

July 2, 2012

**Natural Gas Trends****Highlights****AGA RELEASES STATE SUMMARY OF INNOVATIVE RATE DESIGNS**

The American Gas Association (AGA) recently released a state-by-state summary of innovative rate designs implemented by natural gas utilities in the U.S. According to the Association, more than half of state regulatory commissions currently allow gas utilities to use trackers or accounting deferrals to recover changes in costs between rate cases. **The Association promotes the use of innovative rate designs to reduce regulatory lag and to reduce costs associated with filing rate cases.** Innovative rate designs include:

- **RATE TRACKERS.** A rate tracker is an adjustment clause that allows a utility's rates to fluctuate to respond to changes in operating costs or conditions. Rate trackers may or may not be automatic.
- **RATE SURCHARGES.** A rate surcharge is a temporary adjustment to a customer's rates for a limited time and by a fixed amount.
- **DEFERRAL ACCOUNTS.** Utilities sometimes establish deferral accounts to track specific investment costs. Often, a prudence review is performed by a regulatory agency before such costs are included in rates.
- **RATE STABILIZATION.** Rate stabilization is a rate design that decouples the link between revenues received by a utility and gas volumes consumed by customers, usually through annual rate adjustments. Utilities in seven states use this rate design, including Texas, Oklahoma, Louisiana, Mississippi, Alabama, Georgia, and South Carolina.

A link to the Association's summary, the *Natural Gas Rate Round-Up*, can be found in the June 28, 2012 news release at: <http://www.aga.org/Newsroom/news-releases/Pages/default.aspx>

**Data**

- August Natural Gas Futures Contract (as of Jun 29), NYMEX at Henry Hub closed at \$2.824 per million British thermal units (MMBtu)
- August Light, Sweet Crude Oil Futures Contract (as of Jun 29), NYMEX at Cushing closed at \$84.96 per U.S. oil barrel (Bbl.) or approximately \$13.43 per MMBtu

**Last week: Texas, U.S. CDD higher than normal**

For the week beginning 6/24/12 and ending 6/30/12, cooling degree days (CDD) were higher than normal for Texas and the U.S. For the cooling season (1/1/12 to 12/31/12), cumulative cooling degree days were 32% above normal for Texas and 30% above normal for the U.S.

Source: [www.cpc.ncep.noaa.gov](http://www.cpc.ncep.noaa.gov)

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 6/30/2012	*Week CDD + / - from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	146	64	721	83%
Austin	146	20	1276	22%
DFW	172	45	1271	52%
El Paso	173	47	1216	45%
Houston	156	33	1531	44%
SAT	157	29	1456	32%
Texas**	147	29	1249	32%
U.S.**	75	13	487	30%

\* A minus (-) value is cooler than normal; a plus (+) value is warmer than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which CDD are calculated. \*\* State and U.S. degree days are population-weighted by NOAA.

**Last week: U.S. natural gas storage at 3,063 Bcf**

For the week ending 6/22/12, U.S. working gas in storage rose from 3,006 to 3,063 Bcf, compared to 2,410 Bcf in storage a year ago and compared to an average of 2,450 Bcf in storage during the 5-year period from 2007 to 2011. Working gas in storage in the producing region (which includes Texas) rose from 1,116 to 1,130 Bcf.

Source: [www.eia.doe.gov](http://www.eia.doe.gov)

U.S. WORKING GAS IN STORAGE				
Region	Week ending 6/22/12	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,477	1,443	34	+ 24.2%
West	456	447	9	+ 22.6%
Producing	1,130	1,116	14	+ 27.0%
Lower 48 Total	3,063	3,006	57	+ 25.0%

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

**Last week: U.S. rotary rig count down 7**

The total rig count for the U.S. was down 7 when compared to the prior week and up 73 when compared to 12 months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

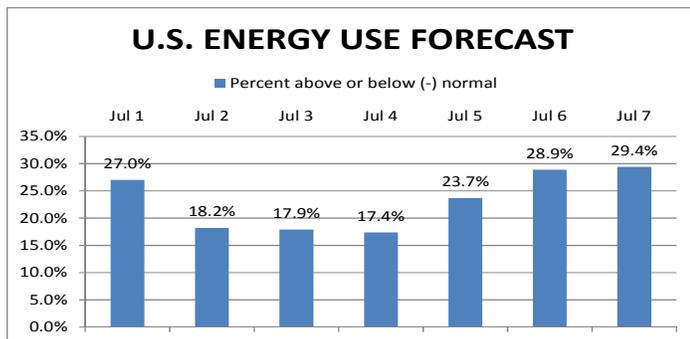
BAKER HUGHES RIG COUNT			
	'As of 6/29/12	+/- prior week	+/- year ago
U.S. total	1959	-7	+73
Canada	261	+23	+21
Int'l	1225	+47	+74

Numbers are excerpted and not meant to be totaled

**This week: U.S. energy use higher than normal**

U.S. energy use is forecasted to be much higher than normal for 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.

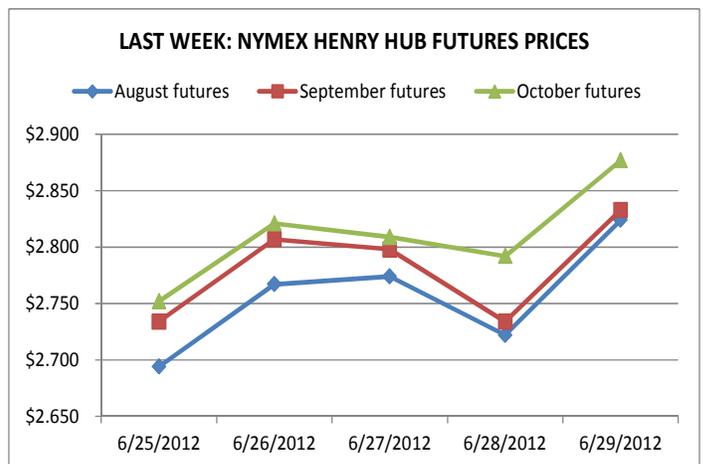
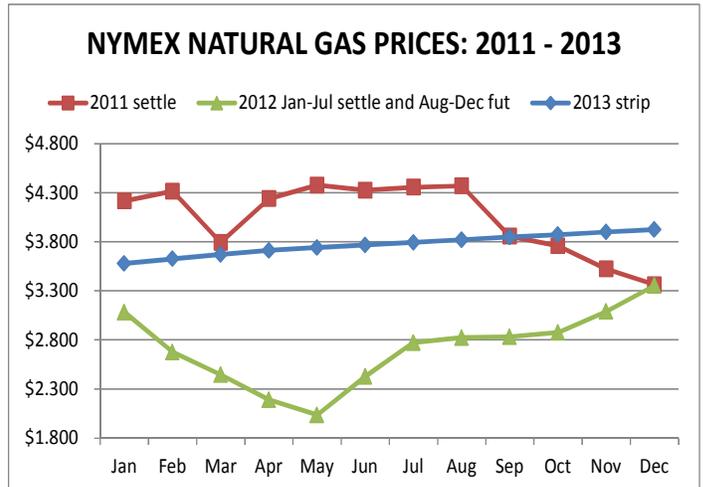
Source: Dominion Energy Index



**NATURAL GAS PRICE SUMMARY AS OF 6/29/2012**

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US August futures				
NYMEX	\$2.824	\$0.199	-\$1.546	\$3.289

**Strip prices.** Natural gas strip prices for 2013, shown below in blue, are the average of daily settlement prices for the next twelve months of natural gas futures contracts.



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