

June 29, 2009

Natural Gas Trends

Highlights

NRRI: OUTSOURCING BENEFITS VS. COSTS

The National Regulatory Research Institute (NRRI) recently released a paper titled *The Outsourcing Option: Are There Some Gas Utility Functions That Others Can Do Better?* The paper can be downloaded from the 'Library of NRRI publications' at www.nrri.org.

The 41-page paper addresses outsourcing as a business strategy for natural gas local distribution companies (LDCs), describes five case studies in states where regulatory commissions have evaluated existing or prospective outsourcing arrangements, evaluates affiliate issues, and concludes with recommendations.

Indiana. The Indiana Utility Regulatory Commission approved in 2002 and 2006 a settlement agreement between three Indiana LDCs and a provider of gas supply services jointly owned by affiliates of the three LDCs. The Commission concluded the settlement agreement was in the public interest because of cost savings made possible by joint administration of the utilities' supply portfolios.

Minnesota. The Minnesota Public Utilities Commission launched an investigation nearly a decade ago into outsourcing of LDC gas procurement and transportation procurement functions. The Commission concluded that outsourcing may be particularly useful to small gas utilities or utilities facing serious management problems.

Tennessee. The Tennessee Regulatory Authority has been involved in recent litigation regarding whether the profit-sharing arrangement between an LDC and its asset manager fairly compensates utility customers. In Tennessee, the three largest LDCs (including Atmos Energy) outsource their asset management function.

Virginia. The Virginia State Corporation Commission conducted an investigation of the agreement between an LDC and its affiliate for management of the LDC's supply, transportation, and storage contracts. The Commission determined the arrangement reduced gas costs, increased storage asset values for the utility, and benefited customers through revenue credits.

Washington. The Washington Utilities and Transportation Commission rejected continuation of an outsourcing arrangement between a utility and its marketing affiliate because of concerns about the benefits of the arrangement flowing to the affiliate while the burdens of the arrangement flow to the regulated utility.

Source: www.nrri.org

Data

- July Natural Gas Futures Contract (June 26), NYMEX at Henry Hub closed at \$3.949
- July Light, Sweet Crude Oil Futures Contract (June 26), NYMEX at Cushing closed at \$69.16 per Bbl. or approximately \$11.01 per MMBtu

Cooling Degree Days Soar for Texas, U.S.

From 6/21/09 thru 6/27/09, Texas and the U.S. experienced significantly warmer than normal weather. For the cooling season (1/1/09 to 12/31/09), cumulative cooling degree days are 17% above normal for Texas and 6% above normal for the U.S.

Source: www.cpc.ncep.noaa.gov

Cooling Degree Days (CDD) *Week ending 6/27/09*

City or Region	Week Total CDD	Week CDD +/- from Normal *	Year-to-date Total CDD	YTD, % +/- from Normal *
Amarillo	109	+ 30	398	+ 20 %
Austin	160	+ 34	1196	+ 20 %
DFW	167	+ 43	793	+ 23 %
El Paso	132	+ 6	1013	+ 29 %
Houston	174	+ 54	1276	+ 27 %
San Antonio	171	+ 45	1417	+ 35 %
Texas**	149	+ 33	1047	+ 17 %
U.S.**	76	+ 17	370	+ 6 %

* A minus (-) value is cooler than normal; a plus (+) value is warmer than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which CDDs are calculated.
 ** State and U.S. degree days are population-weighted by NOAA.

U.S. Gas Storage Injections Rise to 2,651 Bcf

Summer storage injection volumes continued to climb to levels rarely seen this early in the injection season. For the week ending 6/19/09, U.S. working gas in storage increased from 2,557 to 2,651 Bcf, 31% higher than the 2,020 Bcf in storage a year ago and 22% higher than the 2,169 Bcf for the 5-year average from 2004 to 2008. Working gas in storage in the producing region (which includes Texas) increased from 985 to 997 Bcf, as compared to 682 Bcf in storage a year ago and 732 Bcf for the 5-year average from 2004 to 2008.

