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RAILROAD COMMISSION OF TEXAS
Oversight and Safety Division
Market Oversight Section

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Natural Gas Trends

Highlights

US rig count drops 3%; slowdown continues

The US rig count dropped again this week, according to Baker Hughes data, as shale operators continued clipping back activity levels in response to stubbornly low oil prices. The total US rig count fell 3.3% Friday to 1,267 rigs, down 43 rigs from the previous week, Baker Hughes said. That is about in line with last week's fall of 48 rigs but just under half the 98-rig-drop the week before that. Gas-directed rigs fell 9 to 280. Last year at this time, gas rigs totaled 335. Oil-directed rigs fell below the 1,000 mark for the first time since June 2011, according to the oil service company's weekly rig data. This week's 986 oil rigs represent a drop of 3.2% from last week. At the same time last year, there were 1,430 active oil rigs. Also, horizontal rigs, mostly used in shale and unconventional fields, were down to 946, a 3.3% drop, while the US land rig count fell 3.2% to 1,216 this week.

Low oil prices are the culprit, having plunged more than 50% from mid-2014 peaks of over $100/barrel. On Friday, NYMEX crude futures pushed up to $49.76/b, up $1.59. The price has hovered around $50/b so far this year. Natural gas prices also are not providing any major incentives to drill, remaining below $3/MMBtu despite an extremely cold winter with near record demand.

The North American land rig count has fallen 34% and the horizontal oil rig count 31% in the last three months. That is an "unprecedented" pace of dropoffs compared to the other downturns in the last 20 years, but also "unsustainable," Barclays analyst David Anderson said in a report earlier this week. "We believe the weekly rig count declines will slow in the coming weeks and bottom out around May to settle out just below 1,000 rigs," Anderson said. Allen Brooks, managing director of boutique investment bank PPHB said "the easy stuff's been done. It's getting tougher to find things to cut."

On the other hand, trims in upstream spending could actually be "much worse" than the 30% budget declines operators have stated or implied and may cause the rig count to fall further, Anderson said. The rapid hand-backs of rigs may also imply that operators expect costs to come down materially in the months ahead, with "many E&Ps looking for 30% reductions in costs," rather than just the 10%-20% they have already achieved or projected for this year, he added.

Evercore ISI analyst James West said he believes a slower rig count decline in the last couple of weeks may simply be a more moderate level for a still-downturning industry. "I think [upstream operators] made several very quick decisions and now a more normal decline is underway," West told Platts. "I don't think they have changed their mind on oil prices. We still believe the rig count falls to around 1,000 by end of Q2," West said.

Basins that showed the greatest change this week were the Williston Basin, which includes the Bakken Shale of North Dakota and Montana, down by 12 rigs to 111; the Permian Basin of West Texas and New Mexico, down seven rigs to 355; and the Eagle Ford Shale in South Texas dropped by three rigs to 157.

The Permian, Eagle Ford, Bakken are the "Big Three" of shale production and have seen the biggest rig dropoffs so far in this cycle. For example, rig-wise the biggest basin is the Permian, whose recent high was 568 rigs the first week of December; its rig count has dropped 38% in the three months since then. In about the same time frame, the Williston's former 191 rigs have fallen 42%, while the Eagle Ford's recent high of 209 the same week translates to a 25% decline.

If the US rig count stays on its current trajectory for another two months that implies US upstream spending would be down more than 50% this year – even assuming a 15% reduction in well costs. "In other words, either the rig count is going to flatten out in the coming weeks, or spending declines are considerably worse than the E&Ps are letting on," Anderson said.

Source: Platts Gas Daily

Data

- April 2015 Natural Gas Futures Contract (as of February 27), NYMEX at Henry Hub closed at $2.734 per million British thermal units (MMBtu)
- April 2015 Light, Sweet Crude Oil Futures Contract WTI (as of February 27), closed at $49.76 per U.S. oil barrel (Bbl.) or approximately $8.58 per MMBtu

Last week: Texas cooler than normal last week

For the week beginning 2/22/15 and ending 2/28/15, heating degree days (HDD) were higher than normal (cooler) on average for the week but lower than normal (warmer) for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

HEATING DEGREE DAYS (HDD)

City or Region	Total HDD for week ending 2/28/15	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	280	123	3125	-8%
Austin	185	121	1712	19%
DFW	224	131	2035	0%
El Paso	139	49	1811	-16%
Houston	140	80	1318	0%
SAT	154	94	1314	-5%
Texas**	175	100	1755	4%
U.S.**	242	76	3405	1%

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

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 1,938 Bcf

For the week ending 2/20/2015 working gas in storage decreased from 2,157 Bcf to 1,938 Bcf. This represents a decrease of 219 Bcf from the previous week. Stocks were 576 Bcf higher than last year at this time and 30 Bcf above the 5 year average of 1,968 Bcf.

