

September 21, 2009

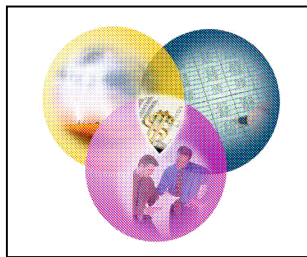
Natural Gas Trends

Highlights

FERC REPORTS ON ENERGY MARKET'S

On 9/2/09, the Federal Energy Regulatory Commission (FERC) released its **2008 State of the Markets Report**, available at www.ferc.gov. The 79-page analysis focuses on six themes that emerged in natural gas and electricity markets in 2008 including, in part:

2008 GAS PRICE SPIKE NOT SOLELY A RESULT OF SUPPLY AND DEMAND. FERC asserts that physical fundamentals (supply and demand) alone cannot explain why Henry Hub natural gas futures prices reached \$13.32 per MMBtu on



7/3/2008 and tumbled below \$6 per MMBtu by the end of 2008. FERC's Market Oversight staff concludes that a combination of physical fundamentals, financial fundamentals, and market perceptions resulted in prices that were substantially out of balance with the underlying physical fundamentals. (p. 27) Specifically, the upward pressure of financial fundamentals on top of a modest tightening in the supply-and-demand balance for gas in the first half of 2008 explains the path of natural gas prices during the year. (p. 34)

UNCONVENTIONAL GAS AND INFRASTRUCTURE CHANGES FUNDAMENTALLY ALTERED NATURAL GAS MARKETS. Unconventional gas supplies, which made up fully 61% of Lower-48 onshore production in 2008, and new gas infrastructure altered traditional natural gas flow patterns and transformed physical transportation price relationships. (p. 6-10 and 74)

- An unprecedented 43.9 Bcf/d of capacity was added to the national gas pipeline grid in 2008, almost triple the capacity additions from previous years. Fifteen of the gas pipeline projects were designed to transport more than 1 Bcf/d each. (p.10)
- Three new liquefied natural gas import terminals were commissioned - Freeport and Sabine Pass in Louisiana, Northeast Gateway offshore Boston. The result - U.S. import capacity increased from 3.9 Bcf/d to 9.3 Bcf/d - resulting in the U.S. possessing 40% of global regasification capacity. (p. 11)
- Gas storage capacity increased by 216 Bcfs, increasing deliverability by 7.8 Bcf/d, primarily in the Gulf and Midwest regions. (p. 74)

Data

- October Natural Gas Futures Contract (Sep 18), NYMEX at Henry Hub closed at \$3.778
- October Light, Sweet Crude Oil Futures Contract (Sep 18), NYMEX at Cushing closed at \$72.04 per Bbl. or approximately \$11.47 per MMBtu

Cooling Degree Days Above Normal Year-to-date

For the cooling season (1/1/09 to 12/31/09), cumulative cooling degree days are 12% above normal for Texas and 2% above normal for the U.S. From 9/13/09 thru 9/19/09, Texas had lower than normal cooling degree days while the U.S. had higher than normal cooling degree days.

Cooling Degree Days (CDD) *Week ending 9/19/09*

City or Region	Week Total CDD	Week CDD +/- from Normal *	Year-to-date Total CDD	YTD, % +/- from Normal *
Amarillo	6	- 33	1291	+ 1 %
Austin	88	- 14	2934	+ 14 %
Dallas - FW	64	- 23	2595	+ 12 %
El Paso	68	- 4	2568	+ 22 %
Houston	102	+ 6	3003	+ 21 %
San Antonio	102	+ 6	3003	+ 21 %
Texas**	77	- 10	2603	+ 12 %
U.S.**	40	+ 5	1121	+ 2 %

* 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.

Source: www.cpc.ncep.noaa.gov

U.S. Gas Storage Injections Rise to 3,458 Bcf

For the week ending 9/11/09, U.S. working gas in storage increased from 3,392 to 3,458 Bcf, compared to 2,962 Bcf in storage a year ago and compared to an average of 2,971 Bcf in storage during the 5-year period from 2004 to 2008. Working gas in storage in the producing region (which includes Texas) increased this week from 1,099 to 1,110 Bcf.

Source: www.eia.doe.gov

U. S. Working Gas in Storage (Bcf) *Week ending 9/11/09*

Region	This Week	Last Week	Change	Current Δ from 5-Year Average (%)
East	1876	1831	+ 45	+ 8.9 %
West	472	462	+ 10	+ 18 %
Producing	1110	1099	+ 11	+ 30.7 %
Lower 48 Total	3458	3392	+ 66	+ 16.4 %

Gas Rig Count Rises to 705 This Week

The gas rig count for the U.S. was up 6 for the week and down 884 when compared to 12 months ago. The U.S. total rig count was up 11 for the week and down 1008 when compared to 12 months ago.

