

January 27, 2014

Natural Gas Trends

Highlights

NE governors join to boost gas, electric capacity

New England’s governors on Thursday advanced an unusual proposal to have their six states act as one to get more natural gas pipelines and electric transmission lines built. The plan calls for the states to jointly seek proposals for transmission to move 1,200 to 3,600 MW of “clean” energy into New England, according to a letter the New England States Committee on Electricity sent to ISO New England.

The governors of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont also want to create a tariff to recover costs to build pipeline to deliver firm gas supplies into the region. Power prices have skyrocketed in New England again this winter because of constraints brought on by the lack of gas pipeline capacity.

The plan arises out of an agreement the governors reached in December to work together to expand energy infrastructure in New England. At this point the plan is largely conceptual, and NESCOE proposed little in the way of timing. “On the transmission side and the gas side, these are pretty novel approaches. It will be fascinating to see if they can be implemented and how,” said Dan Dolan, president of the New England Power Generators Association. The letter contemplates recovering costs for the transmission through either an ISO-NE tariff or through merchant projects in a way that shares the benefits and costs among the states “appropriately.”

NESCOE asked the ISO to help the states with technical electrical system planning, tariff changes and Federal Energy Regulatory Commission filings. Meanwhile, NESCOE said new or expanded pipelines must be able to deliver gas from one or more hubs at prices reflecting no or minimal “basis differential” to Henry Hub. The goal is to increase firm pipeline capacity into New England by 1 Bcf/d above 2013 levels or 600,000 Mcf/d beyond what has already been announced in the form of the Algonquin Incremental Market project and a joint Connecticut pipeline expansion plan.

States are now discussing how they will allocate costs through a tariff that would pay for the new pipeline capacity. In the letter, NESCOE pushed to get any necessary tariff approvals as quickly as possible so the new capacity can be available no later than the winter of 2017-18. Dolan said the pipeline tariff is unusual in that money for the project would come from consumers rather than a pipeline company. He questioned the need for the tariff given that three pipelines have already been proposed in the region by private developers. The proposal is likely to create some controversy given that it also creates a situation where electric consumers are subsidizing gas infrastructure, Dolan said. His organization has yet to take a stand on the proposal, but he said “we generally have a concern any time states play a role in trying to subsidize anything. And I think in this instance there is going to be some concern that this is a solution in search of a problem.” The market already is working to rectify the gas constraints with various capacity additions, he said.

Meanwhile, ISO New England said it is happy to work with the states on the transmission and pipeline – two areas it has identified as in need of attention.

Marcia Blomberg, ISO spokeswoman, said the pipeline tariff “is a mechanism that could break the logjam that has stymied the level of natural gas pipeline expansion needed to meet the region’s needs.” The tariff would require FERC approval.

Source: Platts Gas Daily

Data

- February 2014 Natural Gas Futures Contract (as of January 24), NYMEX at Henry Hub closed at \$5.182 per million British thermal units (MMBtu)
- March 2014 Light, Sweet Crude Oil Futures Contract WTI (as of January 24), closed at \$96.64 per U.S. oil barrel (Bbl.) or approximately \$16.66 per MMBtu

Last week: Texas cooler than normal

For the week beginning 1/19/14 and ending 1/25/14, 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 1/25/14	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	182	-26	2407	-4%
Austin	140	35	1323	28%
DFW	142	-5	1554	6%
El Paso	133	-7	1458	-10%
Houston	120	23	1067	13%
SAT	99	-3	975	-2%
Texas**	127	7	1369	11%
U.S.**	234	26	2506	1%

* 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 2,423 Bcf

For the week ending 1/17/2014 working gas in storage decreased from 2,530 Bcf to 2,423 Bcf. This represents a decrease of 107 Bcf from the previous week. Stocks were 598 Bcf lower than last year at this time and 369 Bcf below the 5 year average of 2,792 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 1/17/14	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,187	1,254	-67	-17.6%
West	349	364	-15	-10.5%
Producing	887	912	-25	-7.8%
Lower 48 Total	2,423	2,530	-107	-13.2%

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 nine compared to the prior week and down 78 when compared to twelve months ago. The total rig count for the U.S. did not change for the week and was up 24 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

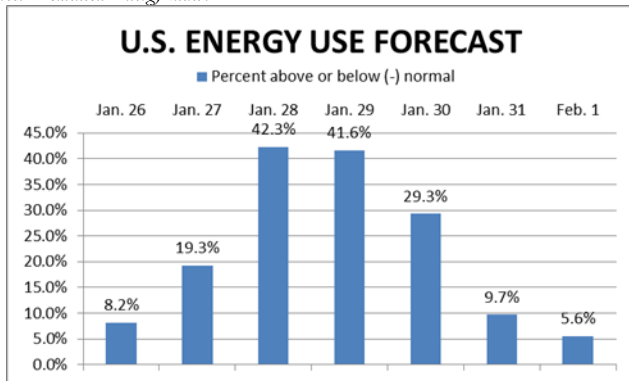
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 1/24/2014	+/- prior week	Year ago	+/- year ago
Texas	839	-2	819	20
U.S. gas	356	-9	434	-78
U.S. oil	1416	8	1315	101
U.S. total	1777	0	1753	24
Canada	590	25	621	-31

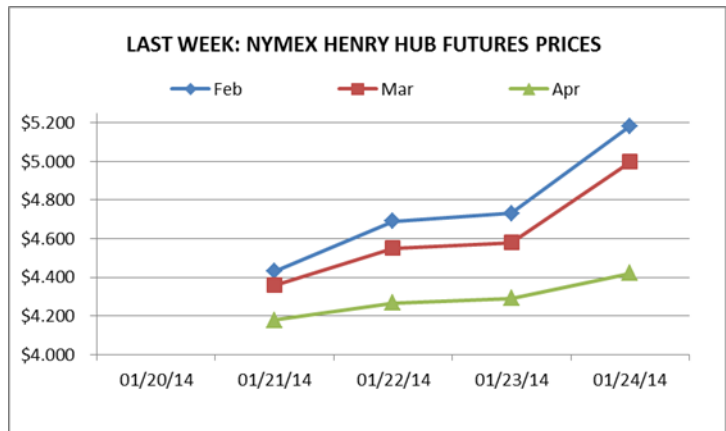
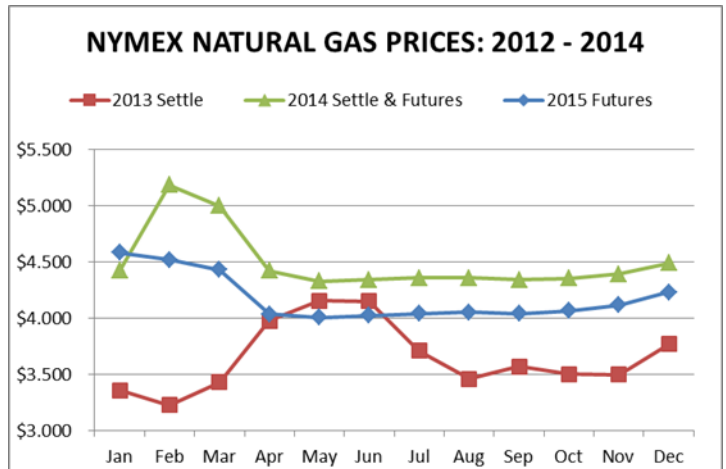
This week: U.S. energy use above normal

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.



*There is no data available for Jan. 20, 2014 due to the holiday.

NATURAL GAS PRICE SUMMARY AS OF 1/24/2014

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

NYMEX	\$4.431	\$0.105	\$1.205	\$4.510
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