Source: http://ir.eia.gov/ngs/ngs.html

U.S. WORKING GAS IN STORAGE

Region	Week ending 2/20/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	843	984	-141	-9.2%
West	371	375	-4	22.8%
Producing	724	798	-74	-1.9%
Lower 48 Total	1,938	2,157	-219	-1.5%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

Last week: U.S. gas rig count down for the week

The gas rig count for the U.S. was down nine for the week and down 55 when compared to twelve months ago. The total rig count for the U.S. was down 43 from last week and down 502 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

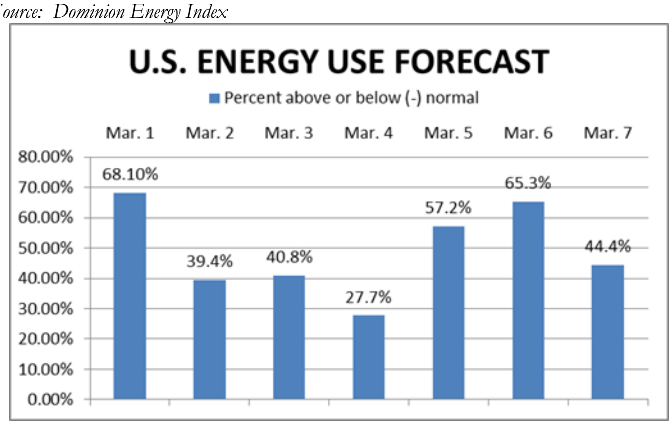
BAKER HUGHES ROTARY RIG COUNT

	As of 2/27/2015	+/- prior week	Year ago	+/- year ago
Texas	570	-6	844	-274
U.S. gas	280	-9	335	-55
U.S. oil	986	-33	1430	-444
U.S. total	1267	-43	1769	-502
Canada	330	-30	626	-296

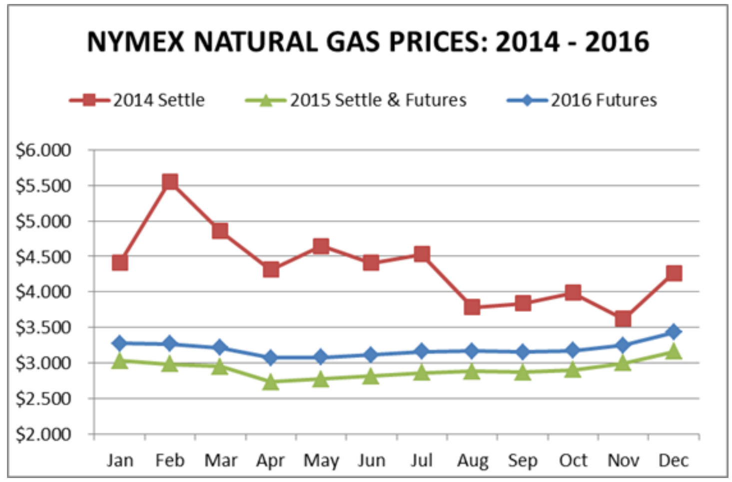
This week: U.S. energy above average this week

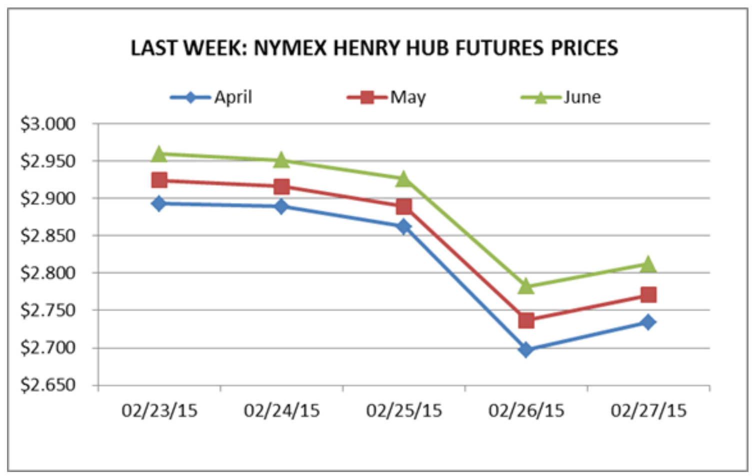
U.S. energy use is predicted to be far above average this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan.-Mar. and futures prices for the remainder of the year.





NATURAL GAS PRICE SUMMARY AS OF 2/27/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US April futures				
NYMEX	$2.734	-$0.217	-$2.121	$2.913