

January 31, 2011

Natural Gas Trends

Highlights

NRRI: GAS UTILITY EXCELLENCE

The National Regulatory Research Institute (NRRI) recently released the publication “Gas Utility Excellence: Ten Recommendations for Regulators.” In this publication, Ken Costello, a principal at NRRI, recommends that state commissions:

- Provide natural gas utilities with stronger incentives for excellence through the use of performance standards;
- Mitigate poor utility and regulatory decisions by assessing gas supply plans and procurement practices;
- Balance multiple regulatory objectives in a systematic way, by applying a multi-objective approach to rate design;
- Align utility interests with the public interest, particularly in areas where such alignment does not currently exist;
- Detect poor hedging strategies;
- Become better informed about the wholesale gas market; and
- Mitigate anti-competitive behavior, inappropriate cost shifting and cross-subsidization, particularly where affiliate relationships exist.

Under conventional regulatory approaches, a utility has more motivation to avoid a cost disallowance from subpar performance than to perform exceptionally well. Example: cost trackers that have little likelihood of a prudence review and no clear performance standards.

NRRI's publication is available at:
http://www.nrri.org/pubs/gas/NRRI_Gas_UTILITY_Excellence_jan11-2.pdf

Data

- March Natural Gas Futures Contract (Jan 28), NYMEX at Henry Hub closed at \$4.323 per million British Thermal Units (MMBtu)
- March Light, Sweet Crude Oil Futures Contract (Jan 28), NYMEX at Cushing closed at \$89.34 per U.S. oil barrel (Bbl.) or approximately \$14.23 per MMBtu

Last week: Texas warmer, US colder than normal

For the week beginning 1/23/11 and ending 1/29/11, heating degree days were lower than normal for Texas and higher than normal for the U.S. For the heating season (7/1/10 to 6/30/11), cumulative heating degree days are 5% below normal for Texas and 4% above normal for the U.S. Source: www.cpc.ncep.noaa.gov

HEATING DEGREE DAYS (HDD)

City or Region	Total HDD for week ending 1/29/11	* Week HDD +/-from Normal	Year-to-date total HDD	* YTD % +/- from Normal
Amarillo	171	- 33	2239	- 15 %
Austin	115	+ 11	1234	+ 13 %
Dallas – FW	123	- 20	1394	- 10 %
El Paso	147	+ 11	1387	- 19 %
Houston	79	- 14	899	- 10 %
San Antonio	88	- 10	955	- 9 %
Texas**	115	- 2	1232	- 5 %
U.S.**	166	+ 3	2102	+ 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.

Last week: U.S. Gas Storage Drops to 2,542 Bcf

For the week ending 1/21/11, U.S. working gas in storage declined from 2,716 to 2,542 Bcf compared to 2,533 Bcf in storage a year ago and compared to an average of 2,513 Bcf in storage during the 5-year period from 2006 to 2010. Working gas in storage in the producing region (which includes Texas) declined from 968 to 912 Bcf. Source: www.eia.doe.gov

U.S. WORKING GAS IN STORAGE

Region	Week ending 1/21/11	Prior Week	One-week Change	Current Δ from 5-YR Avg (%)
East	1280	1384	- 104	- 7 %
West	350	364	- 14	+ 2.3 %
Producing	912	968	- 56	+ 14.7 %
Lower 48 Total	2542	2716	- 174	+ 1.2 %

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

Last week: Gas Rig Count up 7 to 913

The gas rig count for the U.S. was up 7 last week and up 52 when compared to 12 months ago. The U.S. total rig count was up 19 last week and up 415 when compared to 12 months ago.

Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT

	As of 1/28/11	+/- Prior Week	Year Ago	+/- Year Ago
U.S. total	1732	+ 19	1317	+ 415
Gas	913	+ 7	861	+ 52
Oil	809	+ 11	444	+ 365
Texas	740	- 1	528	+ 213
N. Amer.	2334	+ 57	1777	+ 557

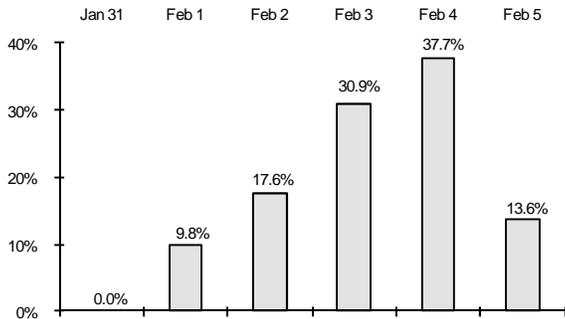
Numbers are excerpted and not meant to be totaled

This week: U.S. Energy Use Higher Than Norm

U.S. energy use is forecast to be higher than normal this week, according to the Dominion Energy Index, as shown below. The index forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index

U.S. ENERGY USE FORECAST



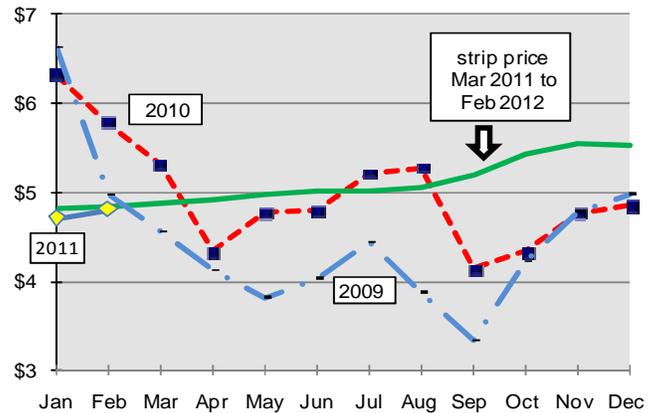
FERC opens door to LNG exports from Texas

In January 2011, the Federal Energy Regulatory Commission granted a request from Freeport LNG to begin the process for proposing a 1.4 Bcf liquefaction and export plant to be located at the existing Freeport LNG terminal on **Quintana Island, Texas**. Source: www.ferc.gov

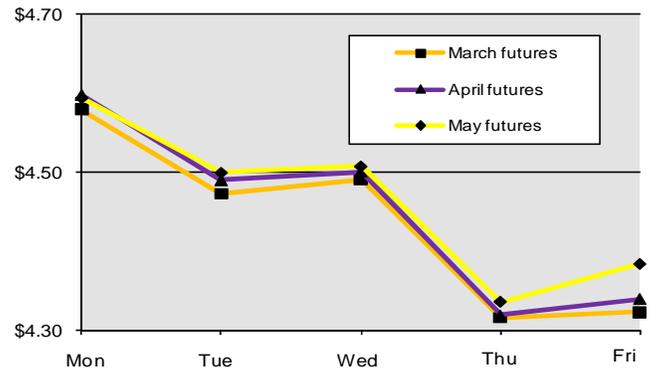
GAS PRICE SUMMARY AS OF 1/28/11

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US March futures				
NYMEX	\$4.323	-\$0.413	-\$0.493	\$4.602

NYMEX HENRY HUB FUTURES PRICES



NYMEX NATURAL GAS PRICE MOVEMENT 1/24/11 - 1/28/11



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