

May 28, 2013

# Natural Gas Trends

## Highlights

### Mexico, US Southwest to battle for gas: Bentek

Competition for Texas gas production and Southwest pipeline capacity will intensify over the next five years thanks to fast-growing Mexican demand, potentially driving up prices, according to a Thursday report from Bentek Energy, a unit of Platts. Mexico and the Southwest are expected to use the same gas pipelines, and "competition for this available pipeline space is expected to put upward pressure on Southwest region gas prices, signaling the need for additional pipeline capacity into the region."

Currently, "many of the Southwest's major supply pipelines already run at high utilization rates, and the pipelines that have extra space available will serve Mexican export growth," Bentek said. Gas demand in the Southwest is expected to grow but production is not, putting the region's gas needs in direct competition with those in the fast-growing Mexican market. In terms of pipeline capacity, Pacific Gas & Electric's Redwood Path, Kern River Gas Transmission and Transwestern Pipeline West of Thoreau are all running at high utilization rates, with some remaining unused capacity available on the El Paso Natural Gas system from Texas and New Mexico to California. The El Paso line is the key for transporting gas to Mexico, eating into additional capacity flowing to the Southwest.

To cater to Mexican exports, there are plans for pipeline expansions along the El Paso system, adding 1.2 Bcf/d of export capacity west of key pipeline constraints on El Paso. But with Mexican exports growing at the same time as Southwest demand, these pipeline choke points are likely to become even more constrained. In addition, El Paso's parent company, Kinder Morgan, has announced plans to convert a portion of the El Paso system to oil transportation service, exacerbating the situation. Bentek said gas production in Texas is expected to grow 4.5 Bcf/d over the next 5 years, while demand is expected to rise only 1.7 Bcf/d yielding a surplus of some 2.8 Bcf/d supply in that market come 2018, which would have to be sold or stored. Mexico would be a likely buyer of that surplus, with "gas demand in Mexico... projected to increase about 30%, or 2.7 Bcf/d, between 2013 and 2018 to a total of nearly 12 Bcf/d," Bentek said.

Mexico is already preparing for this with 17 pipeline projects providing more than 10 Bcf/d of new transportation capacity, the report said. Just this week, NET Mexico Pipeline Partners on Monday applied to the FERC to build a 2.1 Bcf/d border pipeline from Starr County, Texas to Mexico, which is slated to start service by Dec. 1, 2014. The \$2.7 million project would link to an intrastate pipeline that NET Mexico plants to build from the Agua Dulce Hub in Nueces County to the international border. In February, Goldman Sachs said the swath of new pipeline systems designed to move US gas to Mexico could add up to 4.8 Bcf/d of export capacity by 2015.

<http://www.platts.com/RSSFeedDetailedNews/RSSFeed/NaturalGas/26967732>

## Data

- June 2013 Natural Gas Futures Contract (as of May 24), NYMEX at Henry Hub closed at \$4.237 per million British thermal units (MMBtu)
- June 2013 Light, Sweet Crude Oil Futures Contract WTI (as of May 24), closed at \$94.15 per U.S. oil barrel (Bbl.) or approximately \$16.23 per MMBtu

### Last week: Texas on par for statewide normal

For the week beginning 5/19/13 and ending 5/25/13, heating degree days (HDD) were normal for Texas but lower (colder) for the US. [www.cpc.ncep.noaa.gov](http://www.cpc.ncep.noaa.gov)

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 5/25/13	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	4	-10	3731	-13%
Austin	0	0	1656	0%
DFW	0	0	2039	-14%
El Paso	0	0	2184	-14%
Houston	0	0	1185	-22%
SAT	0	0	1204	-23%
Texas**	0	-1	1790	-10%
U.S.**	26	-2	4296	-4%

\* 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 1,964 Bcf

For the week ending 5/17/2013 working gas in storage increased from 1,964 Bcf to 2,053 Bcf. This represents an increase of 89 Bcf from the previous week. Stocks were 680 Bcf lower than last year at this time and 84 Bcf below the 5 year average of 2,137 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 5/17/13	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	857	811	46	-11.5%
West	368	357	11	15.4%
Producing	828	796	32	-2.6%
Lower 48 Total	2,053	1,964	89	-3.9%

