

Gas Daily

Thursday, November 19, 2009

NYMEX sinks toward \$4; cash up in most regions

THE MARKET

The December NYMEX gas futures contract tumbled 27.6 cents Wednesday to settle at \$4.254/MMBtu after a new round of forecasts predicted above-normal temperatures in many regions. Meanwhile, continued gains in the spot market helped eat away at what had been a huge cash/NYMEX spread.

"This is 100% a weather market," said Tim Evans, analyst at Citi Futures Perspective. "If we get cold, we're going up. If we don't, we're going down."

(continued on page 2)

Congress urged not to restrict producer hedging

Energy industry representatives on Wednesday warned Congress against imposing overly restrictive regulatory reforms of over-the-counter trading, bringing with them examples of how onerous clearing or margin requirements might harm both them and the US economy.

Mark Boling, executive vice president and general counsel at gas producer Southwestern Energy, told the Senate Committee on Agriculture, Nutrition and Forestry that OTC derivatives are a vital tool for producers and warned against imposing measures that might hinder their access to the marketplace.

(continued on page 6)

Barclays: Canada production 'declining sharply'

Low North American gas prices are weighing heavily on Canadian producers, who will likely see their gas output constrained for years to come, according to analysts with Barclays Capital.

"Times have been better for Canadian producers of natural gas," analysts James Crandell, Biliana Pehlivanova and Michael Zenker said in a report this week. "The oversupply that ensued from the rapid development of shale gas in the US in the past two years has settled firmly over the North American market, forcing prices across the continent to decline further, and helping to restrain producer activity."

(continued on page 4)

IPAMS blasts Interior for keeping gas off market

The trade group for Rocky Mountain oil and gas producers accused the Obama administration Wednesday of putting 15% of the nation's gas supply at risk by refusing to issue paid-for leases and slow-rolling the permitting process.

The accusation that Interior Secretary Ken Salazar's decisions are keeping drillers from producing gas they say is critical to the nation's energy security comes at a time when several US producers, including some IPAMS members, have shut in production because of storage capacity limits and low wellhead prices.

(continued on page 4)

Daily price survey (\$/MMBtu)

