

July 7, 2008

# Natural Gas Trends

## Highlights

- The EIA's recent report, *Distribution of Natural Gas: The Final Step in the Transmission Process*, analyzes the role of local distribution companies (LDCs) and transmission pipelines in delivering natural gas supplies to end users, focusing on 1996 through 2006. The bulk of the natural gas consumed by end users is delivered by LDCs. LDC operations in 2006 accounted for approximately 60 percent of the 19.9 Tcf of natural gas delivered to the residential, commercial, industrial, and electric power generation sectors. The additional 40 percent of natural gas delivered to end users arrives directly from the main pipeline systems, which supply about 98 percent of the natural gas consumed by electric power generation facilities. As a result of market restructuring in the past 10 years, the natural gas end-use market has changed significantly. During that time natural gas as a fuel for electric power generation increased significantly while its use in all other sectors decreased. In 2006, the total volume of natural gas delivered to electric power generation users was on the verge of overtaking industrial end use for the first time. Furthermore, there is a trend toward large-volume users such as electric power generation plants and large industrial users receiving greater portions of their supplies from mainline natural gas transmission pipeline companies rather than the traditional LDC. Between 2000 and 2006, deliveries of natural gas to ultimate end users declined by 6 percent from 21.2 Tcf to 19.9 Tcf. This decline occurred even as the number of natural gas end users increased by almost 6 million, or 9 percent, during the period, as residential, commercial, and industrial users responded to higher natural gas prices by using less natural gas.
- Plains Exploration and Production (PXP) has agreed to acquire a 20% interest in Chesapeake's Haynesville Shale leasehold as of June 30, 2008 for \$1.65 billion in cash. In addition, PXP has agreed to fund 50% of Chesapeake's 80% share of drilling and completion costs for future Haynesville Shale JV wells over a several year period until an additional \$1.65 billion has been paid. Chesapeake estimates that its Haynesville leasehold as of June 30, 2008 was approximately 550,000 net acres. As a result of the transaction, PXP will hold approximately 110,000 net acres of this leasehold and Chesapeake will hold approximately 440,000 net acres. Chesapeake plans to continue acquiring leasehold in the Haynesville Shale play and PXP will have the right to a 20% participation in any such additional leasehold.

## Data

- August Natural Gas Futures Contracts (July 3) NYMEX at Henry Hub closed at \$13.577.
- August Light, Sweet Crude Oil Futures Contracts (July 3) NYMEX at Cushing closed at \$145.29 per Bbl. or approximately \$23.14 per MMBtu.

### Cooling-Degree Days

Texas experienced cooler than normal weather for the week ending July 5. For the cooling season (01/01/08 to present), cooling degree-days in **Texas are 13 percent above normal**. Overall, the U.S. experienced cooler than normal weather for the week. (Source: NOAA)

**Table 1: Cooling Degree-Days (CDD) Week 07/05/08.**

City or Region	Week Total CDD	Week, CDD +/- from Normal *	Year-to-date Total CDD	YTD, % +/- from Normal *
Amarillo	76	-11	593	+29
Austin	114	-17	1293	+13
DFW	144	+12	1351	+45
El Paso	103	-23	1117	+20
Houston	122	-4	1392	+21
San Ant.	125	-8	1580	+32
Texas**	110	-12	1169	+13
U.S.**	62	-4	467	+10

\* A + value = warmer than normal; a - value = cooler than normal.

\*\* State and U.S. degree-days are population-weighted.

### U.S. Gas Storage Level Increases by 85 Bcf

Working gas in underground storage was 2,118 Bcf, an increase of 85 Bcf from the prior week, for the week ending June 27. A year ago, estimated U.S. gas storage was 2,499 Bcf. The prior five-year average for this week is 2,175 Bcf. Working gas in storage in the producing region, which includes Texas, was 703 Bcf, compared to the five-year average of 707 Bcf. In the east region gas storage was 1,116 Bcf, compared to the five-year average of 1,143 Bcf. In the west region storage was 299 Bcf, compared to the five-year average of 325 Bcf. (Source: Energy Information Administration.)

