BARRY T. SMITHERMAN, Chairman
DAVID PORTER, Commissioner
CHRISTI CRADDICK, Commissioner

RAILROAD COMMISSION OF TEXAS
Gas Services Division
Market Oversight Section

July 15, 2013

Natural Gas Trends

Highlights

Impending exports not yet driving E&Ps to drill

Despite predictions that exports of natural gas will ramp up dramatically over the next decade, US gas producers don't seem to be in a hurry to boost their production capabilities to meet that future demand.

"I don't think that's the way gas producers operate," said Philip Budzik, an Energy Information Administration research analyst. "First of all, there's a dichotomy between consumption and production. They don't really see consumption. What they see are prices." With several companies having applied to export liquefied natural gas from US shores starting in 2016, some analysts predict that between 4 and 6 Bcf/d will be shipped abroad. Meanwhile, exports to Mexico via pipeline are expected to increase steadily to meet demand south of the border, with estimates as high as 6.6 Bcf/d over the next two decades. But producers are not relying on these long-term projections to justify broad expansions of their short- or medium-term drilling plans. "Even if a producer knew with certainty there was going to be a significant growth in gas consumption, irrespective if it came from LNG, he's not going to say, 'I'm going to expand my production by X percent,'" Budzik said. "What producers focus on is gas prices and where the prices are going to go in the next year or two. They don't want to lock in drilling rigs for five, ten or 15 years."

Harry Vidas, vice president at ICF International, agreed, saying recent upticks in dry gas drilling were driven more by immediate market conditions than any perceptions of future gas demand from exports. "It's just been the general response to prices, which were going down and are now coming up a little bit," he said. "I don't think people yet have done drilling in anticipation of exports because that's still a number of years away." Vidas said it is "inevitable that when the gas prices come back up there will be a shift more to gas-prone drilling," though he didn't rule out a connection between those efforts and expected demand growth. "It's exports to Mexico; it's power generation; it's industrial plants that are gearing up to use more gas, plus the gas-to-liquids plants, if they ever get built, and LNG exports," he said. "There are several sources that demand growth that would lead to higher prices of gas relative to oil." Bill Cooper, president of the Center for Liquefied natural Gas, said US producers are already sitting on enough production capacity to meet the first wave of LNG export demand. "What's happened is, to fulfill drilling obligations of lease commitments or their investment obligations, they found a lot of gas and there's a lot of production sitting behind the pipe across the country," he said. "I don't see more announcements today that say we're going to look for more natural gas to meet what we perceive to be an export market that may be coming. I think that production's already there."

Two export terminals have received the green light from the Department of Energy to ship LNG to countries with which the US does not have a free trade agreement: Cheniere Energy's Sabine Pass Liquefaction project of Louisiana, and Freeport LNG on Quintana Island, Texas. Sabine Pass is under construction and Freeport is in the process of securing financing. "When they get closer to being commissioned as fully operational facilities, the market's going to send that signal. The producers may respond by immediately increasing production to some degree or [increasing] their exploration efforts," he said. Kathleen Sgamma, vice president of government and public affairs of the Western Energy Alliance, said it is too early to gauge whether the anticipation of increased export-driven demand would have a noticeable impact on producers' behavior. Source: Platts Gas Daily

Data

- August 2013 Natural Gas Futures Contract (as of July 12), NYMEX at Henry Hub closed at $3.644 per million British thermal units (MMBtu)
- August 2013 Light, Sweet Crude Oil Futures Contract WTI (as of July 12), closed at $105.95 per U.S. oil barrel (Bbl.) or approximately $18.27 per MMBtu

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

For the week beginning 7/7/13 and ending 7/13/13, cooling degree days (CDD) were higher than normal (warmer) for Texas and for the US. 6ƚ°ß˝ˇ: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 7/13/13	*Week CDD + / - from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	136	45	837	49%
Austin	150	17	1325	2%
DFW	170	32	1190	9%
El Paso	167	41	1453	35%
Houston	146	20	1417	10%
SAT	156	23	1457	8%
Texas**	142	16	1252	6%
U.S.**	84	12	569	13%