NATIONAL AVERAGE PRICE: 3.900

Trans. date: 11/18

Flow date(s): 11/19

	Midpoint	+/-	Absolute	Common	Volume	Deals
Permian Basin Area						
El Paso, Permian	3.840	+0.310	3.65-3.94	3.77-3.91	923	139
Waha	3.830	+0.250	3.62-3.93	3.75-3.91	268	38
Transwestern, Permian	3.840	+0.225	3.70-3.90	3.79-3.89	34	11
East Texas-North Louisiana Area						
Carthage Hub	3.720	+0.240	3.55-3.83	3.65-3.79	129	25
NGPL, Texok zone	3.725	+0.230	3.56-3.86	3.65-3.80	651	115
Tx. Eastern, ETX	3.655	+0.185	3.51-3.73	3.60-3.71	74	22
Tx. Gas, zone 1	3.780	+0.210	3.60-3.87	3.71-3.85	291	57
East-Houston-Katy						
Houston Ship Channel	3.760	+0.305	3.50-3.90	3.66-3.86	580	73
Katy	3.765	+0.195	3.57-3.88	3.69-3.84	879	112
South-Corpus Christi						
Agua Dulce Hub	3.785	+0.310	3.75-3.83	3.77-3.81	147	10
NGPL, STX	3.650	+0.120	3.54-3.85	3.57-3.73	141	21
Tennessee, zone 0	3.780	+0.235	3.70-3.85	3.74-3.82	259	49
Tx. Eastern, STX	3.725	+0.205	3.68-3.82	3.69-3.76	78	20
Transco, zone 1	3.770	+0.180	3.70-3.85	3.73-3.81	87	20
Louisiana-Onshore South						
ANR, La.	3.785	+0.195	3.63-3.88	3.72-3.85	369	64
Columbia Gulf, La.	3.750	+0.200	3.62-3.85	3.69-3.81	193	34
Columbia Gulf, mainline	3.780	+0.235	3.54-3.88	3.70-3.87	794	131
Florida Gas, zone 1	3.810	+0.410	3.81-3.81	3.81-3.81	15	1
Florida Gas, zone 2	3.870	+0.210	3.79-3.91	3.84-3.90	241	14
Florida Gas, zone 3	3.880	+0.195	3.74-3.98	3.82-3.94	485	47
Henry Hub	3.740	+0.250	3.53-3.89	3.65-3.83	926	121
NGPL, La.	3.800	+0.600	3.80-3.80	3.80-3.80	2	1
Southern Natural, La.	3.785	+0.175	3.55-3.94	3.69-3.88	864	100
Stingray Pool	—	—	—	—	—	—
Tennessee, 500 Leg	3.750	+0.160	3.55-3.89	3.67-3.84	450	84
Tennessee, 800 Leg	3.780	+0.125	3.65-3.88	3.72-3.84	255	64
Tx. Eastern, WLA	3.825	+0.305	3.55-3.91	3.74-3.91	114	19
Tx. Eastern, ELA	3.750	+0.145	3.42-3.83	3.65-3.83	276	50
Tx. Gas, zone SL	3.710	+0.100	3.49-3.86	3.62-3.80	89	18
Transco, zone 2	3.840	+0.230	3.75-3.87	3.81-3.87	57	14
Transco, zone 3	3.800	+0.185	3.65-3.90	3.74-3.86	233	42
Trunkline, WLA	3.820	+0.160	3.77-3.89	3.79-3.85	78	15
Trunkline, ELA	3.805	+0.175	3.74-3.85	3.78-3.83	90	19
Oklahoma						
ANR, Okla.	3.745	+0.125	3.67-3.87	3.70-3.80	231	43
CenterPoint, East	3.735	+0.235	3.62-3.79	3.69-3.78	222	42
NGPL, Midcontinent	3.775	+0.180	3.66-3.90	3.72-3.84	367	85
Oneok, Okla.	3.755	+0.175	3.69-3.80	3.73-3.78	82	19
Panhandle, Tx.-Okla.	3.760	+0.145	3.64-3.87	3.70-3.82	209	39
Southern Star	3.735	+0.115	3.67-3.81	3.70-3.77	97	16
New Mexico-San Juan Basin						
El Paso, Bondad	3.780	+0.250	3.58-3.92	3.70-3.87	66	13
El Paso, San Juan	3.735	+0.320	3.57-3.94	3.64-3.83	608	101
Rockies						
CIG, Rockies	3.760	+0.130	3.65-3.83	3.72-3.81	54	17

NYMEX contract falls 27.6 cents ... from page 1

With the latest 11- to 15-day outlook showing relatively normal conditions in the Northeast and Midwest, "are we overreacting to shifts of a couple of degrees one way or another?" Evans asked. "Yes, we are exaggerating shifts in the forecast."

MF Global broker Mike Fitzpatrick said the short-lived rally earlier in the month is definitely over and the contract could easily break the \$4 mark before expiring next week.

In the spot market, "things are making sense again. There were no 80-cent run-ups," one trader said. "Gas last weekend and earlier this week was indeed too cheap, but I think we're back to that middle ground where both buyers and sellers are happy."

Gulf Coast prices, which jumped nearly \$1 at some points Tuesday, rose another 15 to 25 cents, though prices did sink to their lows late in the session on IntercontinentalExchange in step with the falling NYMEX.

A Gulf trader said seasonal weather in the Northeast and slightly-below average heat in Texas and Florida kept the market relatively quiet compared with Monday and Tuesday. "Mild weather and full storage in the Mid-Atlantic doesn't really make cash exciting," he said.

Northeast prices also took a dive late in the session in ICE, cutting into daily gains there. Prices generally rose a few cents even though temperatures in New York City and Philadelphia are expected to remain seasonal until the weekend, keeping demand light.

Weak demand sank prices in western Canada, and that softness carried over into California and the Upper Midwest.

AECO-NIT in Alberta came off more than a quarter, tightening its basis to Henry Hub from about 55 cents Tuesday to just a nickel Wednesday.

Alberta weakness, OFO weigh on California prices

That slide resulted in a modest pullback in Northern California prices, which was compounded by a high-inventory operational flow order on Pacific Gas and Electric.

"It's cooling off in California, but loads are still not large enough to alleviate the packed pipeline conditions on PG&E," a trader said, noting that "lousy" spreads to Southern California markets prevented a lot of intrastate transport.

"So people were just selling off to avoid penalties later on PG&E. Why take the risk?" the trader asked, adding that many players got out of trading early on ICE.

