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RAILROAD COMMISSION OF TEXAS
Gas Services Division
Market Oversight Section

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Natural Gas Trends

Highlights

Refill efforts to pressure summer prices: NGSA

Pressure on natural gas prices will be "slightly upward this summer" compared with a year ago because gas producers are scrambling to refill depleted storage facilities, the Natural Gas Supply Association said Wednesday in its summer outlook. "The picture that emerged for this summer is one of slightly increased pressure on natural gas prices, chiefly because of the need to inject a greater than average amount of natural gas into storage in the wake of an extreme winter," Greg Vesey, NGSA chairman and vice president of gas supply and trading for Chevron, said in a statement. "Looking at all key factors combined, NGSA expects soft upward pressure on prices compared with last summer," he said. The industry ended the winter with about 826 Bcf in storage and would need at least 83 Bcf/week of injections on average to fill storage to about 3.4 Tcf, Vesey said. But recent reports of injections of 100 Bcf/week "is indicative that we can do this," he noted.

Still, the need to fill storage is putting upward pressure on prices, he said. A year ago, the price of gas at the Henry Hub was about $3.50/MMBtu, and now it is roughly $4.50/MMBtu. Looking ahead this summer, powerful hurricanes that shut down production and transportation "could impact things, but what we have seen in the last two summers is that even when we had some of those storms, the impact has been very minimal," he said. "Improvements in forecasting mean we can keep the production on as long as we can before we shut in," he added. He also noted that a lot of the demand for natural gas originates in the area where much of it is used. "So if (Gulf of Mexico) production goes down, demand also goes down," he said. "The market has become very intelligent in this, so we haven't seen a large reaction in prices to storms as we have in previous years." He said it would "just take one huge storm to change that balance, but we haven't seen that in the last few years."

Vesey said NGSA consultant Energy Ventures Analysis "expects gas production to be record-setting in part because of shale gas and in part due to a considerable amount of natural gas currently being produced in association with oil- and liquids-directed drilling. "Finally, production is robust because of the numerous new pipelines and processing plants in service that are carrying previously stranded natural gas away from the Marcellus and other production areas," he said. The trade group has "confidence in the market's resilience and ability to achieve those record weekly injections, thanks to the industry's responsiveness and the abundance of shale gas," he said. "It's a testament to the flexibility of our industry that we were able to average storage injections of 79 Bcf/week even back in 2003, long before shale gas had increased production to our current record-setting levels," he added.

Industrial demand for gas will increase 5% this summer compared with summer 2013, primarily because of numerous new natural gas-intensive industrial projects, NGSA said. Vesey said there has been good growth in industrial demand. "Fertilizer is expected to lead the way, followed by gas-to-liquids. There are not very many gas-to-liquids plants, but they are very gas-intensive." But the increase in industrial demand "is predicted to be offset by a drop in electric demand compared to summer 2013," NGSA said. The association believes electric demand this summer will decline "because less coal-to-gas fuel switching is forecasted than occurred in the summer of 2013."

Temperatures similar to the summer of 2013 are expected to place neutral pressure on natural gas prices compared to last summer, NGSA continued, pointing to findings by EVA, which anticipates this summer's weather will be 1% warmer than last summer. Lower unemployment numbers, the highest Consumer Sentiment Index numbers since 2007 and summer 2014 GDP growth "are expected to exceed last summer's," NGSA said. But those factors will not be "quite large enough to influence prices."

Source: Platts Gas Daily

Data

- July 2014 Natural Gas Futures Contract (as of June 6), NYMEX at Henry Hub closed at $4.710 per million British thermal units (MMBtu)
- July 2014 Light, Sweet Crude Oil Futures Contract WTI (as of June 6), closed at $102.66 per U.S. oil barrel (Bbl.) or approximately $17.70 per MMBtu

Last week: Texas cooler than normal

For the week beginning 6/1/14 and ending 6/7/14, cooling degree days (CDD) were higher 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 6/7/14	*Week CDD + / - from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	96	47	295	86%
Austin	117	15	573	-13%
DFW	134	40	610	35%
El Paso	168	68	594	34%
Houston	118	17	659	-2%
SAT	128	23	833	18%
Texas**	112	20	574	-2%
U.S.**	46	8	222	11%

-999 = Normal Less Than 100 or Ratio Incalculable

* 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.

