

March 2, 2009

Natural Gas Trends

Highlights

TWO ENERGY REPORTS, ONE STUDY RELEASED

PUC report on Texas electric markets. The Public Utility Commission of Texas recently released its biennial report to the Texas Legislature on the **Scope of Competition in Electric Markets in Texas**. Throughout the report, the agency emphasizes the effect of volatile natural gas prices on retail electric power prices which have been deregulated since 2002. Of particular interest, Table 6 within the report quantifies that, for certain gas-dependent electric power providers, 48.6% of electric generation relies upon natural gas as a fuel source, based upon data from July 2005 to July 2006, as excerpted below.

Retail Price for Electricity from Gas-Dependent Retail Providers

Electric Utility	State	Avg price in cents per kilowatt hr	Statewide gas share of generation
TXU Default Rate	TX	\$0.154	48.6%
Reliant Default Rate	TX	\$0.137	48.6%
TXU Lowest Offer	TX	\$0.117	48.6%
Reliant Lowest Offer	TX	\$0.110	48.6%

The 86-page report is at: <http://www.puc.state.tx.us/electric/reports/index.cfm>.

American Energy Alliance (AEA) study of offshore oil and gas potential. The AEA released a study authored by Joseph R. Mason and titled **The Economic Contribution of Increased Offshore Oil Exploration and Production to Regional and National Economies**. The 30-page study quantifies substantial economic benefits to be realized by U.S. coastal states if oil and gas production occurs in previously unavailable Outer Continental Shelf (OCS) Planning Areas. Tables 2 and 3 of the report indicate that Texas is the only state to have already fully opened OCS areas to oil and gas exploration and production. Thus, other states will be the primary recipients of incremental benefits to be realized by furthering developing the OCS.

The 30-page report is at: www.americanenergyalliance.org.

CFTC report on trends in crude oil futures. The Commodities Futures Trading Commission (CFTC) released “the first formal evidence of a transformation at the world’s largest futures market for a physical commodity” titled **Fundamentals, Trader Activity and Derivative Pricing**. The report is based upon an analysis of a unique dataset of trader positions in crude oil options and futures.

The 47-page, 12/4/08 report is at: www.cftc.gov/EconomicAnalysis.

Data

- April Natural Gas Futures Contract (February 27), NYMEX at Henry Hub closed at \$4.198
- April Light, Sweet Crude Oil Futures Contract (February 27), NYMEX at Cushing closed at \$44.76 per Bbl. or approximately \$7.13 per MMBtu

Heating Degree Days

From 2/22/09 thru 2/28/09, Texas experienced significantly warmer than normal weather while the U.S. had slightly cooler than normal weather. For the heating season (7/1/08 to present), cumulative heating degree days are 15% below normal for Texas and normal for the U.S.

Heating Degree Days (HDD) Week ending 2/28/09

City or Region	Week Total HDD	Week HDD +/- from Normal *	Year-to-date Total HDD	YTD, % +/- from Normal *
Amarillo	98	-59	2876	- 15 %
Austin	49	-15	1331	- 8 %
DFW	60	-33	1531	- 25 %
El Paso	33	-57	1720	- 20 %
Houston	40	-20	975	- 26 %
San Antonio	38	-22	920	- 33 %
Texas**	53	-22	1438	- 15 %
U.S.**	168	+2	3377	0 %

* A plus (+) value = cooler than normal; a minus (-) value = warmer than normal.

** State and U.S. degree-days are population-weighted by NOAA.

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

U.S. Gas Storage Level Declines to 1,895 Bcf

Storage levels are higher than normal, except in the East region. For the week ending 2/20/09, U.S. working gas in storage declined to 1,895 Bcf compared to 1,662 Bcf in storage a year ago and 1,696 Bcf for the 5-year average from 2004 to 2008. Working gas in storage in the producing region (which includes Texas) dropped to 723 Bcf compared to 581 Bcf in storage a year ago and 560 Bcf for the 5-year average from 2004 to 2008.

