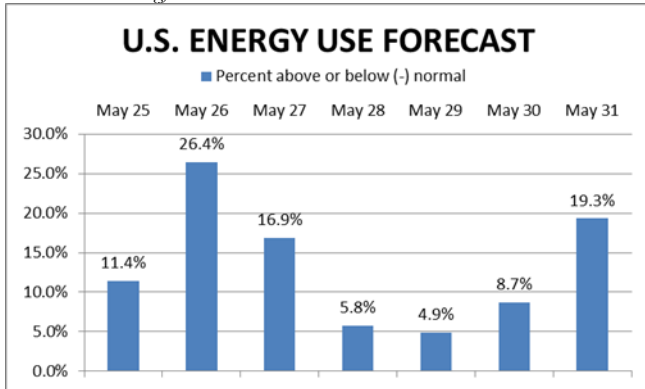
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 5/23/2014	+/- prior week	Year ago	+/- year ago
Texas	889	-2	840	49
U.S. gas	325	-1	354	-29
U.S. oil	1528	-3	1402	126
U.S. total	1857	-4	1762	95
Canada	154	1	131	23

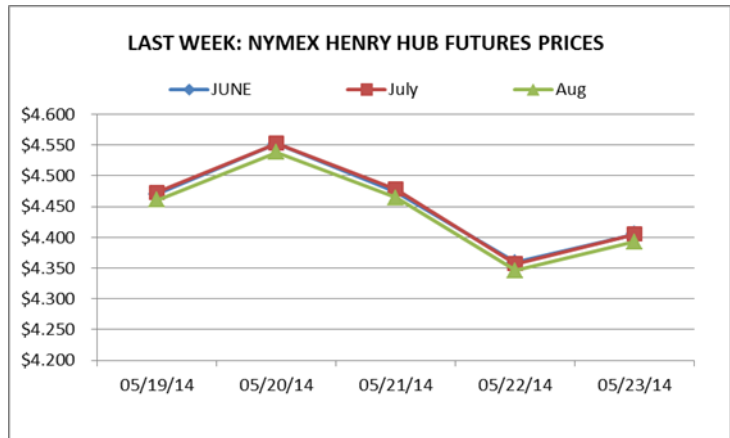
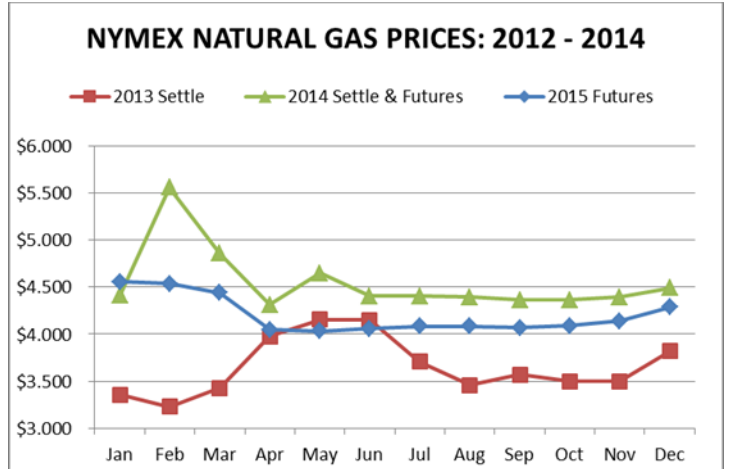
This week: U.S. energy above normal

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 5/23/2014

This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
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US June futures

NYMEX	\$4.413	\$0.000	\$0.437	\$4.420
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