June 1, 2015

Natural Gas Trends

Highlights

Gas rig count up slightly, oil rigs fall further

The number of US rigs drilling for natural gas appears to be stabilizing, even as the oil rig count continues to fall, according to the latest Baker Hughes data. Gas rigs rose by three to 225 in the week ended May 29. The oil-directed rig count fell by 13 to 646, the 25th consecutive week of declines and the lowest count since August 2010. Oil rigs are down nearly 60% from an annual peak of 1,609 in October 2014. The gas rig count sank to 217 for the week ended April 17, its lowest on record since Baker Hughes began keeping track in 1987. The number of rigs drilling for gas is down roughly 40% from an annual peak of 372 in January 2014 and down more than 85% from an all-time peak of 1,606 in September 2008, Baker Hughes data showed.

Some commentators are concerned that the production of associated gas – gas produced alongside crude from oil wells – would start to fall given the 60% plunge in the oil-directed rig count since October 2014. James West, senior managing director at Evercore ISI, said he estimates that losing 400 oil rigs is roughly equivalent to losing 100 natural gas rigs in terms of lost gas volume. However, West expects the gas rig count to "rise slightly to compensate for the loss of associated gas in oil plays," he said in an emailed response.

Other commentators fear that the rate of US natural gas production growth could slow as producers in the Marcellus – the nation's most prolific natural gas basin – cut output due to lower prices. "We would like to see more favorable natural gas prices, which we anticipate will materialize upon the in-service of several new takeaway projects in our area, scheduled over the next 12 to 18 months, along with a continued increase in natural gas demand growth," Cabot CEO Dan Dinges told analysts during the company's first-quarter earnings call. Chesapeake, which began cutting roughly 250MMcf/d of grow natural gas production in December 2014, is now holding back on roughly 500 MMcf/d of gross gas production in the Marcellus due to weak in-basin prices.

Despite the sharply lower rig count for both oil and natural gas, Platts unit Bentek Energy forecasts continued strong growth in natural gas production this year an over the next several years. "Bentek remains confident that US natural gas production will continue on a steady growth path this year, even with the frail oil prices," Bentek wrote in its long-term natural gas market call report. "Bentek's current forecast calls for a year-on-year growth of 4.5 Bcf/d in 2015 versus 2014. This would mark the largest year-on-year growth on record, and compares to growth of 3.6 Bcf/d in 2014 versus 2013."

On a basin level, the number of gas rigs in Ohio's Utica Shale rose by one to 19 for the week, while the gas rig count in the Marcellus Shale slipped by three to 63. The Utica gas rig count has fallen by eight from a peak of 27 in December, while the Marcellus gas rig count is down from a peak of 87 in January 2014 and 84 as recently as October 2014, Baker Hughes data showed. The number of gas-directed rigs in the Barnett Shale of Texas and Louisiana was steady at three, compared with as many as 18 in January 2014, while gas rigs in the Fayetteville Shale of Arkansas slipped by two to six. Gas rigs in the Haynesville Shale of Louisiana and Texas remained at 26, compared with as many as 47 in May 2014, while DJ-Niobrara gas rigs were unchanged at eight, compared with a peak of 19 in January 2014. Source: Platts Gas Daily

Data

- July 2015 Natural Gas Futures Contract (as of May 29), NYMEX at Henry Hub closed at $2.642 per million British thermal units (MMBtu)
- July 2015 Light, Sweet Crude Oil Futures Contract WTI (as of May 29), closed at $60.30 per U.S. oil barrel (Bbl.) or approximately $10.40 per MMBtu

Last week: Texas cooler than normal last week

For the week beginning 5/27/15 and ending 5/30/15, cooling degree days (CDD) were lower than normal (cooler) on average for the week and for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)

City or Region	Total CDD for week ending 5/30/15	*Week CDD + / - from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	10	-24	49	-53%
Austin	80	-9	484	-10%
DFW	43	-37	315	-9%
El Paso	78	-4	362	9%
Houston	89	0	680	21%
SAT	101	7	638	9%
Texas**	73	-8	503	4%
U.S.**	42	11	197	25%

* 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.

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 2,101Bcf

For the week ending 5/22/2015 working gas in storage increased from 1,989 Bcf to 2,101 Bcf. This represents an increase of 112 Bcf from the previous week. Stocks were 737 Bcf higher than last year at this time and 18 Bcf below the 5 year average of 2,119 Bcf.

