

May 31, 2016

Natural Gas Trends

Highlights

Power burn expected to set June record

US natural gas demand from power generation in June is expected to rise nearly 1 Bcf/d from levels last June, setting a new record for the month, because of low gas prices and gas generation market share increases, according to Platts Analytics Short-Term Market Call. National power burn is forecast to average 30.8 Bcf/d in June, up 6 Bcf/d from the current May average, as temperatures begin to rise leading to increased cooling demand. National temperatures through the first 10 days in June are expected to average about 8 degrees higher than the current May average. For the remainder of June, the National Oceanic and Atmospheric Administration has called for below-normal temperatures in the center of the country with above-average temperatures expected everywhere else. The Pacific Northwest may see some of the highest temperature deviations of up to 5 degrees above normal, while the Southwest, Southeast and Northeast may see temperatures average up to 4 degrees above normal. With Henry Hub prices about 70 cents/MMBtu less than June 2015 levels, and current power burn demand per degree of temperature up slightly from 2015 levels, economic fuel switching to gas from coal in the power sector is expected to continue throughout the country.

High storage level creates upside demand risk in Midwest

The Midwest region is the area to watch in the upcoming months as it posted 92% year-over-year gains in gas demand from power in May despite regional temperatures averaging 2 degrees below normal. Since late September 2015, Midwest power burn has consistently set new daily burn records, and year to date, Platts Bentek's pipeline sample of gas demand from power plants on the ANF Pipeline system is averaging between 10 and 150 MMcf/d higher than 2015 and 300 MMcf/d more than 2012 levels. Increased Midwest power burn has been driven by economic fuel switching in the region as storage levels on the ANR system are heading into the summer significantly higher than in recent years. Inventories on ANR have been near record highs, averaging 44 Bcf higher than the five-year average since the beginning of March. Declining injection demand has suppressed Midwest gas prices, with prices at Michigan Consolidated Gas averaging \$1.95/MMBtu, down 94 cents/MMBtu from the same period last year. With these fundamentals unlikely to change throughout the summer, Midwest power burn demand could easily continue to exceed expectations next month and beyond. Coal-fired power plant retirements also continue to pose an upside risk to the demand forecast in June. Platts Analytics is tracking 550 MW of retirements scheduled for June in the Midwest.

Cool temperatures dragged down May demand

US gas demand from power in May is currently averaging 24.7 Bcf/d, of 0.6 Bcf/d more than last May. Factoring in near-term forecasts through the end of the month, power burn is expected to average 25.2 Bcf/d in May, 0.7 Bcf/d below the previous forecast. The Northeast has been the biggest regional driver of the lower-than-expected demand because of below-normal temperatures. Temperatures in the region have averaged 2 degrees below normal and 7 degrees below May 2015. Average peak daily load across the three major markets in the region – PJM, NYISO, and ISO-NE – has declined 6-12% compared to last May. Power burn in the Pacific Northwest is about 26%, of 114 MMcf/d, lower this year than last May because of stronger hydropower output. The hydro season was already tailing off at this time last year after peaking in April.

Source: Platts Gas Daily

Data

- July 2016 Natural Gas Futures Contract (as of May 27) NYMEX at Henry Hub closed at \$2.169 per million British thermal units (MMBtu)
- July 2016 Light, Sweet Crude Oil Futures Contract WTI (as of May 27), closed at \$49.33 per U.S. oil barrel (Bbl.) or approximately \$8.51 per MMBtu

Last week: Texas warmer than normal last week

For the week beginning 5/22/16 and ending 5/28/16, cooling degree days (CDDs) were higher than normal (warmer) on average for the week and for the year to date for most of the Texas cities shown.

Source: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)				
City or Region	Total CDD for week ending 5/28/16	*Week CDD +/- from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	41	10	83	-999%
Austin	91	4	465	-10%
DFW	87	11	385	20%
El Paso	86	9	361	18%
Houston	88	1	540	1%
SAT	113	22	590	6%
Texas**	90	12	507	10%
U.S.**	37	8	156	5%

* A minus (-) value is cooler than normal; a plus (+) value is warmer 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 2,825 Bcf

For the week ending 5/20/2016 working gas in storage increased from 2,754 Bcf to 2,825 Bcf. This represents an increase of 71 Bcf from the previous week. Stocks were 756 Bcf higher than last year at this time and 769 Bcf above the 5 year average of 2,056 Bcf.