-999 = Normal Less Than 100 or Ratio Incalculable

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

Last week: U.S. natural gas storage at 2,687 Bcf

For the week ending 7/5/2013 working gas in storage increased from 2,605 Bcf to 2,687 Bcf. This represents an increase of 82 Bcf from the previous week. Stocks were 443 Bcf lower than last year at this time and 22 Bcf below the 5 year average of 2,709 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 7/5/13	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,244	1,191	53	-6.7%
West	445	443	2	8.3%
Producing	998	971	27	3.4%
Lower 48 Total	2,687	2,605	82	-0.8%

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

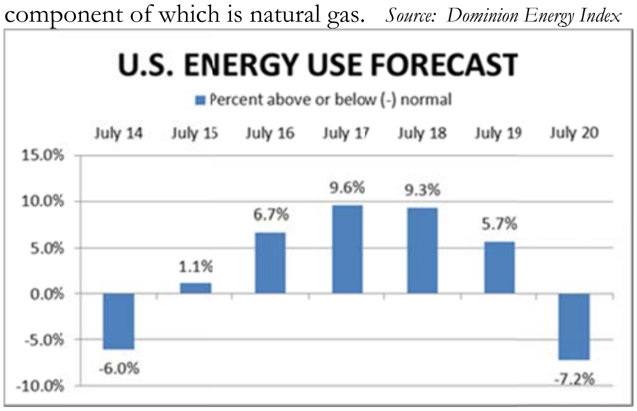
Last week: U.S. gas rig count increasing

The gas rig count for the U.S. was up seven when compared to the prior week but was down 160 when compared to twelve months ago. The total rig count for the U.S. was up two for the week and down 194 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs. Source: Baker Hughes

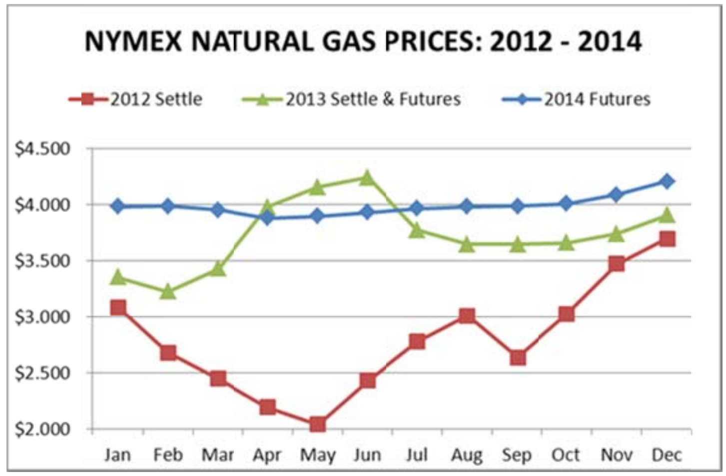
BAKER HUGHES ROTARY RIG COUNT				
	As of 7/12/2013	+/- prior week	Year ago	+/- year ago
Texas	836	1	910	-74
U.S. gas	362	7	522	-160
U.S. oil	1391	-4	1427	-36
U.S. total	1759	2	1953	-194
Canada	294	80	296	-2

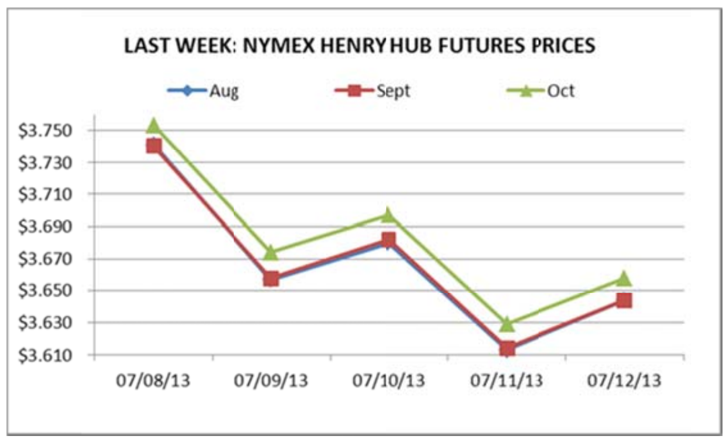
This week: U.S. energy use above normal

U.S. energy use is predicted to be above normal for most 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-July and the futures prices for the remaining months of 2013.





NATURAL GAS PRICE SUMMARY AS OF 7/12/2013

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US August futures				
NYMEX	$3.644	$0.027	$0.870	$3.847