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

U.S. WORKING GAS IN STORAGE

Region	Week ending 5/22/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	806	742	64	-14.3%
West	395	382	13	17.9%
Producing	900	865	35	6.8%
Lower 48 Total	2,101	1,989	112	-0.8%

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

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

The gas rig count for the U.S. was up three for the week and down 101 when compared to twelve months ago. The total rig count for the U.S. was down ten from last week and down 991 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

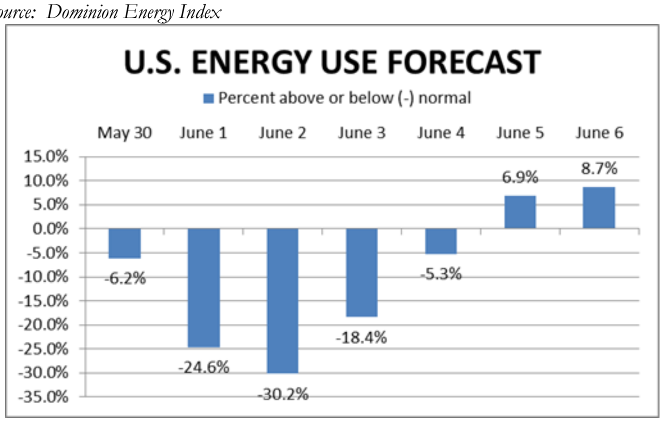
BAKER HUGHES ROTARY RIG COUNT

	As of 5/29/2015	+/- prior week	Year ago	+/- year ago
Texas	369	-4	894	-525
U.S. gas	225	3	326	-101
U.S. oil	646	-13	1536	-890
U.S. total	875	-10	1866	-991
Canada	98	26	198	-100

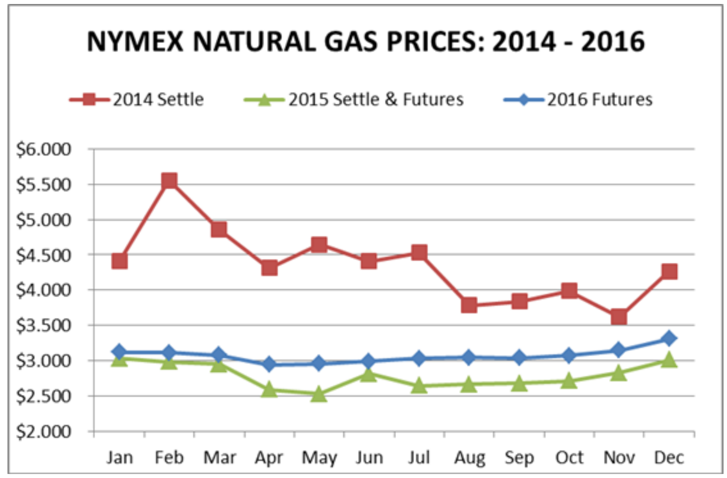
This week: U.S. energy varies this week

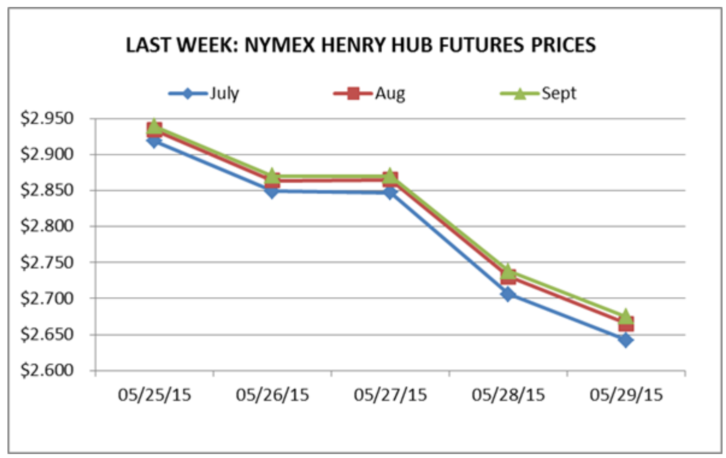
U.S. energy use is predicted to vary this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



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





NATURAL GAS PRICE SUMMARY AS OF 5/29/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US July futures				
NYMEX	$2.642	-$0.245	-$2.213	$2.787