

October 14, 2013

Natural Gas Trends

Highlights

Lack of EIA data to create void – but how big?

As the Energy Information Administration closed its doors Friday amid the government shutdown, analysts were left wondering what impact the absence of EIA's weekly gas storage report would have on the market – and what data can fill the void. EIA said Friday it would publish no data or analysis until Congress appropriates funds for it to reopen, which likely means there will be no storage report issued Thursday for the week ending October 11; the first time in its 19-year history that the market-moving data will not be available.

Gelber & Associates' Aaron Calder said that will likely result in a "massive shakeup in the trading week," and that "many in the market want to lock in prices because they do not know how the market will react to a lack of storage data." "There are worse times that this could be happening, like in January right in the peak of the heating season," said BNP Paribas analyst Teri Viswanath. Still, she said the lack of solid storage data could be problematic during the shoulder season as well, as changeable weather, pipeline outages and storage facility maintenance all make predicting the weekly injection difficult. EIA has had only one unplanned delay in issuing the report since it took over the task from the American Gas Association in 2002, and that was just a one day miss due to the freak snowstorm that struck Washington, D.C., in early February 2010, dubbed the "snowpocalypse." Agency spokesman Jonathan Cogan said Friday that EIA storage survey respondents, "whom EIA will be contacting directly, should continue to submit their data, which will be processed after the furlough period is over. EIA will strive to restore service as quickly as possible after EIA reopens. The schedules for resumption of data releases and reports will be determined after the furlough period is over."

Just what impact that will have on the gas market was up for debate on Friday. The shutdown comes at a time when the market is fairly comfortable with overall storage levels, but some analysts think refills for the rest of October could vary due to a host of factors – creating a level of uncertainty for buyers and sellers alike. "My guess is that if it does anything to the market, it keeps it firm," said gas broker Jay Levine of Enerjay LLC. "You have the winter weather unknown and now you have the storage unknown. In the absence of concrete numbers, if anything at all it will affect the market positively. Fundamentally, we know where storage is. We just don't know where it's going, and those unknowns always carry certain premiums. They don't call it futures for nothing."

INTL FC Stone broker Tom Saal said the lack of a weekly storage report would likely only have an impact on futures market liquidity on Thursday. "I think the market will survive for a few weeks without the numbers," he said. Still, he conceded that, it's an important piece of information for natural gas because there's not a lot of real-time data" apart from storage and weather forecasts.

The storage report began as an initiative of AGA in December 1993 in a market "starved for real-time information," said Chris McGill, managing director of policy analysis at the utility trade group. "I don't think we can say that about the marketplace today. Today there is much more of a price discovery component to how that data is used, and there are several different sources for such estimates. I can't see where one or two weeks without that data is going to make that much of a difference." Even so, "the purpose of storage and of the storage report has not gone away," McGill said. "Our member companies probably own about one-third of the country's storage facilities, and contract another third of capacity. So they control about two-thirds of storage, and their bottom line is what it has always been – is there sufficient gas in the ground to serve our consumers on the coldest day of the year?"

Source: Platts Gas Daily

Data

- November 2013 Natural Gas Futures Contract (as of October 11), NYMEX at Henry Hub closed at \$3.776 per million British thermal units (MMBtu)
- November 2013 Light, Sweet Crude Oil Futures Contract WTI (as of October 11), closed at \$102.02 per U.S. oil barrel (Bbl.) or approximately \$17.59 per MMBtu

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

For the week beginning 10/6/13 and ending 10/12/13, cooling degree days (CDD) were lower than normal (cooler) for the week as well as higher than normal year to date for both Texas and for the U.S. Source: www.cpc.ncep.noaa.gov

| COOLING DEGREE DAYS (CDD) | | | | |
|---------------------------|------------------------------------|---------------------------|------------------------|-------------------------|
| City or Region | Total CDD for week ending 10/12/13 | *Week CDD +/- from normal | Year-to-date total CDD | * YTD % +/- from normal |
| Amarillo | 11 | 1 | 1804 | 35% |
| Austin | 43 | -15 | 2932 | 4% |
| DFW | 49 | 13 | 2874 | 15% |
| El Paso | 19 | -5 | 2697 | 21% |
| Houston | 48 | -5 | 3045 | 12% |
| SAT | 74 | 11 | 3316 | 16% |
| Texas** | 45 | 0 | 2747 | 9% |
| U.S.** | 14 | -2 | 1298 | 11% |

* 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 3,577 Bcf

For the week ending 10/4/2013 working gas in storage increased from 3,487 Bcf to 3,577 Bcf. This represents an increase of 90 Bcf from the previous week. Stocks were 138 Bcf lower than last year at this time and 55 Bcf above the 5 year average of 3,522 Bcf.

