

January 4, 2016

Natural Gas Trends

Highlights

Extreme market conditions arrive for holidays

In less than one week US natural gas demand has jumped more than 20 Bcf/d from the extreme lows seen on Christmas Eve, while gas prices have dramatically reversed course after reaching the lowest levels of the entire year. Northeast and Southeast region gas market fundamentals in particular have experienced major swings in the last week. With temperatures more than 20 degrees above normal and gas prices below a dollar in the Northeast last week, massive amounts of Appalachian Basin production flowed south.

On average about 1.6 Bcf/d of Northeast gas flowed to the Southeast, a record high and a massive 2.6 Bcf/d reversal from the northbound flows taking place last December. The large increase in southbound gas pipeline flows peaked December 22 as Dominion South Point prices in Appalachia traded down to 73 cents/MMBtu heading into the holiday weekend, a 38-cent/MMBtu drop from the price averages of the previous week. Texas Eastern Zone M3 prices in the Northeast market area also fell to 80 cents/MMBtu, down 47 cents/MMBtu, as Northeast temperatures reached nearly 25 degrees Fahrenheit above normal. The warm weather and massive increase in southbound flows sent Henry Hub cash prices tumbling to a 2015 low of \$1.53/MMBtu.

Southeast temperatures also were extremely mild, as much as 23 degrees above normal last weekend, which sent even more gas into regional salt-dome storage facilities that already had above-normal inventory levels. Based on the most recent Energy Information Administration storage report, salt-dome storage inventories stood at 378 Bcf December 18, an increase of 2 Bcf from the prior week and nearly 39% above the five-year average. US gas demand climbs 22.5 Bcf/d in a week

Since the conclusion of the holiday weekend, however, gas demand and prices have seen significant uplift. US gas demand has increased from 75.6 Bcf/d on Christmas Eve to 98.1 Bcf/d. Over that same period, Northeast gas demand has risen 7 Bcf/d to nearly 20.1 Bcf/d.

Northeast gas prices have posted strong gains over this span with Dominion South reaching as high as \$1.20/MMBtu for Wednesday's gas day. Temperatures are forecast to return to normal seasonal levels to start the New Year, which is expected to help drive up residential and commercial gas demand roughly 3 Bcf/d higher over the next week.

Henry Hub gas prices also have made a big jump from last week's lows, reaching \$2.36/MMBtu for Wednesday's gas day.

Southeast demand has gone through a similar change, climbing to 17.4 Bcf/d from only 14 Bcf/d on Christmas.

Temperatures in the Southeast are expected to fall a couple of degrees below normal to start 2016, pushing residential and commercial demand up by nearly 2 Bcf/d over the next week.

Source: Platts Gas Daily

Data

- February 2016 Natural Gas Futures Contract (as of December 31), NYMEX at Henry Hub closed at \$2.337 per million British thermal units (MMBtu)
- February 2016 Light, Sweet Crude Oil Futures Contract WTI (as of December 31), closed at \$37.04 per U.S. oil barrel (Bbl.) or approximately \$6.39 per MMBtu

Last week: Texas cooler than normal last week

For the week beginning 12/27/15 and ending 1/2/16, heating degree days (HDDs) were higher than normal (cooler) on average for the week but lower than normal (warmer) for the year to date for all Texas cities shown.

Source: www.cpc.ncep.noaa.gov

HEATING DEGREE DAYS (HDD)				
City or Region	Total HDD for week ending 1/2/16	*Week HDD +/- from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	250	40	1460	-20%
Austin	127	22	530	-21%
DFW	156	10	611	-38%
El Paso	196	47	929	-19%
Houston	100	5	363	-42%
SAT	117	15	399	-39%
Texas**	136	16	585	-29%
U.S.**	169	-34	1356	-25%

* 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 3,756 Bcf

For the week ending 12/25/2015 working gas in storage decreased from 3,814 Bcf to 3,756 Bcf. This represents a decrease of 58 Bcf from the previous week. Stocks were 532 Bcf higher than last year at this time and 448 Bcf above the 5 year average of 3,308 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 12/25/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	876	894	-18	10.7%
Midwest	1,025	1,051	-26	12.9%
Mountain	195	198	-3	4.3%
Pacific	338	346	-8	8.0%
South Central	1,322	1,325	-3	19.3%
Lower 48 Total	3,756	3,814	-58	13.5%

