

January 5, 2009

Natural Gas Trends

Highlights

FRACING REG CHANGES ANTICIPATED

Potential changes in U.S. regulations. Oil and gas industry representatives are reportedly concerned that the next U.S. Congress may eliminate an oil and gas exemption, contained in the Energy Policy Act of 2005, from certain water quality regulations in the Safe Drinking Water Act. The Safe Drinking Water Act, which was passed by Congress in 1974 to protect public health by regulating the nation's drinking water supply, makes it illegal to inject toxic chemicals into underground aquifers; however, oil and gas companies are exempt from this prohibition.

Hydraulic fracturing (also known as 'fracing') is particularly important in obtaining natural gas from unconventional sources, like the Barnett Shale formation. Currently, individual states regulate most issues surrounding the storage and use of hydraulic fracing fluids. But, if the exemption favorable to oil and gas companies is eliminated by Congress, such companies could be required to obtain an Underground Injection Control permit from the U.S. Environmental Protection Agency (EPA), potentially delaying drilling operations.

Persons in support of eliminating the exemption are concerned that, although frac fluids are composed mostly of water, frac fluids may also contain toxic chemicals, some not publicly disclosed. Well-service companies tend to closely guard their frac fluid formulas, considering the formulas to be competitively sensitive information. Source: *Platts Gas Daily*, 12/29/08

Potential changes in Texas regulations. The Fort Worth City Council adopted on 12/9/08 Resolution No. 3691 urging the Texas Legislature to require the Railroad Commission to *"... prepare an environmental impact study to evaluate the effects of natural gas production from the Barnett Shale on air, water and soil quality in this region; and to maintain and make available to the public a detailed list of chemicals other than benign, innocuous or otherwise harmless substances for each drill site...."* The Council also passed Resolution No. 3692 urging the Legislature to increase appropriations to the Railroad Commission. Copies of these resolutions and the Fort Worth City Council's new 65-page natural gas drilling ordinance can be obtained from the city's website at: www.fortworthgov.org.

ABOUT HYDRAULIC FRACTURING

Hydraulic fracturing is a common well stimulation technique used to increase oil and gas production by injecting large volumes of frac fluids under high pressure into a well to fracture reservoir rock. Unintended fracing into a water reservoir can occur with the result that water floods the well.

Source: *Nontechnical Guide to Petroleum, Geology, Exploration, Drilling, and Production*. For more information, visit www.hydraulicfracturing.org. Numerous videos of hydraulic fracturing can be found on YouTube; none are endorsed by the Gas Services Division.

Data

- February Natural Gas Futures Contract (January 2) NYMEX at Henry Hub closed at \$5.971.
- February Light, Sweet Crude Oil Futures Contract (January 2) NYMEX at Cushing closed at \$46.34 per Bbl. or approximately \$7.38 per MMBtu.

Heating Degree Days

From 12/28/08 through 1/3/09, Texas and the U.S. experienced much warmer than normal weather. For the heating season (7/1/08 to present), cumulative heating degree days are **9% below normal for Texas** and 1% below normal for the U.S. Source: NOAA (www.cpc.ncep.noaa.gov)

Heating Degree Days (HDD) Week ending 1/3/09

City or Region	Week Total HDD	Week HDD +/- from Normal *	Year-to-date Total HDD	YTD, % +/- from Normal *
Amarillo	136	-74	1575	-15 %
Austin	92	-13	691	0 %
DFW	75	-72	755	-24 %
El Paso	136	-13	935	-20 %
Houston	59	-37	496	-22 %
San Antonio	58	-45	484	-28 %
Texas**	79	-42	766	-9 %
U.S.**	178	-26	1809	-1 %

* A plus (+) value = cooler than normal; a minus (-) value = warmer than normal.
 ** State and U.S. degree-days are population-weighted by NOAA.

U.S. Gas Storage Level Drops Below 2.9 Tcf

U.S. working gas in underground storage was 2,877 Bcf for the week ending 12/26/08, a decrease of 143 Bcf from the prior week. A year ago, U.S. gas storage was 2,946 Bcf. The 2003-2007 five-year average for the U.S. this week was 2,821 Bcf. Working gas in storage this week in the producing region (which includes Texas) was 888 Bcf compared to the 2003-2007 five-year average of 839 Bcf. Source: Energy Information Administration (www.eia.doe.gov)

U. S. Working Gas in Storage (Bcf) Week ending 12/26/08

Region	This Week	Last Week	Change	Current Δ from 5-Year Average (%)
East	1589	1689	-100	- 1.2 %
West	400	422	-22	+7.0 %
Producing	888	909	-21	+5.8 %
Lower 48 Total	2877	3020	-143	+2.0 %

