

May 26, 2009

Natural Gas Trends

Highlights

REPORTS HIGHLIGHT INTERDEPENDENCE OF ENERGY AND NATIONAL SECURITY POLICIES

Pre-WWI military strategy shifted to foreign oil. Until July of 1911, Winston Churchill had been a fervent critic of increased military spending for the purpose of maintaining the British Royal Navy's dominance - absent an imminent foe. But after learning of strategic maneuvers by the German Navy that might threaten Britain and France, Churchill was convinced that a war with Germany was inevitable. Shortly before World War I erupted, Churchill made a pivotal decision that had a profound effect on military operations throughout the 20th century – he chose to convert the power source for Britain's Navy ships from plentiful domestic coal to imported foreign oil. Using oil, the ships were capable of greater speeds and benefited from a more efficient use of manpower. As England and other nations increased their dependence on oil imports, the link between foreign energy and domestic security was firmly established.

**"Energy, security, economics, climate change - these things are connected... And the solutions will need to be connected."
 General Gordon R. Sullivan, USA (Ret.)**

CNA report. This month, Virginia-based CNA, a non-profit research organization, released a report titled "*Powering America's Defense: Energy and the Risks to National Security.*" The report, signed by a dozen retired Generals and Admirals who make up CNA's Military Advisory Board, states that the first priority for the new

Administration should be to "fully integrate energy security and climate change goals into national security and military planning processes." The report points out that the U.S. Department of Defense (DOD) is the nation's largest consumer of energy and, therefore, is ideally suited to serving as an innovator for energy efficiency and as an incubator for energy technology research that could benefit the nation. The 60-page report can be downloaded from www.cna.org.

Rice University report. On 5/6/09, Rice University's Baker Institute for Public Policy released the executive summary for a report titled "*Russia and the Caspian States in the Global Energy Balance.*" The 35-page summary explores how Russia's geopolitical role in world energy markets has become a major concern for Europe, Japan, and the U.S. Russia holds the largest natural gas reserves in the world, about 1/4 of the world's total reserves. The report is available at <http://www.bakerinstitute.org>. Gazprom, the Russian-owned natural gas company, will begin trading natural gas in the U.S. by October of this year.

Data

- June Natural Gas Futures Contract (May 22), NYMEX at Henry Hub closed at \$3.515
- July Light, Sweet Crude Oil Futures Contract (May 22), NYMEX at Cushing closed at \$61.67 per Bbl. or approximately \$9.82 per MMBtu

Heating Degree Days

From 5/17/09 thru 5/23/09, Texas experienced cooler than normal weather while the U.S. experienced warmer than normal weather. For the heating season (7/1/08 to present), cumulative heating degree days were 12% below normal for Texas and 7% below normal for the U.S.

Source: www.cpc.ncep.noaa.gov

Heating Degree Days (HDD) *Week ending 5/23/09*

City or Region	Week Total HDD	Week HDD +/- from Normal *	Year-to-date Total HDD	YTD, % +/- from Normal *
Amarillo	6	-10	3688	- 14 %
Austin	0	0	1560	- 5 %
DFW	0	0	1866	- 21 %
El Paso	0	0	1977	- 22 %
Houston	0	0	1158	- 24 %
San Antonio	0	0	1064	- 32 %
Texas**	6	+5	1749	- 12 %
U.S.**	28	-2	4413	- 7 %

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

U.S. Working Gas in Storage at 2,116 Bcf

For the week ending 5/15/09, U.S. working gas in storage increased from 2,013 to 2,116 Bcf, as compared to 1,602 Bcf in storage a year ago and 1,729 Bcf for the 5-year average from 2004 to 2008. Working gas in storage in the producing region (which includes Texas) increased from 854 to 879 Bcf, as compared to 592 Bcf in storage a year ago and 640 Bcf for the 5-year average from 2004 to 2008.

Source: www.eia.doe.gov

U. S. Working Gas in Storage (Bcf) *Week ending 5/15/09*

Region	This Week	Last Week	Change	Current Δ from 5-Year Average (%)
East	892	827	+65	+ 6.6 %
West	345	332	+13	+ 36.9 %
Producing	879	854	+25	+ 37.3 %
Lower 48 Total	2116	2013	+103	+ 22.4 %

U.S. Gas Rig Count Drops to 711

The U.S. gas rig count was down 17 for the week and down 782 when compared to 12 months ago. The U.S. total rig count was down 18 for the week and down 989 when compared to 12 months ago. Source: Baker Hughes, Inc.

