

July 21, 2008

Natural Gas Trends

Highlights

- Last week, BENTEK Energy, LLC, released the third part of its "I" of the Storm Market Alert Report, an evaluation of the impact of anticipated changes in natural gas markets nationwide as more than 75 natural gas pipeline, storage and LNG terminal projects are completed and placed into service in the Southeast/Gulf region between now and 2012. Bentek's report concludes that higher gas prices, favorable market conditions, and significant cash flows and investment capital are spurring an unprecedented increase in natural gas production activity in the unconventional Barnett and Deep Bossier shales in Texas, the Woodford shale in Oklahoma, and the Fayetteville shale in Arkansas. The report also concludes that the anticipated regional supply surplus will create market imbalances, shifting flow patterns and price differential disruptions. Bentek anticipates an increase of 11.3 billion cubic feet per day (Bcf/d) of additional wet gas production and 9.4 Bcf/d of dry gas production flowing into the Southeast/Gulf between January 2008 and December 2012. Over the next five years, Bentek expects new gas-fired power generation facilities, industrial load and some residential/commercial demand to drive a modest annual 1.5% demand growth from Texas to Virginia. However, this demand growth is projected by Bentek to be outstripped by the 6.9% average annual supply growth projected in the Southeast/Gulf during the same period. According to Bentek, an anticipated consequence of the projected production growth is that pipeline capacity out of the Southeast/Gulf region will fill in less than two years. (Source: Bentek website)
- Royal Dutch Shell announced a proposal to purchase Duvernay Oil Corporation, a Canadian firm based in Alberta, for C\$5.9 billion, equivalent to C\$83 per share, a 36% premium over the share price for the prior 30 days. Duvernay is engaged in oil and gas exploration and development in Alberta and British Columbia. (Source: Shell website)
- On 7/14/08, President George W. Bush lifted the 18-year presidential moratorium on oil and gas drilling on the US Outer Continental Shelf.

Data

- August Natural Gas Futures Contracts (July 18) NYMEX at Henry Hub closed at \$10.570.
- August Light, Sweet Crude Oil Futures Contracts (July 18) NYMEX at Cushing closed at \$128.88 per Bbl. or approximately \$20.52 per MMBtu.

Cooling-Degree Days

Texas experienced normal weather for the week ending July 19. For the cooling season (01/01/08 to present), cooling degree-days in **Texas are 10 percent above normal**. Overall, the U.S. experienced warmer than normal weather for the week. (Source: NOAA)

Table 1: Cooling-Degree-Days (CDD) Week 07/19/08.

City or Region	Week Total CDD	Week, CDD +/- from Normal *	Year-to-date Total CDD	YTD, % +/- from Normal *
Amarillo	81	-12	750	+17
Austin	140	+3	1555	+10
DFW	165	+25	1686	+40
El Paso	112	-14	1326	+15
Houston	146	+17	1679	+20
San Ant.	145	+6	1852	+26
Texas**	128	0	1420	+10
U.S.**	79	+5	625	+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 104 Bcf

Working gas in underground storage was 2,312 Bcf, an increase of 104 Bcf from the prior week, for the week ending July 11. A year ago, estimated U.S. gas storage was 2,673 Bcf. The prior five-year average for this week is 2,361 Bcf. Working gas in storage in the producing region, which includes Texas, was 742 Bcf, compared to the five-year average of 753 Bcf. In the east region, gas storage was 1,245 Bcf, compared to the five-year average of 1,262 Bcf. In the west region, storage was 325 Bcf, compared to the five-year average of 347 Bcf. (Source: Energy Information Administration.)

Table 2: U. S. Working Gas in Storage (Bcf) Week 07/11/08.