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

U.S. WORKING GAS IN STORAGE				
Region	Week ending 5/20/16	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	511	490	21	18.0%
Midwest	629	606	23	44.6%
Mountain	171	166	5	41.3%
Pacific	298	293	5	18.3%
South Central	1,216	1,199	17	49.4%
Lower 48 Total	2,825	2,754	71	37.4%

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

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

The gas rig count for the U.S. was up two for the week and down 138 when compared to twelve months ago. The total rig count for the U.S. remained the same compared to last week and down 471 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

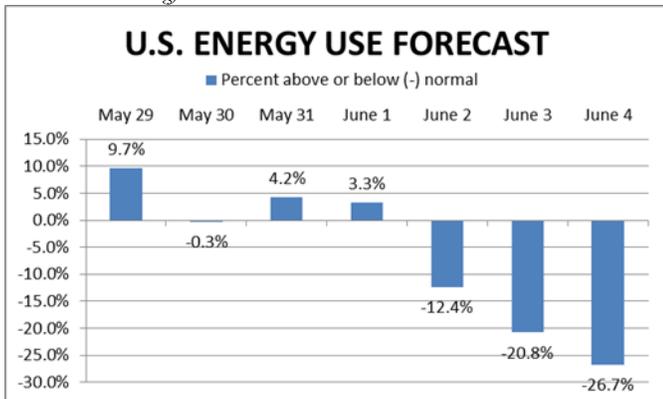
Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 5/27/2016	+/- prior week	Year ago	+/- year ago
Texas	173	0	369	-196
U.S. gas	87	2	225	-138
U.S. oil	316	-2	646	-330
U.S. total	404	0	875	-471
Canada	43	-1	98	-55

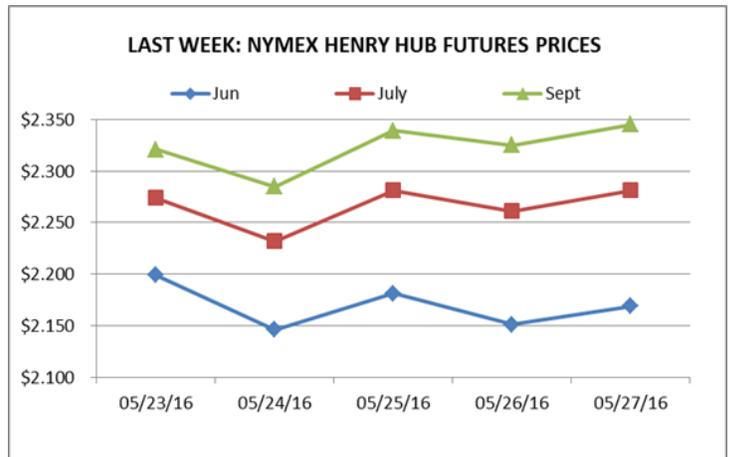
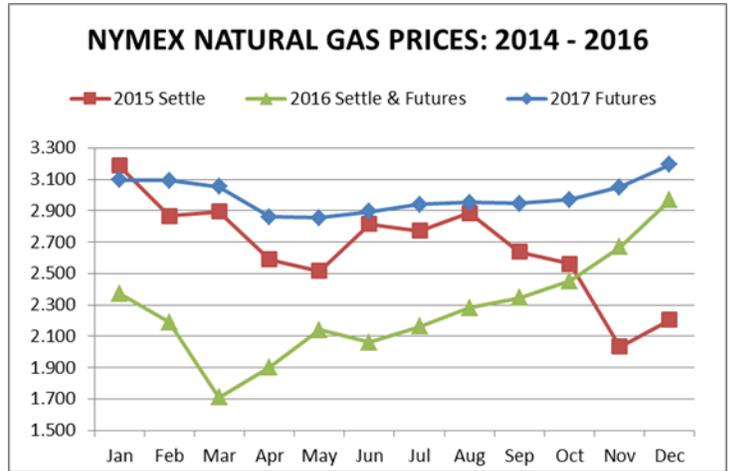
This week: U.S. energy use varies

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 5/27/2016

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US July futures				
NYMEX	\$2.169	\$0.107	-\$1.559	\$2.664