Baker Hughes Rotary Rig Count (5/22/09)

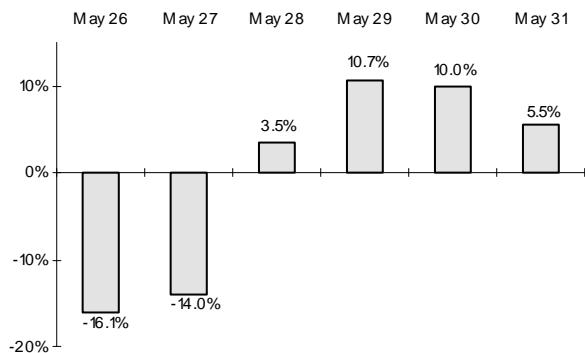
	This Week	+/- Last Week	Year Ago	+/- Year Ago
U.S.	900	-18	1889	-989
Gas	711	-17	1493	-782
Oil	180	-1	386	-206
Texas	331	-11	935	-604
N. Amer.	974	-12	2041	-1067

Energy Use Expected to Change From Below Normal to Above Normal This Week

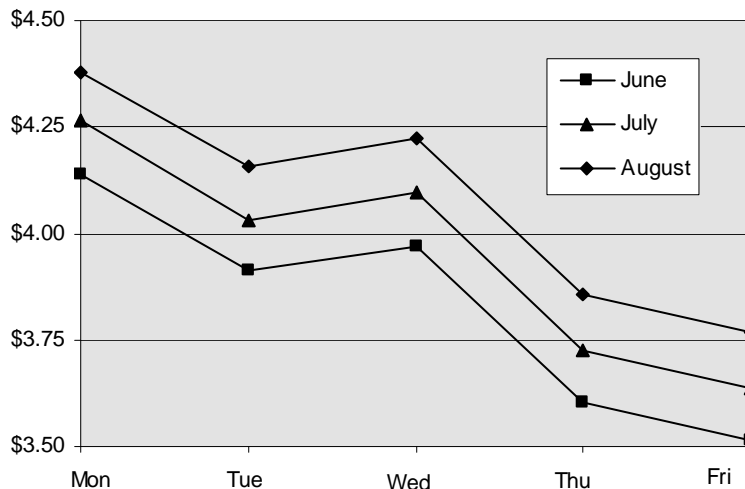
U.S. energy use is forecasted to increase this week from below normal to above normal, according to the Dominion Energy Index, as shown below. The index forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index

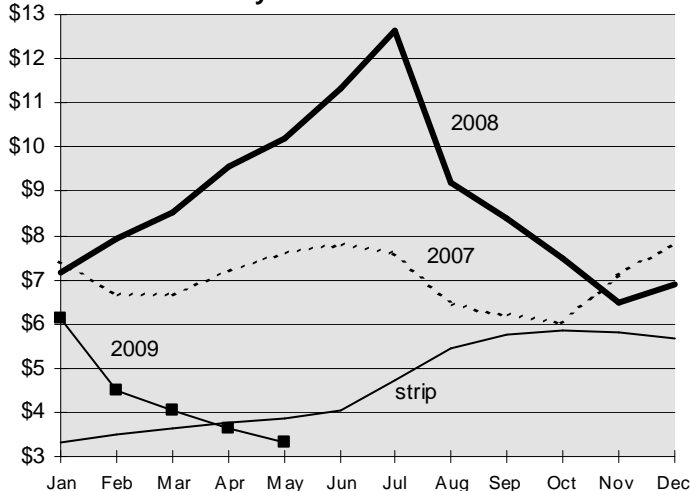
U.S. Energy Use Forecast



NYMEX Natural Gas Price Movement 5/18/09 - 5/22/09



NYMEX Henry Hub Futures Contract Prices



Gas Price Summary 5/22/09

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
U.S. (June Futures)				
NYMEX	\$3.515	-\$0.583	-\$7.796	\$4.813