

June 29, 2015

Natural Gas Trends

Highlights

Gas rigs edge up, oil rigs lower: Baker Hughes

The number of US rigs drilling for natural gas rose by five from 223 to 228 for the week ended Friday, according to Baker Hughes, helping drive the first weekly gain in the total oil and gas rig count since December. Gas-directed rigs have ended all but one of the past 13 weeks in a narrow band between 220 and 230, lending credence to the argument that the gas rig count is stabilizing. Meanwhile, the oil-directed rig count fell by three from 631 to 628 for the week ended Friday, marking the 29th consecutive week of declines and the lowest level of oil rigs since August 2010. Oil rigs are down by roughly 60% from an annual peak of 1,609 reached in October 2014, while gas-directed rigs are down by roughly 40% from an annual peak of 372 in January 2014, Baker Hughes data showed. The total oil and gas rig count rose by two from 857 to 859 for the week ended Friday, its first weekly gain since early December.

On a basin level, the number of gas rigs in Ohio's Utica Shale slipped by one to 15 for the week ended Friday, while the gas rig count in the Marcellus Shale rose by one to 65. The Utica gas rig count has fallen by 12 from a peak of 27 in December 2014, 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. Meanwhile, the number of gas-directed rigs in the Barnett Shale of Texas and Louisiana stayed steady at three, compared to as many as 18 in January 2014, while gas rigs in the Fayetteville Shale of Arkansas stayed steady at five. Gas rigs in the Haynesville Shale of Louisiana and Texas rose by one to 27, compared to as many as 47 in May 2014, while DJ-Niobrara gas rigs were unchanged at eight, compared to a peak of 19 in January 2014.

Rig count bottom expected in Q3: analyst

Evercore ISI senior managing director James West, in a report Tuesday, said that he expects the rig count to decline to remain "lumpy" in the coming weeks and expects to see "a few weeks with some rig additions, offset by larger declines in subsequent weeks, before we reach an absolute bottom." West sees the rig count most likely bottoming early in the third quarter of this year. In the report, he also suggested that production levels would fall if the rig count stays at its current level. Using data from the US Energy Information Administration's Drilling Productivity Report, Evercore found that in order to maintain expected June production in the four major oil shale basins (Bakken, Eagle Ford, DJ-Niobrara, and Permian) of 5.4 million barrels per day, the rig count would have to rise significantly above its level for the week ended June 19. However, in order to maintain expected June production in the three major gas shale basins (Haynesville, Marcellus, and Utica) of 26.1 Bcf/d, the rig count would have to rise only modestly above its level for the week ended June 19. Despite the sharp rig count declines in the Marcellus and Utica – two of the most prolific gas-producing plays in the country – since November, Platts unit Bentek Energy forecasts continued growth in Northeast gas production this year and over the next several years. Total Northeast production will average 20.5 Bcf/d in 2015, 23.9 Bcf/d in 2016, 25.8 Bcf/d in 2017, 27.9 Bcf/d in 2018, 29.1 Bcf/d in 2019 and 30.3 Bcf/d in 2020, according to Bentek. That represents a compound annual growth rate of roughly 8% through the end of this decade.

Source: Platts Gas Daily

Data

- July 2015 Natural Gas Futures Contract (as of June 26), NYMEX at Henry Hub closed at \$2.773 per million British thermal units (MMBtu)
- July 2015 Light, Sweet Crude Oil Futures Contract WTI (as of June 26), closed at \$59.63 per U.S. oil barrel (Bbl.) or approximately \$10.28 per MMBtu

Last week: Texas cooler than normal last week

For the week beginning 6/21/15 and ending 6/27/15, cooling degree days (CDD) were higher than normal (warmer) 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 6/27/15	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	80	1	320	-11%
Austin	111	-15	873	-12%
DFW	133	9	783	0%
El Paso	138	12	912	16%
Houston	137	17	1163	16%
SAT	126	0	1102	5%
Texas**	120	4	932	4%
U.S.**	73	14	433	24%