Last week: U.S. natural gas storage at 1,499 Bcf

For the week ending 5/30/2014 working gas in storage increased from 1,380 Bcf to 1,499 Bcf. This represents an increase of 119 Bcf from the previous week. Stocks were 737 Bcf lower than last year at this time and 896 Bcf below the 5 year average of 2,395 Bcf.

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

U.S. WORKING GAS IN STORAGE

Region	Week ending 5/30/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	655	586	69	-39.2%
West	269	250	19	-28.3%
Producing	575	544	31	-39.0%
Lower 48 Total	1,499	1,380	119	-37.4%

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 six for the week and was down 34 when compared to twelve months ago. The total rig count for the U.S. was down six 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

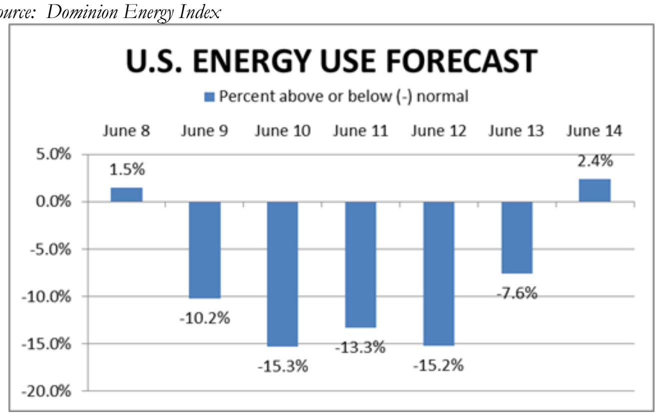
BAKER HUGHES ROTARY RIG COUNT

	As of 6/06/2014	+/- prior week	Year ago	+/- year ago
Texas	896	2	844	52
U.S. gas	320	-6	354	-34
U.S. oil	1536	0	1406	130
U.S. total	1860	-6	1765	95
Canada	214	16	152	62

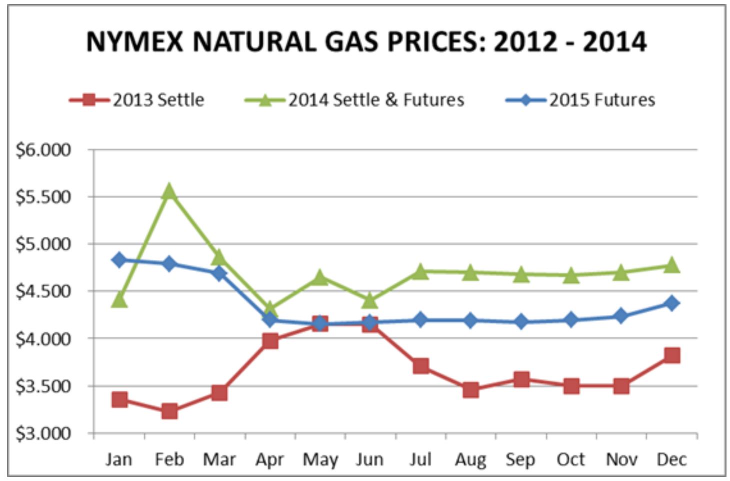
This week: U.S. energy use varies

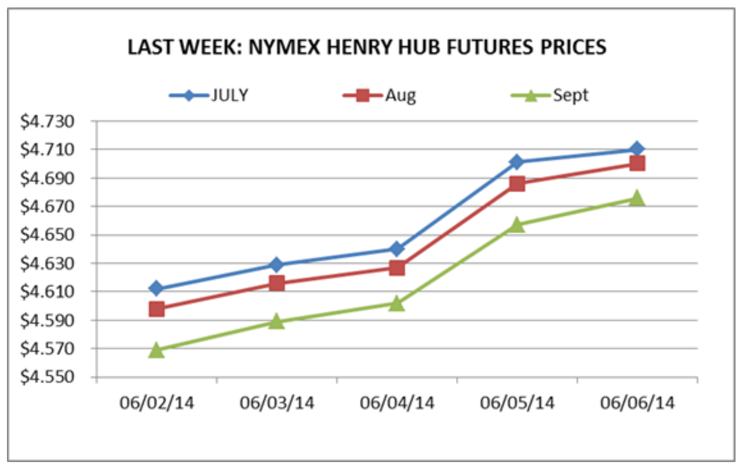
U.S. energy use is predicted to very this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



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





NATURAL GAS PRICE SUMMARY AS OF 6/6/2014

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US July futures				
NYMEX	$4.710	$0.168	$1.003	$4.648