Source: www.eia.doe.gov

U. S. Working Gas in Storage (Bcf) *Week ending 6/19/09*

Region	This Week	Last Week	Change	Current from 5-Year Average (%)
East	1234	1164	+70	+ 10.3 %
West	420	408	+12	+ 32.1 %
Producing	997	985	+12	+ 36.2 %
Lower 48 Total	2651	2557	+94	+ 22.2 %

Gas Rig Count Down 5, Oil Rig Count Up 23

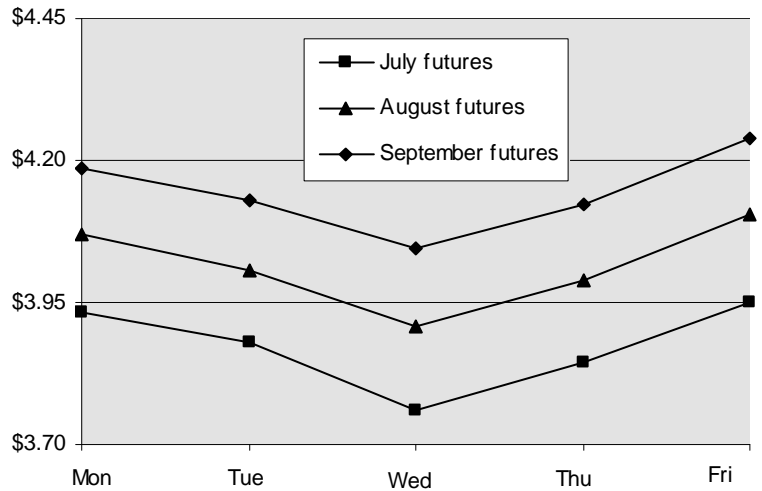
The U.S. gas rig count was down 5 for the week and down 843 when compared to 12 months ago. The U.S. total rig count was up 18 for the week and down 996 when compared to 12 months ago. **In Texas, a big jump in rig counts occurred in Districts 7C and 8 for the week.**

Source: Baker Hughes, Inc.

Baker Hughes Rotary Rig Count (6/26/09)

	This Week	+/- Last Week	Year Ago	+/- Year Ago
U.S.	917	+18	1913	-996
Gas	687	-5	1530	-843
Oil	219	+23	375	-156
Texas	338	+8	915	-577
N. Amer.	1065	+23	2269	-1204

NYMEX Natural Gas Price Movement 6/22/09 - 6/26/09

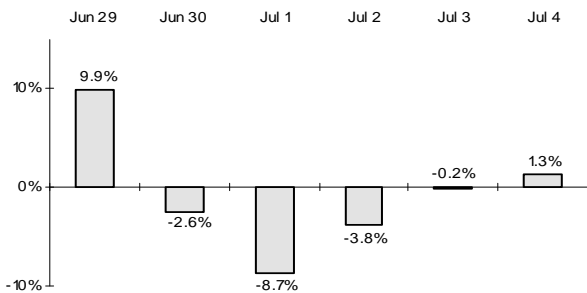


U.S. Energy Use Expected To Vary This Week

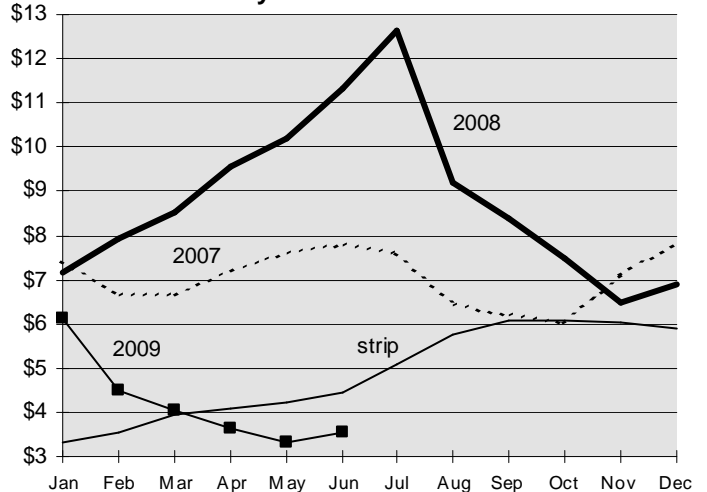
U.S. energy use is forecasted to be above normal at the beginning and end of the week and below normal during the middle of the week, according to the Dominion Energy Index, as shown below. The index forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index

U.S. Energy Use Forecast



NYMEX Henry Hub Futures Contract Prices



Gas Price Summary 6/26/09

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
U.S. (July futures)				
NYMEX	\$3.949	-\$0.083	-\$8.701	\$5.300