

January 20, 2009

Natural Gas Trends

Highlights

EIA's SHORT-TERM ENERGY OUTLOOK

According to the Energy Information Administration's (EIA's) January 13, 2009 *Short-Term Energy Outlook*:

As consumption reacts to worsening economic factors, natural gas prices may need to fall further than currently forecast in order to restrain production activities and balance the market during the second half of 2009, particularly as inventory nears storage capacity. For the April 1 to October 31 storage injection season, the 2009 'supply overhang' is expected to result in working gas inventories near 3.545 Bcf, the previous high reported on 11/2/07.

Spot prices, natural gas. The Henry Hub natural gas spot price is expected to average \$5.78 per Mcf in 2009. The average spot price was \$9.13 per Mcf in 2008 and \$7.17 per Mcf in 2007. In December of 2008, the Henry Hub average spot price was \$5.99 per Mcf - about 46% below the June 2008 average of \$13.07. EIA attributes the decline in natural gas prices to weak demand, poor economic conditions, and strong domestic production growth.

Spot prices, crude oil. West Texas Intermediate (WTI) spot prices for crude oil are expected to average \$43.25 per barrel in 2009. The WTI average spot price for crude oil averaged about \$100 in 2008 and \$72 in 2007.

Consumption. Total U.S. natural gas consumption is expected to decline by 1% in 2009. EIA anticipates a slight increase in 2009 residential consumption offset by consumption declines in the commercial, industrial, and electric power sectors.

Production. Total U.S. marketed natural gas production, which increased by approximately 5.9% in 2008, is projected to increase by .7% in 2009. The number of gas rigs in the Lower-48 on-shore region dropped from about 1,540 in August 2008 to under 1,200 early in 2009; however, drilling activity is expected to begin to pick up in 2010.

Imports. U.S. imports of liquefied natural gas (LNG) were about 350 Bcf in 2008, compared to 771 Bcf imported in 2007. LNG imports are expected to rise to about 420 Bcf in 2009 and to 500 Bcf in 2010.

For the complete EIA forecast, visit www.eia.doe.gov.

Data

- February Natural Gas Futures Contract (January 16) NYMEX at Henry Hub closed at \$4.801.
- February Light, Sweet Crude Oil Futures Contract (January 16) NYMEX at Cushing closed at \$35.88 per Bbl. or approximately \$5.71 per MMBtu.

Heating Degree Days

From 1/11/09 through 1/17/09, Texas and the U.S. experienced much cooler than normal weather. For the heating season (7/1/08 to present), cumulative heating degree days are **12% below normal for Texas** and normal for the U.S.

Source: NOAA (www.cpc.ncep.noaa.gov)

Heating Degree Days (HDD) Week ending 1/17/09

City or Region	Week Total HDD	Week HDD +/- from Normal *	Year-to-date Total HDD	YTD, % +/- from Normal *
Amarillo	203	-7	1963	-14 %
Austin	146	+34	917	+1 %
DFW	148	-2	994	-23 %
El Paso	151	+4	1210	-17 %
Houston	116	+18	677	-19 %
San Antonio	106	+1	656	-25 %
Texas**	140	+17	994	-9 %
U.S.**	240	+31	2237	0 %

* 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 Nears 2.7 Tcf

U.S. working gas in underground storage was 2,736 Bcf for the week ending 1/9/09, a decrease of 94 Bcf from the prior week. A year ago, U.S. gas storage was 2,708 Bcf. The 2004-2008 5-year U.S. average for this week was 2,655 Bcf. Working gas in storage this week in the producing region (which includes Texas) was 899 Bcf compared to the 2004-2008 5-year average of 804 Bcf. Sources: EIA (www.eia.doe.gov) and Platts *Gas Daily*, 1/9/09

U. S. Working Gas in Storage (Bcf) Week ending 1/9/09

Region	This Week	Last Week	Change	Current Δ from 5-Year Average (%)
East	1468	1540	-72	- 2.7 %
West	369	388	-19	+7.6 %
Producing	899	902	-3	+11.8 %
Lower 48 Total	2736	2830	-94	+3.1 %

U.S. Rig Count Down, Canadian Rig Count Up

The U.S. gas rig count was down 4 for the week and down 183 compared to twelve months ago. The U.S. total rig count was down 21 for the week and down 164 compared to twelve months ago. Declines in U.S. oil and gas rig counts for the week were offset by an increase in Canada's rig count (+78) such that, overall, the rig count for North America increased by 57 for the week.