* 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 2,508 Bcf

For the week ending 6/19/2015 working gas in storage increased from 2,433 Bcf to 2,508 Bcf. This represents an increase of 75 Bcf from the previous week. Stocks were 698 Bcf higher than last year at this time and 35 Bcf above the 5 year average of 2,473 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 6/19/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,053	1,000	53	-8.9%
West	437	430	7	11.5%
Producing	1,018	1,003	15	10.1%
Lower 48 Total	2,508	2,433	75	1.4%

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 five for the week and down 86 when compared to twelve months ago. The total rig count for the U.S. was up two from last week and down 1014 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

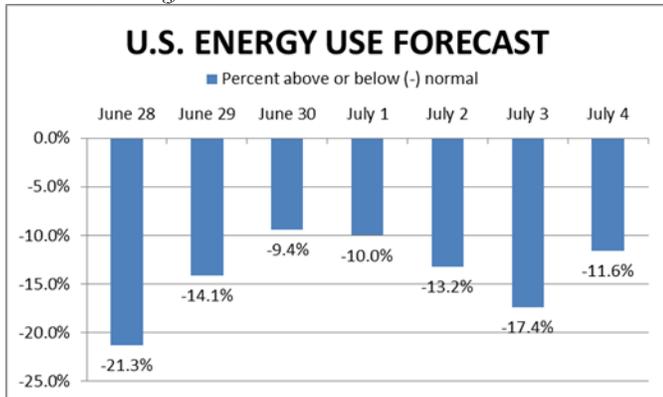
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 6/26/2015	+/- prior week	Year ago	+/- year ago
Texas	361	-2	889	-528
U.S. gas	228	5	314	-86
U.S. oil	628	-3	1558	-930
U.S. total	859	2	1873	-1014
Canada	135	-1	236	-101

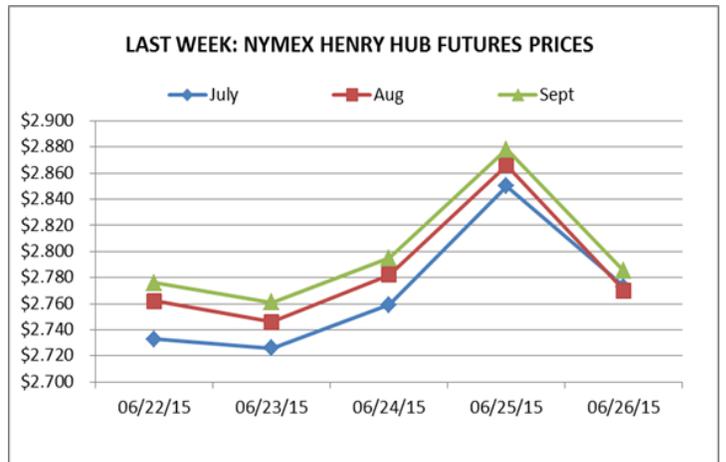
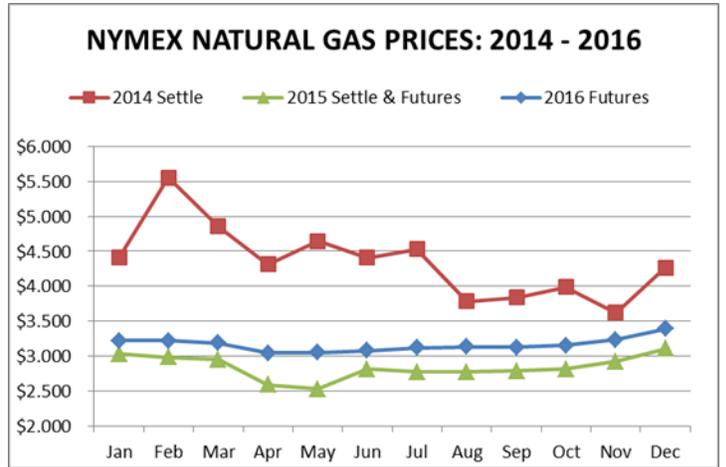
This week: U.S. energy below average this week

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 6/26/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US July futures				
NYMEX	\$2.773	-\$0.043	-\$2.082	\$2.840