

February 11, 2013

# Natural Gas Trends

## Highlights

### New pipelines to add 4.8 Bcf/d to Mexican import capacity by 2015.

Mexican imports of US natural gas have been growing in recent years to respond to the mismatch between flat Mexican production and growing Mexican demand supported by economic growth and in particular more gas-fired power generation, according to a report by Goldman Sachs. From a US standpoint, growing exports to Mexico have helped reduce the oversupply of natural gas in recent years.

Growing pipeline exports to Mexico are likely to continue to help reduce the oversupply of natural gas in the United States going forward, in particular as several large pipeline projects are scheduled to add to US export capacity over the next few years. Recent updates on the pace of these projects suggest that the capacity to export natural gas from the United States and also transport it to end consumers in Mexico could increase by 4.8 Bcf/d by 2015. As a result, the growth rate in actual US export flows to Mexico is expected to remain close to current levels in 2013, before picking up slightly in 2014, and more meaningfully in 2015-2016.

Going forward, Mexican natural gas demand will likely continue to grow, underpinned by solid real GDP growth of 3.6% and 3.8% year-on-year in 2013 and 2014, as per Goldman Sachs Economic Research estimates. In the power generation sector, four more gas-fired power plants are scheduled to start in 2013 according to the state utility CFE, with a combined capacity of 1.8 GW, roughly equivalent to 0.3 Bcf/d of natural gas demand. Mexican production is expected to remain stable, with PEMEX focused on oil production. As a result, the reliance on imports is expected to increase further in coming years.

In terms of US/Mexico cross-border points, existing capacity is close to 3.0 Bcf/d for flows into Mexico, according to the Mexican government's Secretaria de Energia. Close to 1.6 Bcf/d of the import capacity is in South Texas, another 0.8 Bcf/d is in South California, with the rest split between Arizona (0.4 Bcf/d) and West Texas (0.2 Bcf/d). Actual flows averaged 1.7 Bcf/d in 2012, suggesting there is room to increase flows. However, once the natural gas has crossed the border, the existing Mexican pipeline and distribution network poses constraints to increased flows. To remedy this, important measures have been taken in recent years, both on the regulatory side by allowing new entrants into the natural gas transportation and marketing industries, and through a large investment program by the government through CFE and PEMEX. There are now several pipeline and compressor station projects scheduled in Mexico to handle increased imports and pass the natural gas along to end consumers.

## Data

Source: Goldman Sachs Media Relations – *Natural Gas Weekly* (2/8/2013)

- March 2013 Natural Gas Futures Contract (as of Feb. 8), NYMEX at Henry Hub closed at \$3.272 per million British thermal units (MMBtu)
- March 2013 Light, Sweet Crude Oil Futures Contract WTI (as of Feb. 8), closed at \$95.72 per U.S. oil barrel (Bbl.) or approximately \$16.50 per MMBtu

### Last week: Texas and U.S. warmer than normal

For the week beginning 2/2/13 and ending 2/9/13, heating degree days (HDD) were lower than normal (warmer) for Texas and lower than normal (warmer) for the US. In fact, for all entities we monitor, HDDs were lower than normal (warmer).

61°ℱ: [www.cpc.ncep.noaa.gov](http://www.cpc.ncep.noaa.gov)

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 2/9/13	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	119	-69	2325	-21%
Austin	29	-63	1107	-11%
DFW	39	-88	1299	-26%
El Paso	76	-43	1579	-17%
Houston	19	-66	776	-31%
SAT	11	-77	847	-29%
Texas**	46	-59	1145	-22%
U.S.**	187	-9	2663	-8%

\* 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 2,684 Bcf

For the week ending 2/1/2013 working gas in storage decreased from 2,802 Bcf to 2,684 Bcf. This represents a decrease of 118 Bcf from the previous week. Stocks were 226 Bcf lower than last year at this time and 351 Bcf above the 5 year average of 2,333 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 02/1/13	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,303	1,391	-88	10.0%
West	388	398	-10	17.9%
Producing	993	1,013	-20	21.2%
Lower 48 Total	2,684	2,802	-118	15.0%

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

**Last week: U.S. gas rig count down 3**

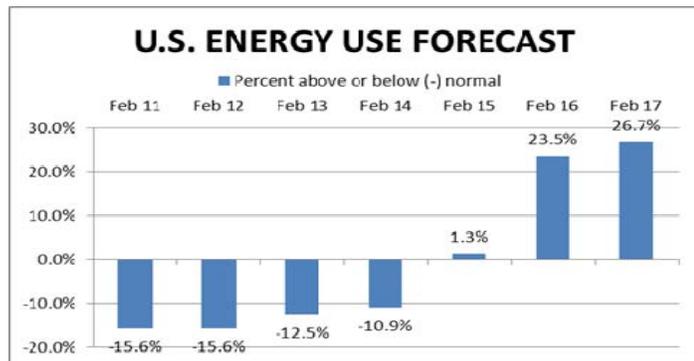
The gas rig count for the U.S. was down 3 when compared to the prior week and down 295 when compared to 12 months ago. The total rig count for the U.S. was down 5 for the week and down 230 when compared to 12 months ago. The total rig count includes both oil and natural gas rotary rigs. Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 2/8/2013	+/- prior week	Year ago	+/- year ago
Texas	824	-2	909	-85
U.S. gas	425	-3	720	-295
U.S. oil	1330	-2	1263	67
U.S. total	1759	-5	1989	-230
Canada	631	6	709	-78

Numbers are excerpted and not meant to be totaled

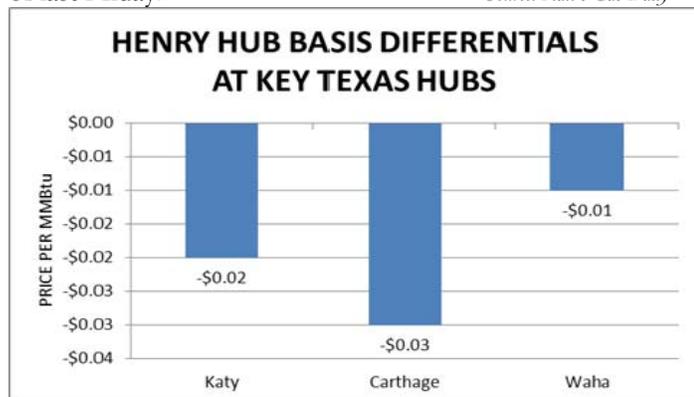
**This week: U.S. energy use above then below normal**

U.S. energy use is predicted to be above below through Thursday, February 14, and above thereafter, 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



**Last week: Basis ranged from -\$0.01 to -\$0.03 cents**

Gas basis at key Texas hub markets is shown below and at right as the spot market cash price minus the Henry Hub as of last Friday. Source: Platt's Gas Daily



**2013 prices.** Natural gas prices for 2013, shown below in green, are the NYMEX settlement prices for January-February and the futures prices for the remaining months of 2013.

