

Blake Baxter

Subject: FW: MEP Weekly Gas Update 10-6-2016
Attachments: MEP Gas Storage Chart 2016 10 6.pdf; NG Price Curve 2016 10 7.pdf

From: Blake Baxter
Sent: Friday, October 07, 2016 1:10 PM
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Natural gas is currently trading at \$3.049 per Dth

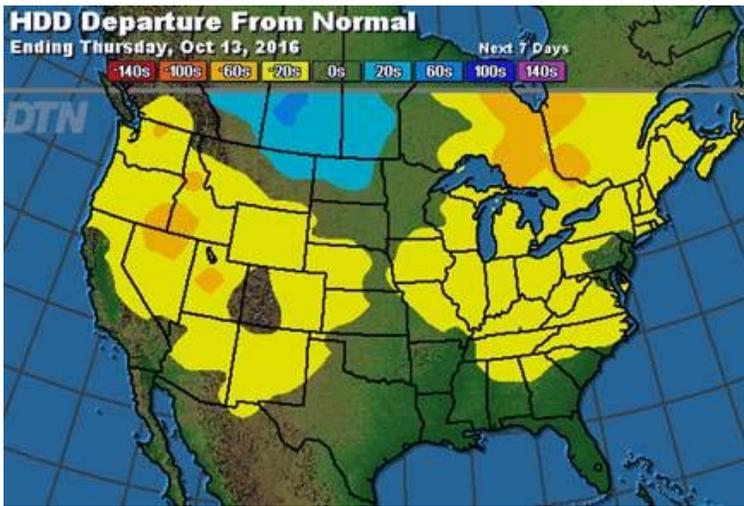
This is coming out a bit later than usual as I was up in Elkhart Lake addressing the WASBO conference on the Art of the RFP. That is one of those topics that is nigh impossible to talk about in any detail during a one hour presentation. The two areas that we tried to address in some detail were the need for upfront research and planning and the need for an appropriate evaluation process. Just like with wars, one should have an honest idea of how the RFP will be evaluated and scored before it is even issued (an end game). Combine that with transparency and you are off to a good start.

One tidbit that I found interesting came from an official of the Augusta school district who commented on how the sand mines in their area were back operating and sending out shipments to the oil and gas companies. Given the increase in drilling rigs and drilling permits it will be interesting to see how long it takes for gas production to start to ramp up again.

Today is the tale of two charts. The cooling degree chart below is the one that many traders have been focused on in past weeks. Even today we are seeing some forecasted highs in the 90's for some areas of the south. This chart confirms that as the light blue color shows above normal cooling degree days / temperatures.



However, when you flip over and look at the heating degree chart we get a very different perspective. Here we are in October and much of the country is showing below normal heating degree days and thus warmer temperatures. Elkhart Lake was beautiful and warm. In fact that was one of the few areas where I saw any color on the trees. So when you look at a NOAA weather chart and see that virtually the entire country is shown as red (warmer than normal) it can have a very different meaning in October than July. And as of now and in the mid-term they are showing nothing but red.

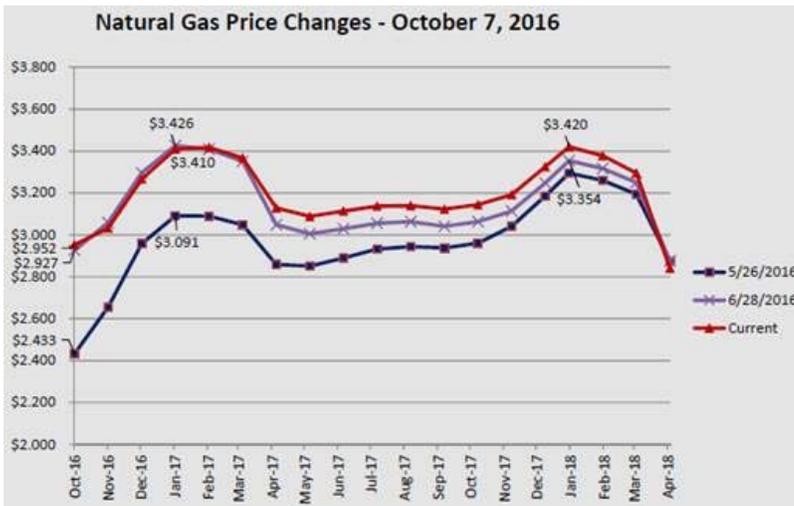


This fact was further confirmed with a very healthy EIA injection of +80 BCF. This was almost 10 BCF over expectations, but was met with a very muted response as the focus continued to be on Hurricane Michael, warm weather in the south and concern about the coming winter. On the day gas finished up 0.8 cents at \$3.049 per DTH.

The interesting thing about this week's storage numbers is that storage in the consuming markets continues to be on track to be above last year's inventory, so we will have excess gas in exactly the location we would need it if this winter was colder. The other interesting number, was the large addition to salt dome storage in the south. In fact it was the largest injection into salt dome storage this year. This is exactly the storage that is used by the big southern utilities to manage their gas-fired generation. This would suggest that even with some 90 degree weather in the south we have seen the end of significant CDD gas demand for the season.



On the whole the bulls had a resurgent week and reversed the losses of last week and broke out of the recent range of trading. Week on week the Winter Strip was up 10.6 cents to \$3.298 /DTH. Calendar Strip 2017 was up 10.7 cents to \$3.215 /DTH while the Calendar 2018 Strip was up 5.9 cents to \$2.99 /DTH. As we can see from our range chart, the summer of 2017 and the back end of the strip made the strongest gains. This would suggest that we could see some more bullish activity in the near term.



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Have a great weekend.

Blake



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