

April 6, 2015

Natural Gas Trends

Highlights

Exports to Mexico rise 30% in January

Total US gas exports to Mexico averaged 2.2 Bcf/d in January, a 164 MMcf/d build over December and a 507 MMcf/d build over last year, according to data released by the Energy Information Administration. The year-on-year build in exports is primarily being driven by flows along the newly completed NET Mexico pipeline, which delivers gas to the Los Ramones system on the Mexican side of the border. Deliveries from the NET Mexico pipeline to Los Ramones pipeline averaged 516 MMcf/d in December, a 256 MMcf/d build over December average exports, which were revised up to 260 MMcf/d this month.

The NET Mexico pipeline receives interstate deliveries from Natural Gas Pipeline Co. of America and Tennessee Gas Pipeline. Those two pipelines delivered a combined 275 MMcf/d of gas to NET Mexico in January with the remaining 232 MMcf/d of gas being delivered to NET Mexico via seven Texas intrastate gas pipeline interconnects, which include Houston Pipeline and Kinder Morgan Tejas.

The Los Ramones system on the Mexican side of the border, in conjunction with the NET Mexico Pipeline, is quickly becoming the backbone of the Mexican gas transport system. The Los Ramones system originates near the town of Rio Grande, Texas, and runs roughly 650 miles to Apaseo el Alto in central Mexico. The system features three segments: Los Ramones I, Los Ramones II-North, and Los Ramones II-South.

Private investment funds BlackRock and First Reserve announced last week that they had entered a definitive agreement with PMI, a wholly owned subsidiary of Petroleos Mexicanos, to acquire an approximately 45% equity interest in Los Ramones II gas pipeline system in Mexico. The funds are investing \$900 million in a pipeline that will connect Mexico City with growing gas supplies from the Eagle Ford shale in South Texas and the Marcellus and Utica shales in the US Northeast by mid-2016.

This 2.1 Bcf/d pipeline will provide much-needed relief to Mexico's National Gas Transportation system and will facilitate a rapid increase in US exports to Mexico as it displaces more expensive liquefied natural gas imports from the terminals in Altamira and Manzanillo. BlackRock's and First Reserve's \$900 million dollar transaction is a strong signal that private investors are seeking to participate in Mexico's rapidly changing energy sector, which is undergoing unprecedented liberalization following a constitutional reform enacted in December 2013 under the mandate of President Enrique Pena Nieto. Understanding Mexico's new energy landscape will be imperative if private companies plan to take advantage of the opportunities Mexican energy reform will create. Bentek's lead Mexico analyst, Maria Mejia, has published a new Market Alert titled, Mexico's new energy landscape, which provides transparency about the many changes taking place in Mexico and the likely impacts on the energy market fundamentals. The paper is free for download here:

www.bentekenergy.com/documents/Mexicos_New_Energy_Landscape_online.pdf

Source: Platts Gas Daily

Data

- May 2015 Natural Gas Futures Contract (as of April 2), NYMEX at Henry Hub closed at \$2.713 per million British thermal units (MMBtu)
- May 2015 Light, Sweet Crude Oil Futures Contract WTI (as of April 3), closed at \$49.14 per U.S. oil barrel (Bbl.) or approximately \$8.47 per MMBtu

Last week: Texas warmer than normal last week

For the week beginning 3/29/15 and ending 4/4/15, heating degree days (HDD) were lower than normal (warmer) on average for the week but higher than normal (cooler) for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

| HEATING DEGREE DAYS (HDD) | | | | |
|---------------------------|----------------------------------|---------------------------|------------------------|-------------------------|
| City or Region | Total HDD for week ending 4/4/15 | *Week HDD +/- from normal | Year-to-date total HDD | * YTD % +/- from normal |
| Amarillo | 35 | -59 | 3593 | -10% |
| Austin | 3 | -17 | 1955 | 21% |
| DFW | 7 | -24 | 2343 | 2% |
| El Paso | 4 | -35 | 2001 | -19% |
| Houston | 0 | -20 | 1457 | -2% |
| SAT | 1 | -17 | 1487 | -3% |
| Texas** | 9 | -22 | 2015 | 4% |
| U.S.** | 92 | -14 | 4040 | 0% |

* 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.

-999 = Normal Less Than 100 or Ratio Incalculable

Last week: U.S. natural gas storage at 1,461 Bcf

For the week ending 3/27/2015 working gas in storage decreased from 1,479 Bcf to 1,461 Bcf. This represents a decrease of 18 Bcf from the previous week. Stocks were 628 Bcf higher than last year at this time and 190 Bcf below the 5 year average of 1651Bcf.