The story was much different in the Southwest production basins, where prices shot up between a dime and 30 cents. Southern California Gas at Ehrenberg, Arizona, saw more than 500,000 Mcf traded on ICE.

Cooler weather and forecasts for a winter storm this weekend gave Rockies prices a modest boost as "buying was heavy throughout the morning," a local trader said.

But the domino effect of Alberta's weakness on Midwest markets killed transport east from the Rockies, the trader noted. Northern Natural Gas' demarcation point and Northern Natural and Northern Border Pipeline at Ventura, Iowa, faltered under the weight of the AECO decline.

"There's no weather or loads all the way up the line to AECO, so the weakness kind of trickled down to demarc and Ventura," the trader said.

The Chicago city-gates headed in the other direction, gaining a few cents and wiping out their discount to the Michigan city-gates.

"There were a lot of buyers at Chicago early, but they retreated

Daily price survey (\$/MMBtu)

Trans. date:	11/18					
Flow date(s):	11/19					
	Midpoint	+/-	Absolute	Common	Volume	Deals
Kern River, Opal	3.795	+0.285	3.66-3.85	3.75-3.84	645	94
Stanfield, Ore.	4.100	-0.140	4.08-4.13	4.09-4.11	160	25
Questar, Rockies	3.855	+0.305	3.60-3.90	3.78-3.90	18	4
Cheyenne Hub	3.785	+0.160	3.68-3.87	3.74-3.83	328	61
NW, Wyo. Pool	3.800	+0.310	3.63-3.85	3.75-3.85	151	33
NW, s. of Green River	3.765	+0.215	3.75-3.77	3.76-3.77	8	2

Canadian Gas

Iroquois, receipts	4.180	-0.085	3.99-4.25	4.12-4.25	214	22
Niagara	4.115	-0.140	3.94-4.32	4.02-4.21	206	37
NW, Can. bdr. (Sumas)	4.315	-0.170	4.25-4.38	4.28-4.35	327	64
TCPL Alberta, AECO-C*	C3.765	C-0.285	C3.60-3.85	C3.70-3.83	2347	216
Emerson, Viking GL	3.930	-0.170	3.73-4.10	3.84-4.02	752	76
Dawn, Ontario	4.070	-0.165	3.87-4.35	3.95-4.19	1198	162
GTN, Kingsgate	4.020	-0.190	4.00-4.10	4.00-4.05	222	27
Westcoast, station 2*	C3.700	C-0.205	C3.63-3.80	C3.66-3.74	349	66

Appalachia

Dominion, North Point	3.980	+0.240	3.95-4.06	3.95-4.01	19	3
Dominion, South Point	3.975	+0.245	3.90-4.10	3.93-4.03	456	100
Leidy Hub	4.085	+0.225	4.08-4.17	4.08-4.11	7	2
Columbia Gas, App.	3.955	+0.205	3.77-4.01	3.90-4.01	766	123
Lebanon Hub	3.935	+0.185	3.85-4.00	3.90-3.97	233	33

Mississippi-Alabama

Tx. Eastern, M-1 30-in.	3.840	+0.175	3.77-3.93	3.80-3.88	248	72
Transco, zone 4	3.785	+0.210	3.57-3.88	3.71-3.86	767	109

Others

Algonquin, receipts	4.215	+0.125	4.16-4.30	4.18-4.25	31	6
El Paso, South Mainline	4.165	+0.270	4.07-4.20	4.13-4.20	242	30
SoCal Gas	4.030	+0.285	3.90-4.13	3.97-4.09	342	55
PG&E, South	4.050	+0.315	3.95-4.10	4.01-4.09	78	15
PG&E, Malin	4.175	-0.070	4.08-4.28	4.13-4.23	345	50
Alliance, into interstates	4.060	+0.065	3.91-4.13	4.01-4.12	419	63
ANR, ML 7	4.035	+0.185	3.92-4.10	3.99-4.08	36	7
NGPL, Amarillo receipt	3.825	+0.115	3.75-3.88	3.79-3.86	32	8
Northern, Ventura	4.045	-0.095	3.85-4.15	3.97-4.12	647	72
Northern, demarc	4.080	-0.025	3.98-4.12	4.05-4.12	306	49
Dracut, Mass.	4.140	+0.055	4.11-4.30	4.11-4.19	40	6
Tx. Eastern, M-1 24-in.	3.795	+0.185	3.70-3.82	3.77-3.82	48	8
Northern Bdr., Ventura TP	4.005	-0.130	3.95-4.10	3.97-4.04	143	24
Trunkline, zone 1A	3.805	+0.215	3.62-3.89	3.74-3.87	109	20