	This Week	Last Week	Change	Current Δ from 5-Year Avg. (%)
East Region	1245	1177	+68	-1.3
West Region	325	314	+11	-6.3
Producing Region	742	717	+25	-1.5
Lower 48 Total	2312	2208	+104	-2.1

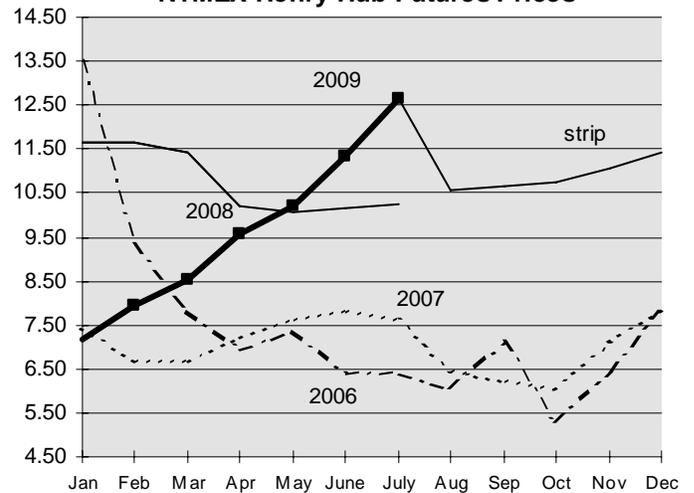
U. S. Gas Rig Count at 1534

The U.S. gas rig count decreased by 10 this week to 1534 up from 1497 gas rigs a year ago. The U.S. total rig count increased by 6 to 1928 up from 1790 rigs a year ago.

Baker Hughes Rotary Rig Count (07/18/08)

	This Week	+/- Last Week	Year Ago	+/- Year Ago
U.S.	1928	+6	1790	+138
Gas	1534	-10	1497	-37
Oil	385	+15	287	+98
Texas	922	+14	838	+84
North America	2338	+2	2167	+171

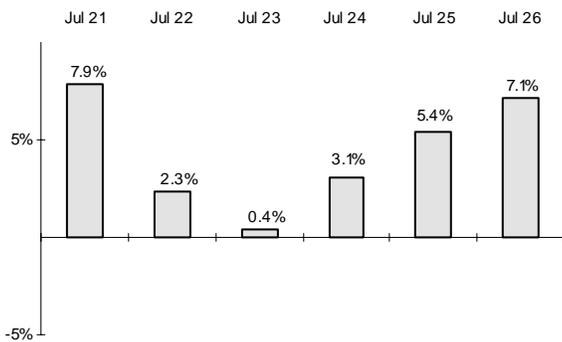
NYMEX Henry Hub Futures Prices



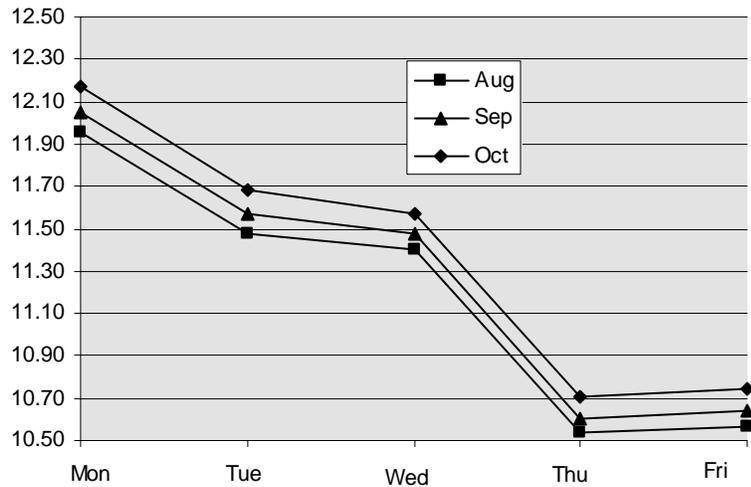
Dominion Energy Use Forecast

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 7/14 - 7/18



Gas Price Summary

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
U.S (August Futures)				
NYMEX	\$10.570	-\$1.334	\$4.136	\$10.815