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

| U.S. WORKING GAS IN STORAGE | | | | |
|-----------------------------|---------------------|------------|-----------------|---------------------------------|
| Region | Week ending 10/4/13 | Prior week | One-week change | Current Δ from 5-YR Average (%) |
| East | 1,851 | 1,800 | 51 | -6.2% |
| West | 538 | 529 | 9 | 10.7% |
| Producing | 1,188 | 1,158 | 30 | 9.2% |
| Lower 48 Total | 3,577 | 3,487 | 90 | 0.9% |

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

Last week: U.S. gas rig count down for the week

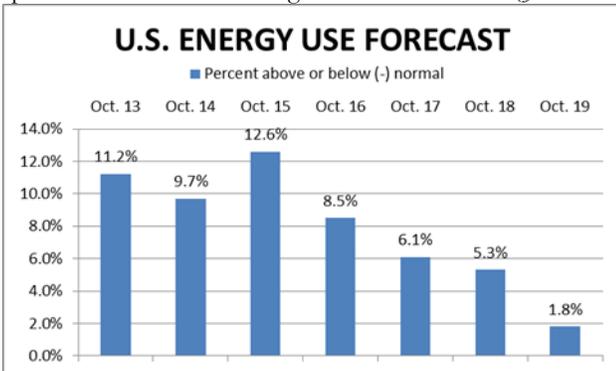
The gas rig count for the U.S. was down nine when compared to the prior week and down 53 when compared to twelve months ago. The total rig count for the U.S. was down thirteen for the week and down 92 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

| BAKER HUGHES ROTARY RIG COUNT | | | | |
|-------------------------------|------------------|----------------|----------|--------------|
| | As of 10/11/2013 | +/- prior week | Year ago | +/- year ago |
| Texas | 822 | -8 | 872 | -50 |
| U.S. gas | 369 | -9 | 422 | -53 |
| U.S. oil | 1367 | -5 | 1411 | -44 |
| U.S. total | 1743 | -13 | 1835 | -92 |
| Canada | 357 | -4 | 361 | -4 |

This week: U.S. energy use above normal

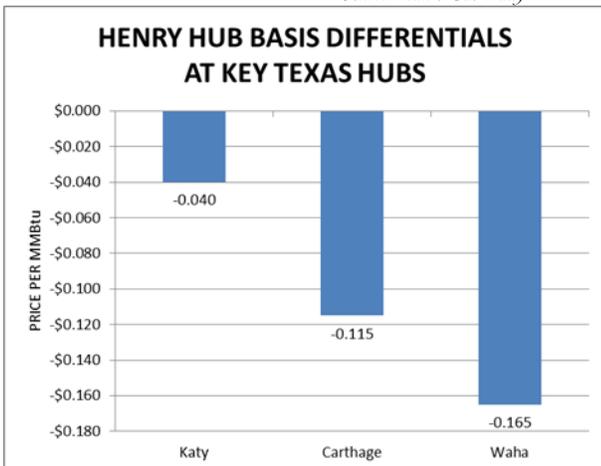
U.S. energy use is predicted to be above normal this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas. Source: Dominion Energy Index



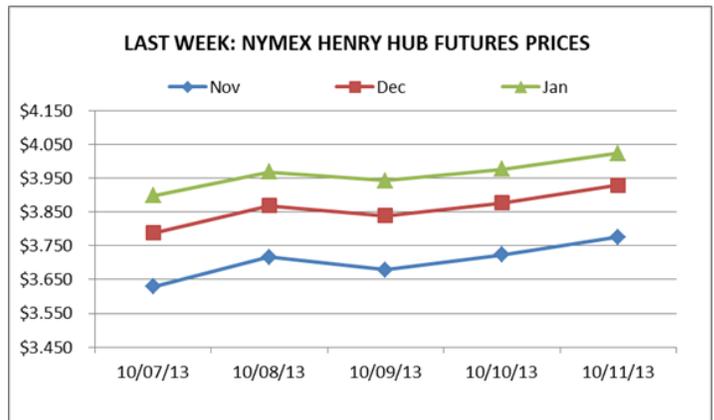
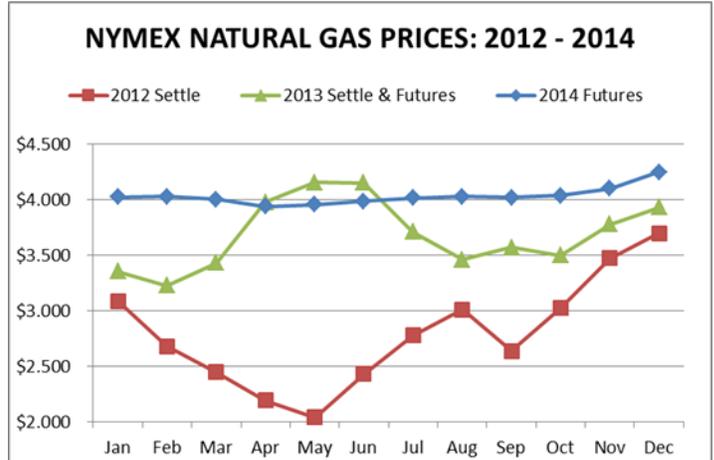
Basis ranged from -\$0.040 to -\$0.165 cents

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-October and the futures prices for the remaining months of 2013.



NATURAL GAS PRICE SUMMARY AS OF 10/11/2013

| | This Week | +/- Last Week | +/- Last Year | 12-Month Strip Avg. |
|--|-----------|---------------|---------------|---------------------|
|--|-----------|---------------|---------------|---------------------|

US November futures

| | | | | |
|-------|---------|---------|---------|---------|
| NYMEX | \$3.776 | \$0.270 | \$0.305 | \$3.977 |
|-------|---------|---------|---------|---------|

Basis

October spot price

Differential

| | | | | |
|-----------|---------|---------|---------|----------|
| Henry Hub | \$3.725 | \$0.160 | \$0.411 | n/a |
| Katy | \$3.685 | \$0.200 | \$0.426 | -\$0.040 |
| Carthage | \$3.610 | \$0.150 | \$0.443 | -\$0.115 |
| Waha | \$3.560 | \$0.185 | \$0.304 | -\$0.165 |