DAVID PORTER, Chairman
CHRISTI CRADDICK, Commissioner
RYAN SITTON, Commissioner

RAILROAD COMMISSION OF TEXAS
Oversight and Safety Division
Market Oversight Section

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Natural Gas Trends

Highlights

Q1 results raise doubts over Mexico's reform

Billion-dollar first-quarter losses announced this week by Mexico's legacy energy-sector monopolies, Petróleos Mexicanos and the Comisión Federal de Electricidad, are drawing an increasingly stark contrast between the stated objectives of Mexico's energy reform and the current reality. The CFE announced financial results late Thursday showing a first-quarter loss of 20.2 billion pesos (US $1.17 billion), saying that pension liabilities were to blame for nearly 90% of its quarterly losses. Pemex on Thursday framed its 62.5 billion peso first-quarter loss as a step in the right direction, highlighting a 38% improvement over losses topping 100 billion pesos in the first-quarter of 2015. Both state energy companies offered reasonable explanations for their disappointing financial performance, pointing to low commodity prices, high labor costs, exchange-rate losses and asset depreciation. Conspicuously absent, however, was any discussion about the progress of reform within Pemex and CFE, and how or whether those changes have the potential to make the companies profitable.

Q1 results dodge reform update - In early January the energy ministry announced plans to restructure the CFE into 10 subsidiaries divided into generation, transmission, distribution and supply entities. Deputy Energy Secretary Cesar Hernandez Ochoa said at the time that the division of CFE would promote competition. In January, the ministry said furthermore that it would not tolerate any delay in the restructuring process. "Time is of the essence," a statement issued by the ministry said. "The CFE has six months in which to establish the new companies. We consider that to be a reasonable amount of time." In a press release on first-quarter earnings issued late Thursday, the CFE made no mention of the restructuring process or its potential impact on profitability. In much the same way, there has been no discussion about the progress of reforms at Pemex, with no mention of it in either the company's quarterly results statement or on the quarterly conference call. Recent appeals for outside investment in Pemex's upstream assets, its pipelines, storage and distribution terminals, refineries and even fueling stations have been eagerly welcomed by investors and industry analysts. At a recent infrastructure conference in Houston, Jose Carrera Panizzo, Pemex chief of new business ventures, even said that joint ventures, farmouts and asset divestitures would be essential in developing Mexico's hydrocarbon reserves. Yet, even following 14 consecutive quarterly losses and news of the company's staggered 3.22 trillion pesos in debt and liabilities, Pemex offered no guidance on the progress of its assets sales, farmouts, contract migrations or joint ventures.

The pension problem - Both CFE and Pemex have pointed to pensions and associated labor costs as a drag on profitability. According to the CFE, were it not for pension liabilities, the company would have shown first-quarter results solidly in the black. At Pemex, approximately half of the company's total liabilities are linked to pensions. While both firms clearly recognize the problem, first-quarter results suggest that neither company has made any serious effort to tackle the issue. More problematic is that Pemex and CFE, while embracing the objectives of the reform, have offered no concrete plans for implementing those reforms from within and ultimately, bring the companies to profitability.

Source: Platts Gas Daily

Data

- June 2016 Natural Gas Futures Contract (as of April 29) NYMEX at Henry Hub closed at $2.195 per million British thermal units (MMBtu)
- June 2016 Light, Sweet Crude Oil Futures Contract WTI (as of April 22), closed at $45.92 per U.S. oil barrel (Bbl.) or approximately $7.92 per MMBtu

Last week: Texas warmer than normal last week

For the week beginning 4/24/16 and ending 4/30/16, 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 4/30/16	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	47	-1	3334	-21%
Austin	0	-5	1375	-17%
DFW	0	-8	1576	-33%
El Paso	0	-13	1980	-22%
Houston	0	-7	1012	-34%
SAT	0	-6	1036	-34%
Texas**	1	-7	1499	-25%
U.S.**	62	1	3598	-17%

* 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 2,557 Bcf

For the week ending 4/22/2016 working gas in storage increased from 2,484 Bcf to 2,557 Bcf. This represents an increase of 73 Bcf from the previous week. Stocks were 870 Bcf higher than last year at this time and 832 Bcf above the 5 year average of 1,725 Bcf. Source: http://ir.eia.gov/ngs/ngs.html