Source: www.eia.doe.gov and Platts

U. S. Working Gas in Storage (Bcf) Week ending 2/20/09

Region	This Week	Last Week	Change	Current Δ from 5-Year Average (%)
East	876	947	-71	- 3.5 %
West	296	312	-16	+ 29.8 %
Producing	723	737	+ 16	+ 29.1 %
Lower 48 Total	1895	1996	-101	+ 11.4 %

U.S. Gas Rigs Trend Lower to 970

The U.S. gas rig count was down 48 for the week and down 448 compared to 12 months ago. The U.S. total rig count was down 57 for the week and down 520 compared to 12 months ago. Only Alaska, Arkansas, Pennsylvania, Utah and Washington added rigs during the week.

Source: Baker Hughes, Inc.

Baker Hughes Rotary Rig Count (2/27/09)

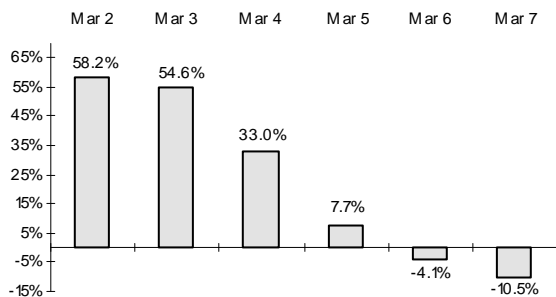
	This Week	+/- Last Week	Year Ago	+/- Year Ago
U.S.	1243	-57	1763	-520
Gas	970	-48	1418	-448
Oil	260	-9	337	-77
Texas	538	-26	859	-321
N. Amer.	1637	-64	2395	-758

Declining Energy Use Forecasted For U.S.

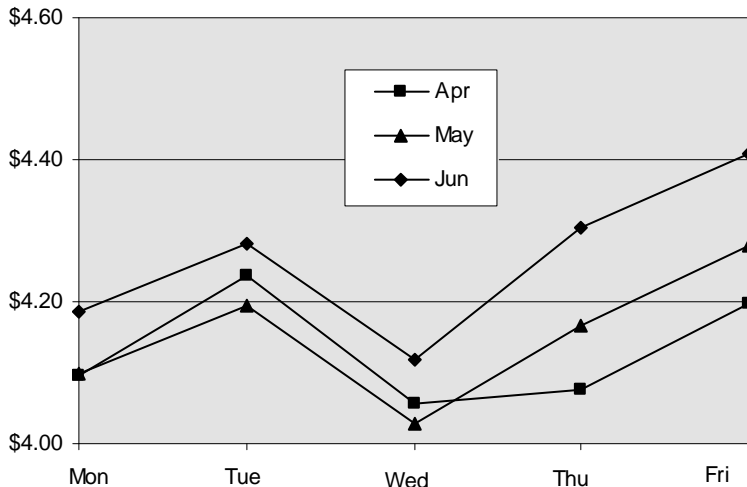
Higher than normal energy use is forecasted for the U.S. through Thursday, 3/5, while below normal energy use is forecasted for Friday, 3/6, and Saturday, 3/7, according to the Dominion Energy Index, as shown below. The index forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index

U.S. Energy Use Forecast

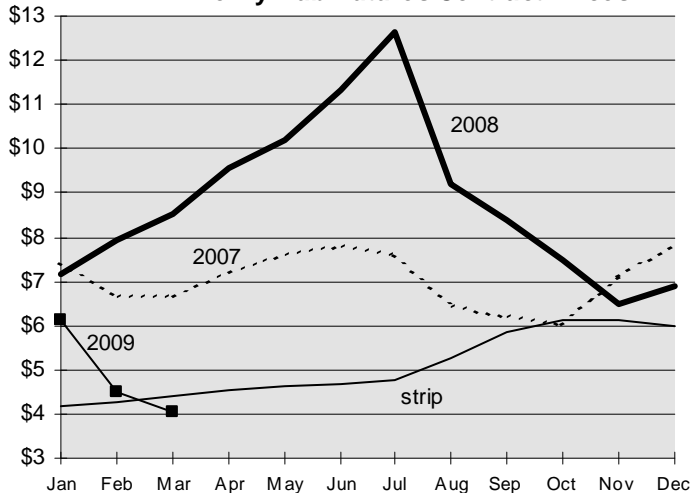


NYMEX Natural Gas Price Movement 2/23/09 - 2/27/09



Note to above chart: The NYMEX March contract expired on 2/25/09.

NYMEX Henry Hub Futures Contract Prices



Gas Price Summary 2/27/09

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
U.S. (April Futures)				
NYMEX	\$4.198	\$0.192	-\$5.372	\$5.071