

THE WEEKLY ADVISOR

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Pricing Focus:

The front-month natural gas NYMEX contract is still expected to breach the \$4 per MMBtu price level in the next 1-2 weeks. However, with hurricane season approaching this price dip isn't expected to pick up a lot of downward price momentum.

EIA Storage Report

Week Ending 5/6/11 (in Bcf)

	+ Injection (Withdrawal)	Total Inventories
This Year	+70	1,827
Last Year	+93	2,076
5-Year Avg.	+90	1,864

Storage injections should begin to increase substantially and the year-on-year storage deficit of 249 Bcf is expected to flip to a surplus in July.

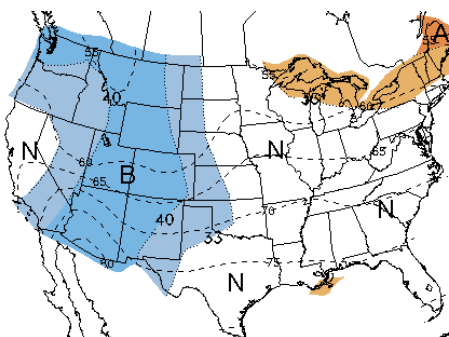
A Week in Review

05/11 Expiration Price:
\$4.377 per MMBtu

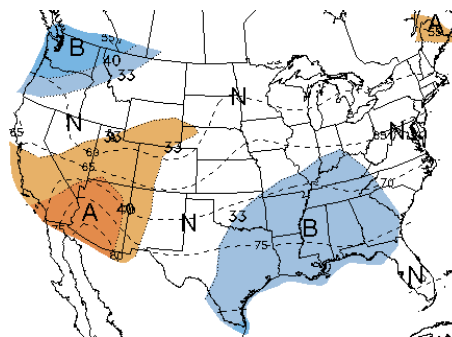
The June 2011 natural gas NYMEX contract ended last week in the \$4.20's, down more than \$.40 per MMBtu from where it was trading on May 4, 2011. There hasn't been much recent news to impact natural gas prices, so prices have returned to trading levels more representative of the merits of supply and demand. The fact that crude oil prices have remained at or below \$100 per barrel has also dampened upward price momentum in natural gas. On Thursday, May 12, the Energy Information Administration (EIA) reported that 70 Bcf had been injected into storage for the week ending May 6, 2011. This was below last year's injection of 93 Bcf and below the five-year average build of 90 Bcf. However, while the year-on-year storage deficit has continued to expand, the EIA notes in its most recent *Short-Term Energy Outlook* that even though April 2011 storage inventories were 11% below April 2010 levels, they expect inventories to build strongly during the summer and approach record-high levels in the second half of the year. Rapidly refilling storage will be bearish for natural gas prices. As nuclear power plants return from maintenance, near-average and below-average temperatures are also placing downward price pressure as the need for natural gas-fired electricity—normally called upon to meet higher air conditioning needs—is diminished. The only potential bullish news last week came from Baker Hughes who reported that the natural gas drilling rig count fell by 16, taking the total active natural gas drilling rigs to 874, but natural gas prices ignored that news.

National Weather Service Forecasts: Issued 05/15/11

6 to 10 Day Outlook:
Valid: May 21 to May 25, 2011



8 to 14 Day Outlook:
Valid: May 23 to May 29, 2011



Weather Map Color Code

- Blue Colors (B): Below normal temperatures
 - Orange/Red Colors (A): Above normal temperatures
 - No Color (N): Normal Temperatures
 - No Color (EC): Equal chance of above normal or below normal
- NOTE: Temperature extremes go from lighter (slight variance) to darker (extreme variance)

Pricing Analysis: "At a Glance"

June 2011

5/13/11 Settlement: \$4.246/MMBtu
NYMEX Expiration: Thurs., May 26

The prices of numerous commodities are falling, and natural gas is no exception. Even though hurricane season officially begins on June 1, 2011, the JUN 2011 natural gas NYMEX contract has lost more than \$.40 per MMBtu in the last two weeks. Given the weather outlook and the current price momentum, the JUN 2011 natural gas NYMEX contract is expected to return to the low-\$4s, with the potential to even breach \$4 per MMBtu. Buyers should be ready to add to JUN at that time.

Beyond June 2011

Natural gas prices are expected to rebound at some point during hurricane season, and then begin a decline into the fall of 2011. The timing of this decline will be dependent upon the pace of storage injections as summer progresses. However, while the rig count is falling and hurricane season is approaching, there are still virtually no fears about the balance of supply and demand. Shale production continues to reach new levels. And demand, while recovering, is still sluggish. Fundamentals remain very bearish. The non-commercial or speculative sector still holds an extreme net-short position which, when liquidated, could move natural gas prices substantially higher. However, this sector has retained this net-short position since the summer of 2008, so history indicates that the sector probably isn't going to flip to a net-long position until the market takes on a more bullish tone. For now, the front-month natural gas NYMEX contract has returned to the low-\$4's. Another price move toward \$4.50 per MMBtu is still feasible on news of the first hurricane development; but overall, natural gas prices are still expected to move toward new calendar-year lows in the fall of 2011.

Actions to Consider:

[Click here for the complete definition of low-risk, medium-risk and high-risk categories](#)

NOTE: Past Actions to Consider have provided recommendations that should have provided low-risk and medium-risk clients with price protection at least through JUN 2011. These actions provided buyers with the ability to sit on the sidelines during what is expected to be a historical 2nd quarter price rally.