Baker Hughes Rotary Rig Count (9/18/09)

	This Week	+/- Last Week	Year Ago	+/- Year Ago
U.S. total	1010	+ 11	2018	- 1008
Gas	705	+ 6	1589	- 884
Oil	293	+ 5	417	- 124
Texas	382	+ 9	947	-565
N. Amer.	1224	+ 19	2443	- 1219

Source: Baker Hughes, Inc.

Gas Storage Inventories Surpass 2008 High

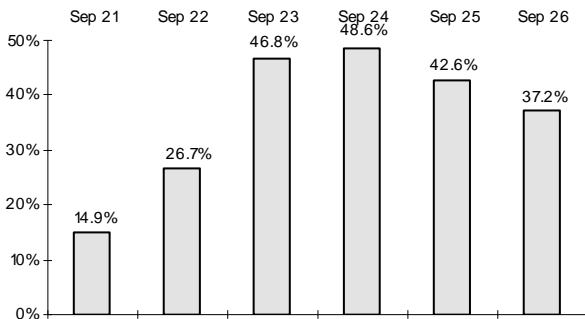
The 2008 high point for working gas in storage, as reported by the Energy Information Administration, was 3,467 Bcf as of the week ending 11/7/08. Gas storage levels for 2009 surpassed the 2008 high as of 9/18/09 – with six weeks to go before the traditional injection season ends.

U.S. Energy Use Thru 9/26: Way Above Normal

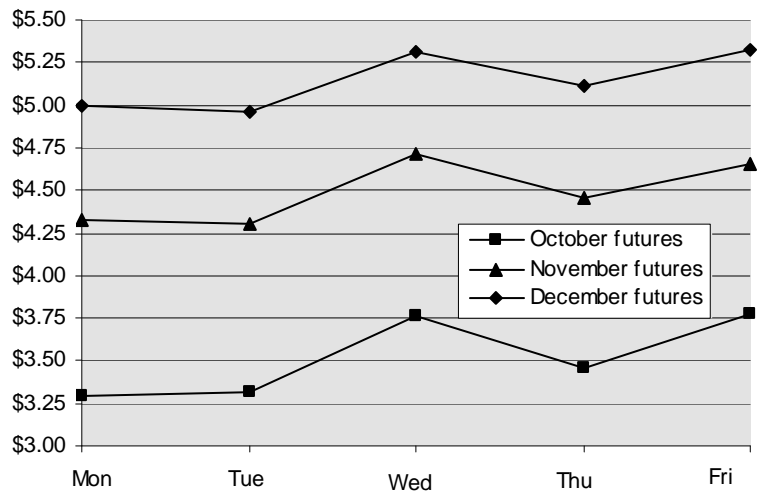
U.S. energy use is forecasted to be significantly above normal this week, according to the Dominion Energy Index, as shown below. The index forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index

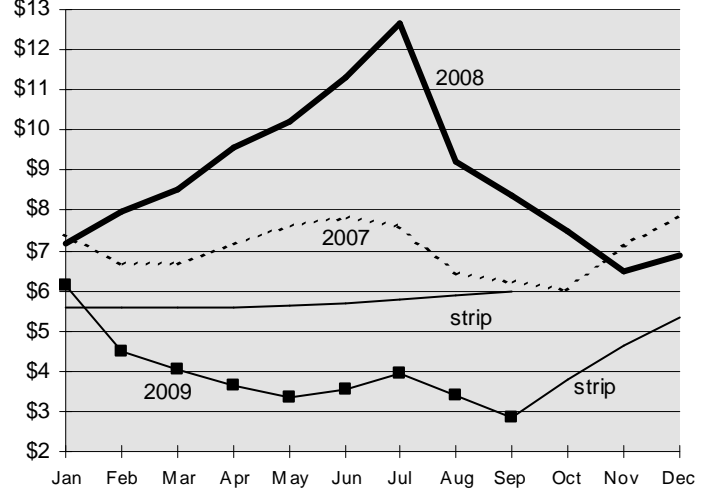
U.S. Energy Use Forecast



NYMEX Natural Gas Price Movement 9/14/09 - 9/18/09



NYMEX Henry Hub Futures Contract Prices



Gas Price Summary 9/18/09

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
U.S. October futures				
NYMEX	\$3.778	\$0.818	-\$3.694	\$5.419