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

Last week: U.S. gas rig count level for the week

The gas rig count for the U.S. remained the same for the week but was down 166 when compared to twelve months ago. The total rig count for the U.S. was down two compared to last week and down 1113 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

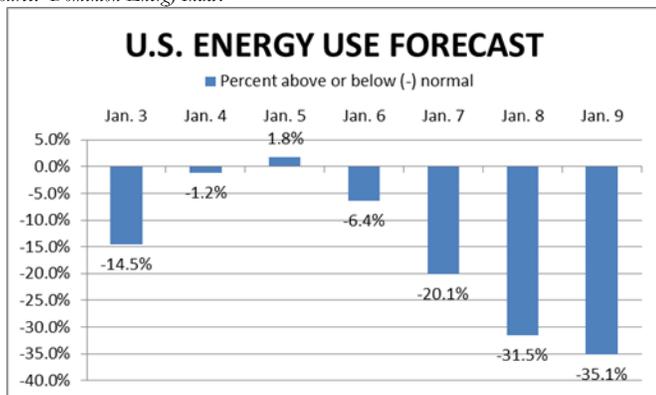
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 12/31/2015	+/- prior week	Year ago	+/- year ago
Texas	321	2	840	-519
U.S. gas	162	0	328	-166
U.S. oil	536	-2	1482	-946
U.S. total	698	-2	1811	-1113
Canada	83	-43	208	-125

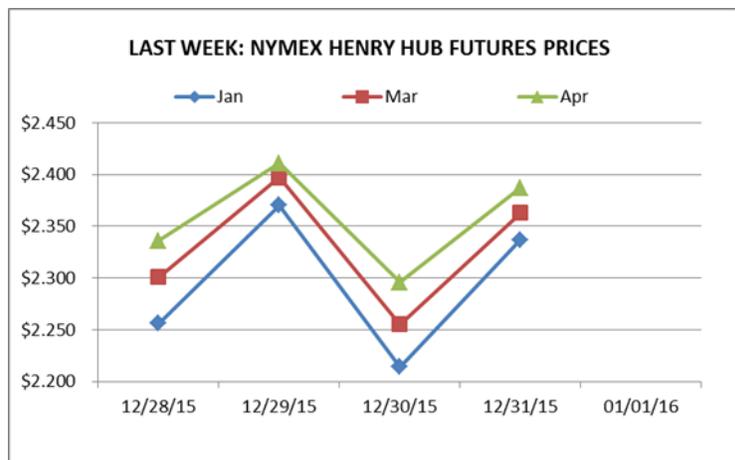
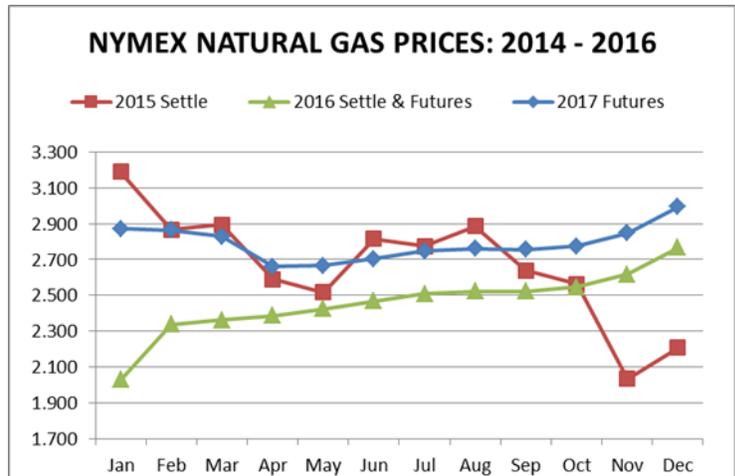
This week: U.S. energy varies this week

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



2016 prices. Natural gas prices for 2016, shown below in green, are the NYMEX futures prices for the year.



NATURAL GAS PRICE SUMMARY AS OF 12/31/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US February futures				
NYMEX	\$2.337	\$0.426	-\$1.391	\$2.664