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

| U.S. WORKING GAS IN STORAGE | | | | |
|-----------------------------|---------------------|------------|-----------------|---------------------------------|
| Region | Week ending 3/27/15 | Prior week | One-week change | Current Δ from 5-YR Average (%) |
| East | 522 | 559 | -37 | -24.9% |
| West | 348 | 344 | 4 | 29.4% |
| Producing | 591 | 576 | 15 | -13.8% |
| Lower 48 Total | 1,461 | 1,479 | -18 | -11.5% |

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 11 for the week and down 94 when compared to twelve months ago. The total rig count for the U.S. was down 20 from last week and down 790 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

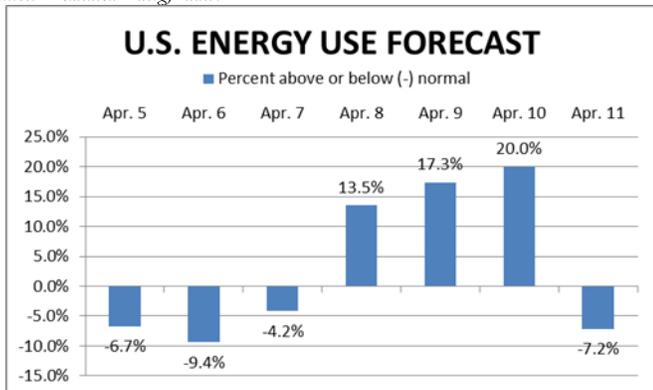
Source: Baker Hughes

| BAKER HUGHES ROTARY RIG COUNT | | | | |
|-------------------------------|----------------|----------------|----------|--------------|
| | As of 4/2/2015 | +/- prior week | Year ago | +/- year ago |
| Texas | 456 | -6 | 877 | -421 |
| U.S. gas | 222 | -11 | 316 | -94 |
| U.S. oil | 802 | -11 | 1498 | -696 |
| U.S. total | 1028 | -20 | 1818 | -790 |
| Canada | 100 | -20 | 235 | -135 |

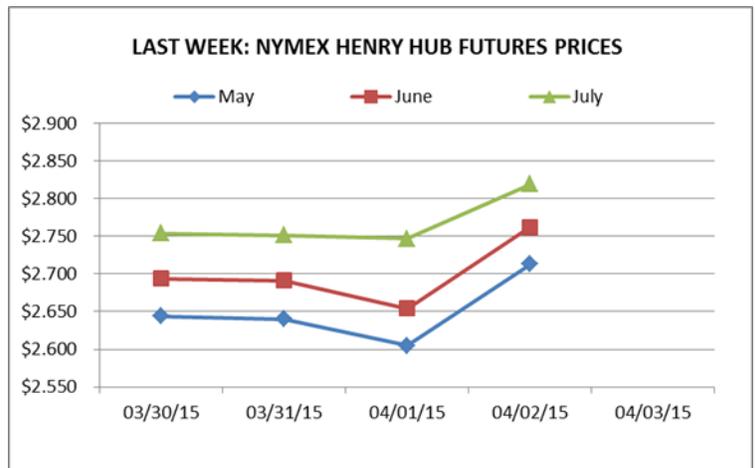
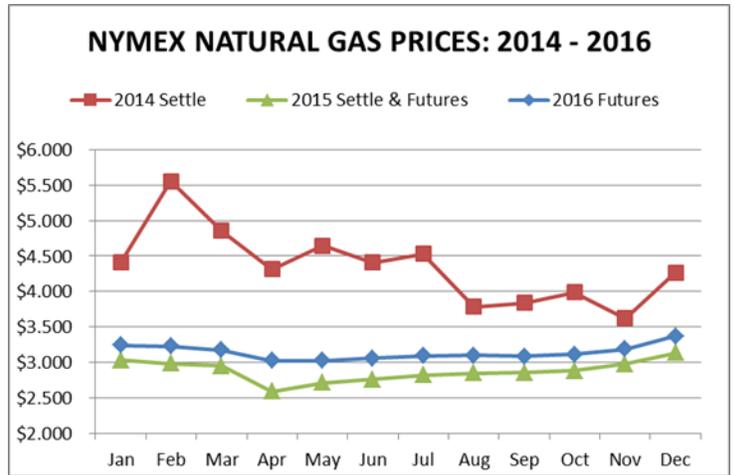
This week: U.S. energy varies this week

U.S. energy use is predicted to vary 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



2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan.-April and futures prices for the remainder of the year.



*Data for April 3 is unavailable due to the Good Friday Holiday.

NATURAL GAS PRICE SUMMARY AS OF 4/2/2015

| | This Week | +/- Last Week | +/- Last Year | 12-Month Strip Avg. |
|------------------|-----------|---------------|---------------|---------------------|
| US April futures | | | | |
| NYMEX | \$2.713 | \$0.123 | -\$2.142 | \$2.831 |