Source: Baker Hughes, Inc.

Baker Hughes Rotary Rig Count (1/16/09)

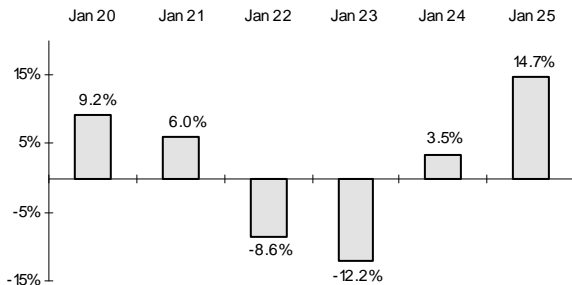
	This Week	+/- Last Week	Year Ago	+/- Year Ago
U.S.	1568	-21	1732	-164
Gas	1235	-4	1401	-166
Oil	324	-17	323	+1
Texas	699	-14	854	-155
N. Amer.	2006	+57	2292	-286

Dominion Energy Use Forecast for U.S.

Except for Thursday and Friday, above normal energy use is forecasted for the U.S. this week, 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

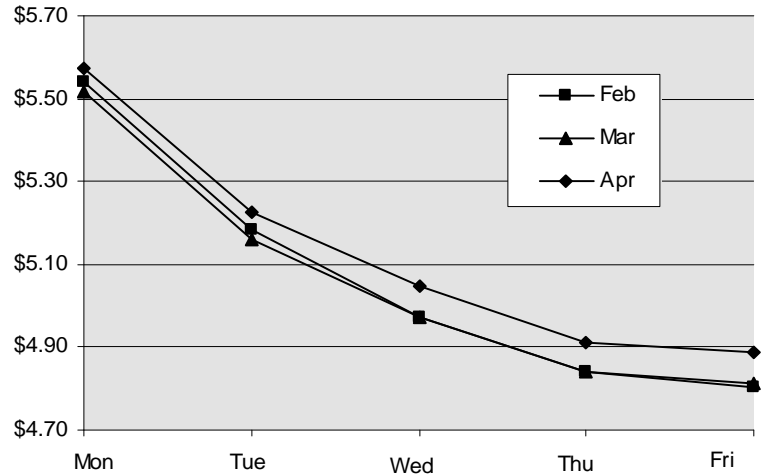


Texas Cities Seek More Authority Over Pipelines

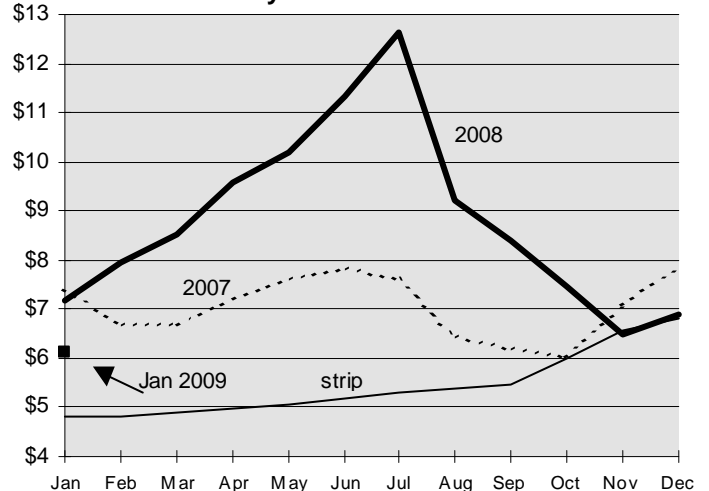
A coalition of more than 30 Texas cities is seeking from the Legislature increased authority to regulate pipeline routes, setback requirements, pipeline infrastructure, and more. The idea is attributed to the small town of Dish, Texas (pop. 150).

Sources: Platts Gas Daily and www.cityofdish.com

NYMEX Natural Gas Price Movement 1/12/09 -1/16/09



NYMEX Henry Hub Futures Contract Prices



Gas Price Summary 1/16/09

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
U.S. (February Futures)				
NYMEX	\$4.801	-\$0.715	-\$3.153	\$5.439