- **JUN-DEC 2011 (Low-risk):** For budgetary reasons, low-risk buyers should have considered finishing buying for calendar year 2011 at an average price of \$4.25 or, at a minimum, completed purchasing through OCT 2011. If these buys were done, no additional buys are recommended. If not, consider some of the medium-risk actions.
- **JUN-DEC 2011 (Medium-risk):** Medium-risk buyers should have acquired JUN 2011 at the targeted price level of \$3.80-\$3.90. Continue to plan to take purchases for JUN to 50%-65% of projected needs on potential price dips to \$4.05-\$4.15. Do the same for JUL-AUG but reduce the price range to \$3.80-\$3.90. Buyers who are willing to take on a bit more risk should lean toward the lower end of this percentage range. Additional volumes for SEP-DEC 2011 can be considered for budget-conscious buyers but the purchased percentages should be no more than 35% of projected natural gas needs.
- **JAN-DEC 2012:** For low-risk and medium-risk buyers, this calendar year strip should be considered at \$4.95 and \$4.75, respectively. The low-risk price level has been reached. Medium-risk buyers, who desire price certainty but don't want to extend purchases through DEC 2012, may want to consider some smaller purchases through either MAR 2012 or JUN 2012 and/or set a price to do so at \$4.50.
- **JAN-DEC 2013:** Low-risk buyers were previously advised to consider some calendar-year purchases at \$5.25 per MMBtu or below for budgetary reasons. This price level was hit. Medium-risk buyers should wait for a sub-\$5 price level.

NOTES: "Actions to Consider" is a reference to assist buyers in the proactive purchasing of natural gas. Recommendations are designed to help buyers more comfortably wait out periodic price rallies. Overall, *The Advisor* supports purchasing in layers to spread out risks associated with natural gas price volatility. The timing of a purchase and the percentage of volumes to be tied to a buying target must be determined by the buyer. Energy Solutions, Inc. does not promote overbuying and an indication to "complete" or "finish" purchasing infers the purchase of no more than 75% of a business' projected natural gas usage into the future to allow for usage fluctuations. Companies can adjust this percentage based on their individual operations. "Actions to Consider" provides references to low-risk, medium-risk and high-risk buyers. Low-risk buyers are very budget conscious and risk-adverse; high-risk buyers strive to attain the lowest possible prices, and medium-risk buyers find a compromise between low-risk and high-risk buyers.

NYMEX Pricing Data

Weekly NYMEX Data

NYMEX Month	NYMEX 5/13/11	NYMEX 5/6/11	Weekly Change
06/11	\$4.246	\$4.235	\$0.01
07/11	\$4.311	\$4.297	\$0.01
08/11	\$4.354	\$4.342	\$0.01
09/11	\$4.379	\$4.364	\$0.01
10/11	\$4.428	\$4.407	\$0.02
11/11	\$4.592	\$4.569	\$0.02
12/11	\$4.808	\$4.789	\$0.02
01/12	\$4.923	\$4.906	\$0.02
02/12	\$4.912	\$4.893	\$0.02
03/12	\$4.850	\$4.831	\$0.02
04/12	\$4.719	\$4.701	\$0.02
05/12	\$4.742	\$4.721	\$0.02

The above chart shows the NYMEX daily settlement for the next 12 consecutive months in comparison to settlement prices last week. The Weekly Change column indicates the change from last week to this week. The chart on the right provides NYMEX strip prices based on the specified settlement date. A strip price is the simple average of several months. For example, the 3-Month strip price is the simple average of the NYMEX settlement price for June 2011, July 2011, and August 2011.

NYMEX Strip Prices (Settlement on 5/13/11)	
Front-Month	\$4.25
06/11-12/11	\$4.45
11/11-03/12	\$4.82
04/12-10/12	\$4.81
3-Month	\$4.30
6-Month	\$4.39
12-Month	\$4.61
18-Month	\$4.70
24-Month	\$4.84
36-Month	\$5.03
48-Month	\$5.21
60-Month	\$5.40
2012	\$4.90
2013	\$5.27
2014	\$5.61
2015	\$5.98
2016	\$6.32

Links of Interest

[Daily Commentary](#)
[Forward NYMEX Pricing](#)

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Daily Trading Data: Highs and Lows

NYMEX Contract Trading	Trading Date	Daily Open	Daily High	Daily Low	Daily Settlement
June 11	05/03/11	\$4.688	\$4.718	\$4.658	\$4.670
June 11	05/04/11	\$4.670	\$4.685	\$4.561	\$4.577
June 11	05/05/11	\$4.565	\$4.572	\$4.252	\$4.261
June 11	05/06/11	\$4.235	\$4.344	\$4.217	\$4.235
June 11	05/09/11	\$4.250	\$4.297	\$4.149	\$4.154
June 11	05/10/11	\$4.190	\$4.272	\$4.162	\$4.246
June 11	05/11/11	\$4.280	\$4.292	\$4.153	\$4.181
June 11	05/12/11	\$4.189	\$4.236	\$4.109	\$4.194
June 11	05/13/11	\$4.192	\$4.273	\$4.153	\$4.246

This chart reflects the daily trading range of the front-month natural gas NYMEX contract for the past nine trading days. The Daily Open indicates the price of the contract when the trading day began. The Daily High and Daily Low represent the daily trading range. The Daily Settlement, also referred to as the closing price, represents the price at the end of the trading day.

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