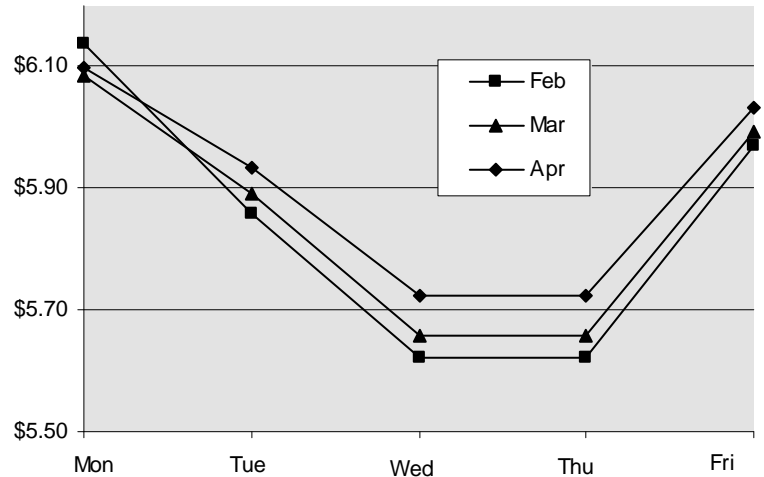
U. S. Gas Rig Count Drops to 1267

The U.S. **gas rig** count was down 80 to 1,267 for the week and was down 183 when compared to 1,450 rigs a year ago. The U.S. **total rig** count was down 98 to 1,623 and was down 151 when compared to 1,774 rigs a year ago. While vertical and directional rig counts are declining, horizontal oil and gas rig counts have increased by 113, compared to a year ago. Source: Baker Hughes, Inc.

Baker Hughes Rotary Rig Count (1/2/09)

	This Week	+/- Last Week	Year Ago	+/- Year Ago
U.S.	1623	-98	1774	-151
Gas	1267	-80	1450	-183
Oil	346	-18	316	+30
Texas	747	-54	869	-122
N. Amer.	1853	-147	2093	-240

NYMEX Natural Gas Price Movement 12/29/08 -1/2/09

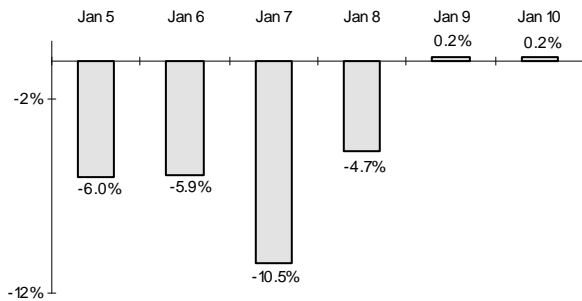


Note 1: The New Year holiday occurred on 1/1/09; thus, the 12/31/08 gas price is shown on Thursday, above.
 Note 2: Monday prices are for January futures; Tuesday through Friday prices are for February futures, above.

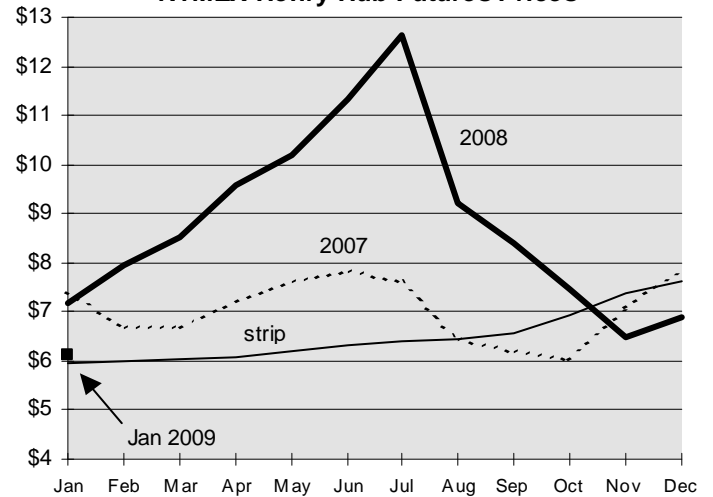
Dominion Energy Use Forecast for U.S.

Below normal energy use is forecasted for the U.S. through Thursday, according to the Dominion Energy Index, as shown below. The index forecasts total U.S. residential energy usage, a component of which is natural gas. Source: Dominion Energy Index

U.S. Energy Use Forecast



NYMEX Henry Hub Futures Prices



Gas Price Summary 1/2/09

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
U.S. (February Futures)				
NYMEX	\$5.971	\$0.061	-\$1.983	\$6.497