

January 25, 2016

Natural Gas Trends

Highlights

Sierrita Gas announces expansion project

In a response to a binding bid from Mexico's Comisión Federal de Electricidad, Kinder Morgan Monday announced plans to expand its Sierrita Gas Pipeline, a 60-mile, 36-inch-diameter pipeline that extends from an interconnection to El Paso Natural Gas south mainlines, near Tucson, to the US-Mexico border near Sasabe, Arizona. The pipeline, which was placed into service in October 2014, provides 200,846 Dth/d firm transportation capacity to the border crossing where it interconnects with an existing gas pipeline in Mexico owned by IENova. Following an open season, which closed October 5, Sierrita awarded CFE a minimum expansion volume of 230,254 Dth/d by April 2020 for a term of approximately 19.5 years, Kinder Morgan said in a statement. Under the deal, CFE can elect to increase the expansion capacity to 309,154 Dth/d by providing notice to Sierrita no later than February 29.

To facilitate the expansion service, Sierrita plans to install a new 16,000- to 21,000-horsepower compressor station and undertake modifications to existing meter station facilities. The pipeline's current design capacity is fully subscribed under a 25-year firm transportation agreement with CFE. Depending on CFE's final volume election, the revised firm transportation capacity of the pipeline will be 431,000 Dth/d of 510,000 Dth/d, after commissioning of expansion facilities, Kinder Morgan said.

"Through this project, Sierrita and its partners are pleased to be able to provide customers in Mexico with additional capacity and incremental future supplies of clean, efficient natural gas," Sierrita Vice President Greg Ruben said in the statement. "As with the initial Sierrita project, this long-term endeavor represents a continuing and highly successful, multi-national cooperative effort on the part of companies whose parent corporations are headquartered in the US, Mexico and Japan," Ruben said. He added that the Sierrita project is expected to assist Mexico in meeting "its environmental goals of converting existing fuel-oil-fired power generation plants to efficient, clean-burning natural gas and provide natural gas to fuel future power plants."

US pipeline exports to Mexico expected to ramp up dramatically

With a number of cross-border pipeline projects designed to carry US-sourced gas into northern Mexico scheduled to come online over the next several years, volumes of US gas exports to that country are expected to dramatically ramp up over that period. According to Platts unit Bentek Energy, US gas exports to Mexico reached all-time highs in December, averaging 3.3 Bcf/d during the month, a 1.5 Bcf/d build over December 2014. In Texas alone, 11 cross-border pipelines, which are expected to come online through January 2018, are expected to increase US export capacity by 9.25 Bcf/d.

Meanwhile, exports to Mexico from the US Southwest averaged 585 MMcf/d in November, 171 MMcf/d above November 2014. The year-over-year gains were largely driven by the Sierrita Lateral, which averaged 99 Mcf/d in November 2015, compared to an average of 6 MMcf/d the previous November when the pipeline began building line pack before dramatically ramping up service in April 2015. The Sierrita project was built in partnership with Kinder Morgan subsidiary Kinder Morgan Operating, MGI Enterprises US, a wholly owned affiliate of Pemex Transformación Industrial, a subsidiary of Petróleos Mexicanos, the Mexican state-owned oil and gas company, and MIT Pipeline Investment Americas, a subsidiary of Mitsui & Co.

Source: Platts Gas Daily

Data

- February 2016 Natural Gas Futures Contract (as of January 22), NYMEX at Henry Hub closed at \$2.139 per million British thermal units (MMBtu)
- March 2016 Light, Sweet Crude Oil Futures Contract WTI (as of January 22), closed at \$32.19 per U.S. oil barrel (Bbl.) or approximately \$5.55 per MMBtu

Last week: Texas warmer than normal last week

For the week beginning 1/17/15 and ending 1/23/16, heating degree days (HDDs) were lower than normal (warmer) on average for the week and 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 1/23/16	*Week HDD +/- from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	180	-30	2054	-16%
Austin	129	22	880	-12%
DFW	157	10	1024	-28%
El Paso	113	-29	1350	-15%
Houston	100	2	652	-29%
SAT	104	0	686	-29%
Texas**	122	1	937	-22%
U.S.**	229	21	1977	-18%