**Table 2: U. S. Working Gas in Storage (Bcf) Week 06/27/08.**

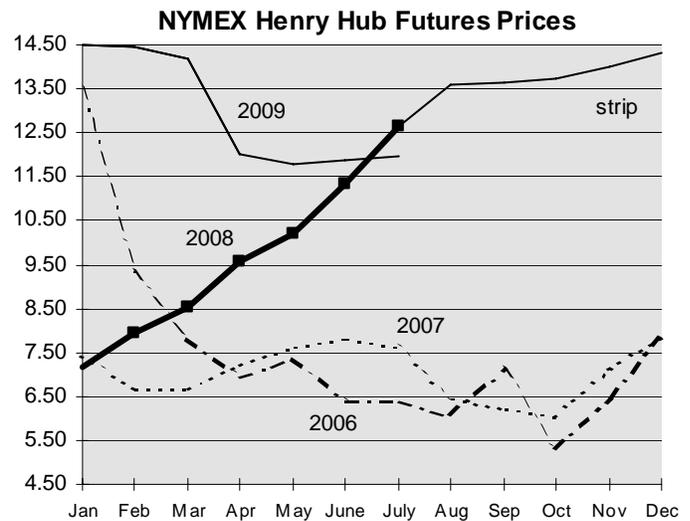
	This Week	Last Week	Change	Current Δ from 5-Year Avg. (%)
East Region	1116	1059	+57	-2.4
West Region	299	289	+10	-8.0
Producing Region	703	685	+18	+0.6
Lower 48 Total	2118	2033	+85	-2.6

**U. S. Gas Rig Count at 1539**

The U.S. gas rig count increased by 9 this week to 1539 up from 1473 gas rigs a year ago. The U.S. total rig count increased by 8 to 1921 up from 1752 rigs a year ago.

**Baker Hughes Rotary Rig Count (07/02/08)**

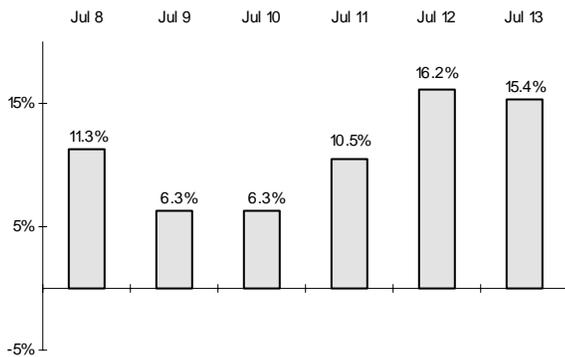
	This Week	+/- Last Week	Year Ago	+/- Year Ago
U.S.	1921	+8	1752	+169
Gas	1539	+9	1473	+66
Oil	373	-2	274	+99
Texas	923	+8	825	+98
North America	2309	+40	2038	+271



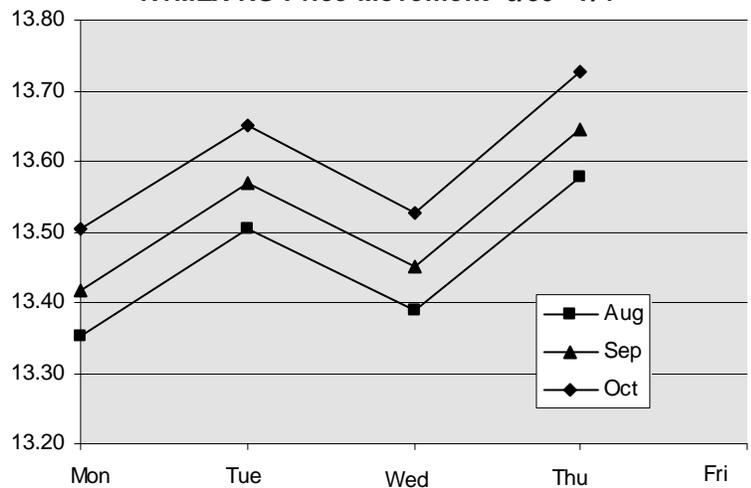
**Dominion Energy Use Forecast**

Above normal energy use throughout the week is forecast for the U.S., according to the Dominion Energy Index. The energy index forecasts total U.S. residential energy usage, a component of which is natural gas.

**U.S. Energy Use Forecast**



**NYMEX NG Price Movement 6/30 - 7/4**



**Gas Price Summary**

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
<b>U.S (August Futures)</b>				
NYMEX	\$13.577	\$0.379	\$7.143	\$13.334