

August 12, 2013

Natural Gas Trends

Highlights

North Texas city sues Chesapeake, claiming royalty underpayment

The city of Arlington, Texas, this week sued an affiliate of Chesapeake Energy, claiming the company undervalued the amount of gas royalties owed to the city by more than \$1 million. In a suit filed in Tarrant County District Court, the city argued that Oklahoma City-based Chesapeake Exploration had underpaid royalties for gas leases in holds on about 1,900 acres of city-owned land. A Chesapeake spokesman declined to comment on the suit. City Attorney Jay Doegey could not be reached for comment.

The suit alleges that Chesapeake improperly deducted payments for the post-production processing of the gas from the royalty payments due. The city also claims that Chesapeake improperly sold the gas to affiliates at prices below what the producer would have received had it sold to disinterested third parties. According to the suit, Arlington officials will not be able to assess the value of the underpayments without access to the documents the company used to assess the royalty payments, which Chesapeake retains in possession. However, the city said it plans to seek monetary damages in excess of \$1 million.

The city's allegations are similar to those that led to a suit filed against the producer by the Dallas-Fort Worth International Airport, as well as several suits filed by other private owners of leasehold property in the Barnett Shale of North Texas, where Chesapeake holds extensive gas producing assets. Chesapeake agreed to settle the DFW case last November, agreeing to pay the airport \$5.3 million and to recalculate the formula for determining future royalty payments. (GD 11/2). The settlement established a formula for calculating royalties based on the first-of-the-month index price at Natural Gas Pipeline Co. of America, Texok, published in Platts' *Inside FERC's Gas Market Report*.

In another case, a putative class action lawsuit, owners of leasehold property in Johnson and Tarrant counties sued Chesapeake in federal court, claiming the producer improperly deducted post-production costs from the royalties it paid out. US District Judge Barbara Lynn dismissed the case in May, saying the plaintiffs failed to demonstrate that Chesapeake had violated the terms of the lease agreements. The plaintiffs have appealed that decision to the 5th Circuit Court of Appeals.

In its 10-Q quarterly report filed with the Securities and Exchange Commission, Chesapeake said that it is involved in a number of "lawsuits and disputes incidental to its business operations, including commercial disputes, personal injury claims, claims for underpayment of royalties, property damage claims and contract actions." The company added that, "based on management's current assessment, we are of the opinion that no pending or threatened lawsuit or dispute relating to the company's business operations is likely to have a material adverse effect on its consolidated financial position, results of operations or cash flows." Source: Platts Gas Daily

Data

- September 2013 Natural Gas Futures Contract (as of August 9), NYMEX at Henry Hub closed at \$3.230 per million British thermal units (MMBtu)
- September 2013 Light, Sweet Crude Oil Futures Contract WTI (as of August 9), closed at \$105.97 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 8/4/13 and ending 8/10/13, cooling degree days (CDD) were higher than normal (warmer) for the week in Texas and higher than normal year to date for both Texas and for the US. www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 8/10/13	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	100	15	1209	31%
Austin	169	28	1928	4%
DFW	181	38	1793	8%
El Paso	136	20	1939	24%
Houston	162	29	1985	9%
SAT	184	44	2119	11%
Texas**	156	26	1793	6%
U.S.**	68	-4	866	8%

* 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.

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 2,941 Bcf

For the week ending 8/2/2013 working gas in storage increased from 2,845 Bcf to 2,941 Bcf. This represents an increase of 96 Bcf from the previous week. Stocks were 297 Bcf lower than last year at this time and 20 Bcf above the 5 year average of 2,921 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 8/2/13	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,408	1,350	58	-6.9%
West	484	461	23	11.3%
Producing	1,049	1,034	15	7.8%
Lower 48 Total	2,941	2,845	96	0.7%

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

Last week: U.S. gas rig count decreasing

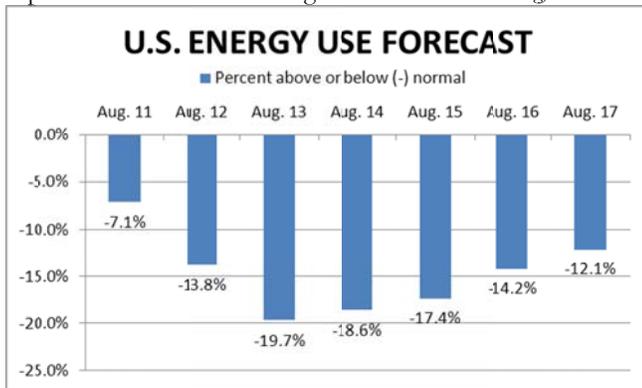
The gas rig count for the U.S. was down two when compared to the prior week and down 109 when compared to twelve months ago. The total rig count for the U.S. was down four for the week and down 153 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

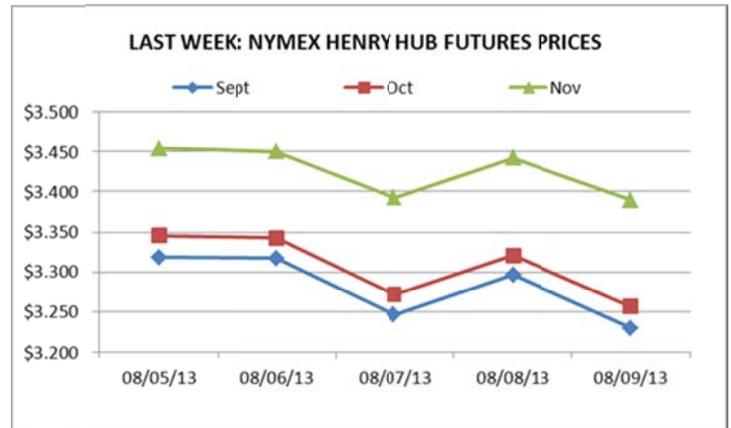
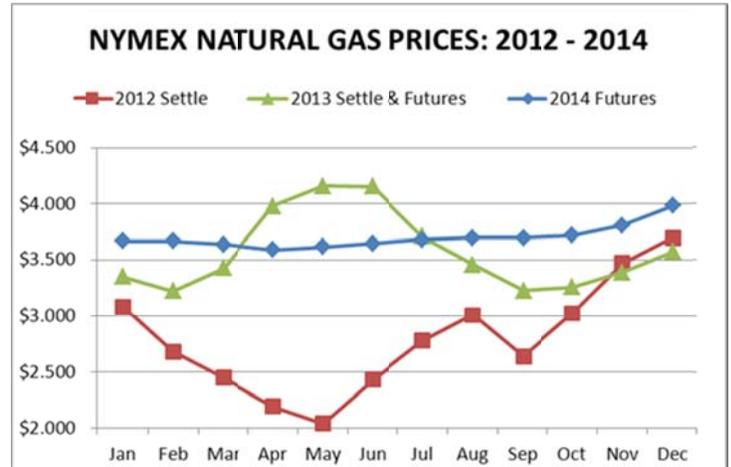
BAKER HUGHES ROTARY RIG COUNT				
	As of 8/9/2013	+/- prior week	Year ago	+/- year ago
Texas	849	-2	911	-62
U.S. gas	386	-2	495	-109
U.S. oil	1385	-3	1432	-47
U.S. total	1778	-4	1931	-153
Canada	358	17	299	59

This week: U.S. energy use below normal

U.S. energy use is predicted to be below normal 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



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



NATURAL GAS PRICE SUMMARY AS OF 8/9/2013

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US September futures				
NYMEX	\$3.230	-\$0.117	\$0.596	\$3.553