* 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 3,297 Bcf

For the week ending 1/15/2016 working gas in storage decreased from 3,475 Bcf to 3,297 Bcf. This represents a decrease of 178 Bcf from the previous week. Stocks were 629 Bcf higher than last year at this time and 473 Bcf above the 5 year average of 3,297 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 1/15/16	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	758	802	-44	13.6%
Midwest	879	942	-63	16.4%
Mountain	170	177	-7	4.3%
Pacific	281	295	-14	4.5%
South Central	1,209	1,259	-50	24.6%
Lower 48 Total	3,297	3,475	-178	16.7%

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 8 for the week and 189 when compared to twelve months ago. The total rig count for the U.S. was down 13 compared to last week and down 996 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

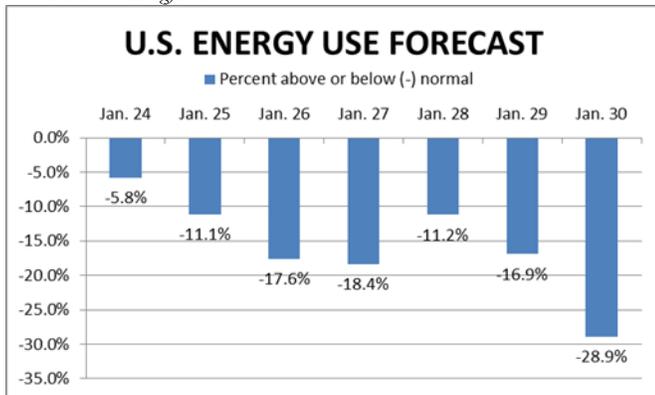
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 1/22/2016	+/- prior week	Year ago	+/- year ago
Texas	294	-7	753	-459
U.S. gas	127	-8	316	-189
U.S. oil	510	-5	1317	-807
U.S. total	637	-13	1633	-996
Canada	250	23	432	-182

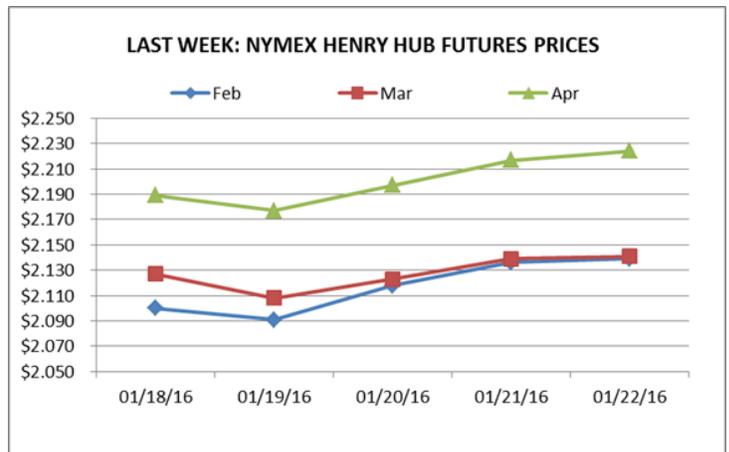
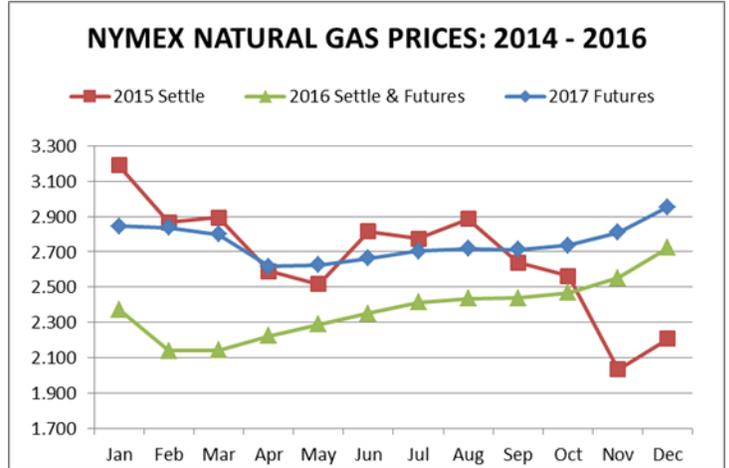
This week: U.S. energy below average this week

U.S. energy use is predicted to be below average 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 settlement prices for Jan. and futures prices for the year.



NATURAL GAS PRICE SUMMARY AS OF 1/22/2016

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US February futures				
NYMEX	\$2.139	-\$0.071	-\$1.589	\$2.664