U.S. WORKING GAS IN STORAGE				
Region	Week ending 4/22/16	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	431	408	23	29.8%
Midwest	554	538	16	58.3%
Mountain	155	152	3	38.4%
Pacific	277	271	6	26.5%
South Central	1,140	1,115	25	60.1%
Lower 48 Total	2,557	2,484	73	48.2%

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 one for the week and down 135 when compared to twelve months ago. The total rig count for the U.S. was down eleven compared to last week and down 485 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

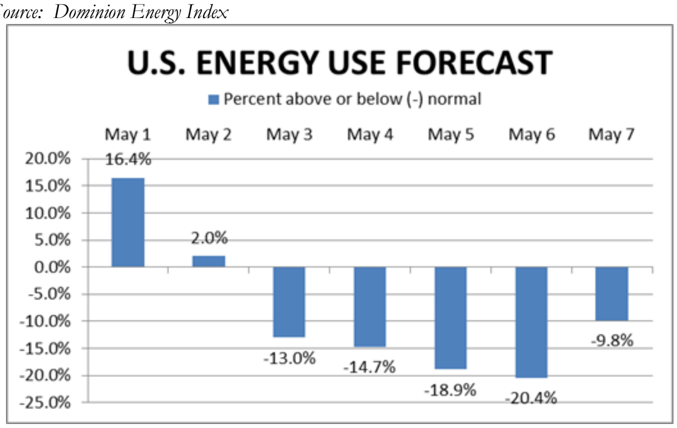
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 4/29/2016	+/- prior week	Year ago	+/- year ago
Texas	185	-2	380	-195
U.S. gas	87	-1	222	-135
U.S. oil	332	-11	679	-347
U.S. total	420	-11	905	-485
Canada	37	-3	79	-42

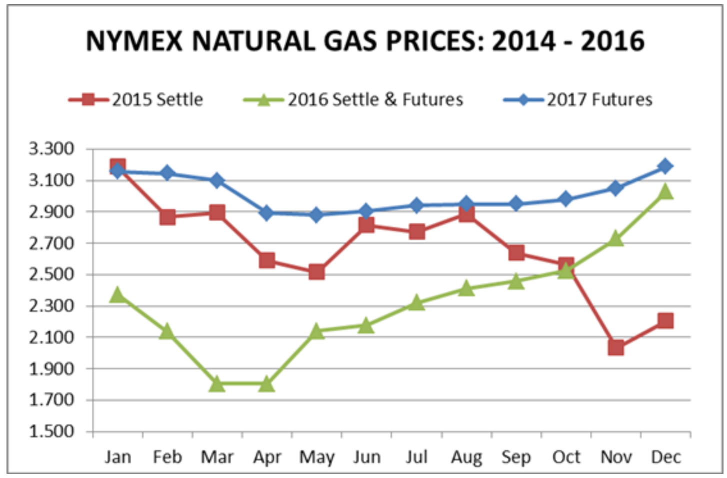
This week: U.S. energy use varies

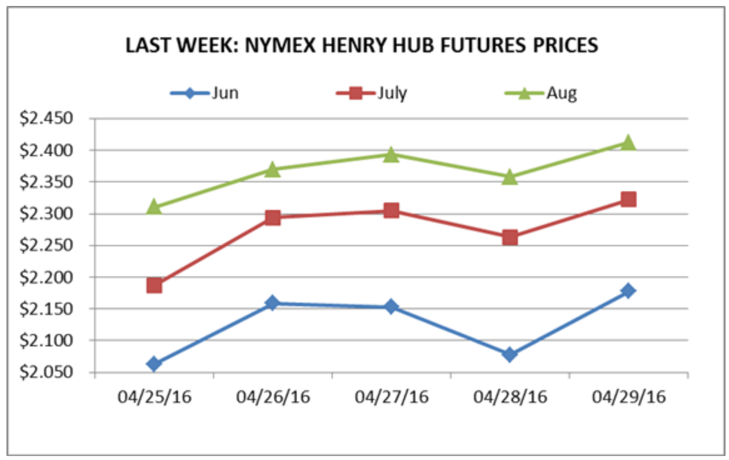
U.S. energy use is predicted to vary this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2016 prices. Natural gas prices for 2016, shown below in green, are the NYMEX settlement prices for Jan-Apr. and futures prices for the year.





NATURAL GAS PRICE SUMMARY AS OF 4/29/2016

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US June futures				
NYMEX	$2.178	$0.038	-$1.550	$2.664