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

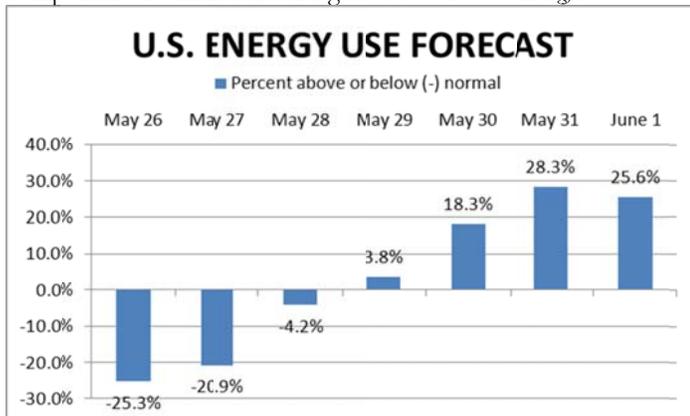
**Last week: U.S. gas rig count level**

The gas rig count for the U.S. showed no change when compared to the prior week and down 240 when compared to twelve months ago. The total rig count for the U.S. was down seven for the week and down 221 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs. Source: Baker Hughes

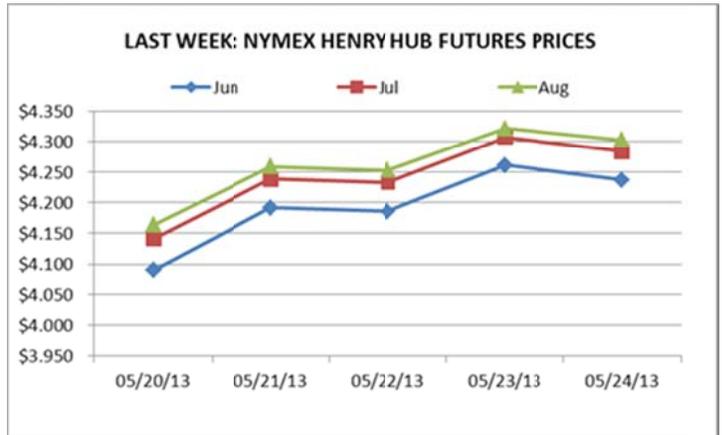
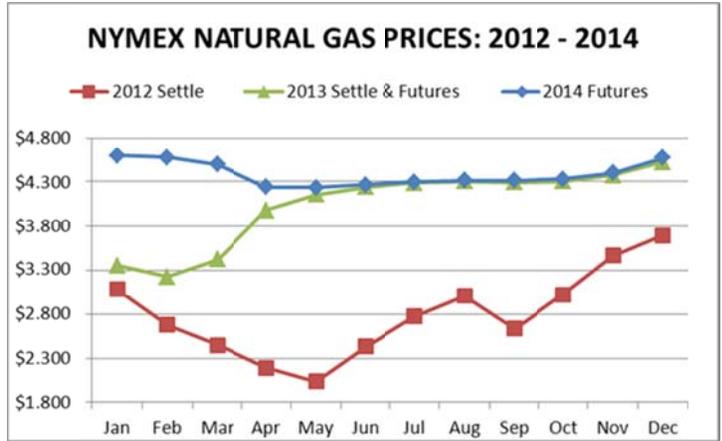
BAKER HUGHES ROTARY RIG COUNT				
	As of 5/24/2013	+/- prior week	Year ago	+/- year ago
Texas	840	3	926	-86
U.S. gas	354	0	594	-240
U.S. oil	1402	-6	1383	19
U.S. total	1762	-7	1983	-221
Canada	131	8	158	-27

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

U.S. energy use is predicted to be above normal early in the week, declining to below normal mid-week through the end of the 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



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



**NATURAL GAS PRICE SUMMARY AS OF 5/24/2013**

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US June futures				
NYMEX	\$4.237	\$0.182	\$1.808	\$4.218