Natural Gas Market Indicators

American Gas Association

Update: July 16, 2007

Prices – downward pressure on spot natural gas prices resulted in a Henry Hub close of $6.15 per MMBtu on Friday, July 6. Prices have rebounded somewhat, however, many analysts are pointing to strong short-term gas supply, an inactive hurricane season to date and the fact that strong demand for natural gas to power generation has not yet sustained itself for this summer season, as reasons for the natural gas price slide.

Weather – the cooling season is now measured to be 6.6 percent warmer than normal after a week of cooler than normal conditions ending July 7. The cooler week had been preceded by five straight weeks of warmer than normal weather. New England, Middle Atlantic, East South Central and Mountain regions have all been cumulatively 18 percent warmer or more to date.

Working Gas in Underground Storage – for the week ending July 6, 2007 underground storage took another leap as net injections totaled 106 Bcf, raising current underground storage inventories to 2,627 Bcf, which is 16.6 percent above the five-year average. Recent storage activity has included eight of eleven weeks of net injections of 90 Bcf or higher. In fact, 1,063 Bcf was added during the eleven-week period, April 21-July 6 (204 Bcf more than the comparable period last year), which further narrows the gap between this year's working gas inventories and those at this time last year.

Natural Gas Production – natural gas production has remained essentially flat since late May averaging 51.7 Bcf per day in June and 51.6 Bcf per day for the first two weeks of July, according to *Bentek Energy LLC*. Readers are cognizant of natural gas supply disruptions that may occur from June through October in the Gulf of Mexico due to tropical storms and hurricanes. Although there has been no significant storm activity to report in the Gulf of Mexico, so far, natural gas production in the San Juan basin of New Mexico has been recently hindered by a forest fire that caused a pipeline to shut down a compressor station, temporarily, thus impeding the flow of gas. If it's not one thing it's another.

Rig Counts – rigs operating have been above 1,700 for twenty-three straight weeks (since the week ending February 2, 2007), according to *Baker-Hughes.* The current count of 1,752 is 93 total rigs more than this time last year. The 1,473 gas-directed rigs currently operating are 114 more than one year ago and represent 84 percent of current drilling activity in the U.S.

Pipeline Imports and Exports – pipeline exports to the U.S. from Canada were about 8.1 Bcf per day in May 2007, however they strengthened to 8.7 Bcf per day in June and have been even stronger for the first two weeks of July at 8.9 Bcf per day. For Mexico, pipeline imports of natural gas from the U.S. averaged .90 Bcf per day in June; however, they have fallen slightly to .82 Bcf per day for the first two weeks of July.

LNG Markets – daily import volumes of LNG for the first two weeks of July averaged 3.4 Bcf, which is about 15 percent higher than the daily average of 2.97 Bcf in June (according to *Bentek Energy, LLC)*. With the reopening of the Cove Point terminal in July, LNG imports are expected to surge to record levels. July LNG imports, which averaged 73.8, 40.5, and 60.5 Bcf in 2004, 2005 and 2006, respectively, are projected to grow to 117.7 Bcf in July 2007 by the *US Waterborne LNG Report*. Although the demand for spot LNG cargoes outside of the U.S. has been anemic for the first half of the year, worldwide demand for spot cargoes are expected to accelerate in the next several months. In Europe, the forward differential in gas prices between the NBP (UK) and the Henry Hub has narrowed and the August futures price is trading near parity in early July. In North East Asia, despite ample inventories of gas, Japanese interest in spot cargoes has picked up because of outages at nuclear generating plants and the resulting demand for natural gas to serve power generators.

Natural Gas Consumption – total natural gas consumption by end-users in the lower-48 states (excluding gas to storage and net exports to Mexico) averaged about 47 Bcf per day in June. It may rebound somewhat in July as natural gas to power generation grows to meet cooling loads. In fact, power generation consumed about 21.7 Bcf per day (according to *Bentek Energy, LLC*) on average in June but reached as high as 31 Bcf on July 10. More natural gas to power generation will reduce the rate at which storage is filled; however, compared to recent history storage is nearly 17 percent above the five-year average.