Citygates

Chicago city-gates	3.990	+0.245	3.75-4.08	3.91-4.07	1212	155
Consumers city-gate	3.975	+0.135	3.90-4.07	3.93-4.02	219	53
Mich Con city-gate	3.980	+0.145	3.80-4.06	3.92-4.05	439	77
PG&E city-gate	4.625	-0.035	4.55-4.72	4.58-4.67	691	87
Florida city-gates	4.015	+0.180	3.97-4.14	3.97-4.06	68	6
Algonquin, city-gates	4.210	+0.210	4.11-4.26	4.17-4.25	212	37
Tennessee, zone 6 del.	4.265	+0.185	4.20-4.42	4.21-4.32	264	45
Iroquois, zone 2	4.205	-0.035	4.12-4.24	4.18-4.24	185	31
Tx. Eastern, M-3	4.155	+0.180	4.00-4.21	4.10-4.21	566	120
Transco, zone 5 del.	4.005	+0.130	3.95-4.07	3.98-4.04	91	9
Transco, zone 6 non-N.Y.	4.200	+0.220	3.95-4.32	4.11-4.29	240	42
Transco, zone 6 N.Y.	4.235	+0.190	4.05-4.35	4.16-4.31	329	56
Kern River, delivered	4.150	+0.065	4.07-4.22	4.11-4.19	193	27
SoCal Gas, city-gate	4.175	+0.090	4.05-4.25	4.13-4.23	492	72

*NOTE: Price in C\$ per gj; C\$1=US\$0.9524

Volume in 000 MMBtu/day

Market coverage

More information about Platts natural gas market coverage, including explanations of methodology and descriptions of delivery points, is available at [www.platts.com/Natural Gas/Resources/Methodology & Specifications/](http://www.platts.com/Natural%20Gas/Resources/Methodology%20&%20Specifications/).

Questions may also be directed to our market editors: Tom Castleman, (713) 658-3263, tom_castleman@platts.com and Liane Kucher, (202) 383-2147, liane_kucher@platts.com.

later in the session when the price got to near \$4.10," a trader said, adding that traders must have been looking for good deals early.

Most Midcontinent points moved up in tandem, keeping intra-regional spreads tight. Despite the seeming lack of a price incentive to ship gas northward, a local trader said supply was still finding its way from field to market.

"Spreads are tight, but gas is still moving," he said. "There's still a few cents in it, but some paths are close to turning off." — *Market Staff Reports*

N.M. city moves toward more flexible drilling ordinance

The city of Farmington, New Mexico, is considering revisions to its oil and gas ordinance that could make it easier for producers to conduct round-the-clock drilling on wells within city limits.

The City Council on Tuesday voted unanimously to publish the proposed changes to its ordinance. There will be two more readings of the proposal before the council votes on whether to adopt it.

Farmington, in the northwest corner of the state in the heart of the San Juan Basin, is no stranger to drilling within its borders. There are about 340 gas and oil wells within the city limits, about 250 of which are currently active, Assistant City Manager Bob Campbell said Wednesday.

"We're used to living with that as part of the community and finding a balance" between energy development and other land uses, Campbell said.

One of the main changes being considered involves easing the prohibition against 24-hour drilling, providing that operators agree to drill wells directionally.

City Councilor Jason Sandel told Platts that he favors giving operators such flexibility. "My big push is asking the council to consider how we can incentivize drilling activity in a responsible manner instead of regulating operators," he said.

"It would be my desire to have commingling of locations, to allow directional drilling to occur as long as it was financially viable for the operating company," Sandel added. "I believe the city can offer some incentives to the operating companies to do activity in that way. I think that's the way government should be working, in partnership with businesses rather than forcing regulations down people's throats."

But City Councilor George Sharpe complained that the proposed revisions do not have any teeth and are "really a feel-good effort to require operators wishing to drill a well to at least *look* at the possibility of co-locating the well on an existing well pad."

"We're not putting specifics in there saying that [drillers] have got to meet certain criteria. They just have to give us an affidavit saying that it's not practical and they can get another location to drill another vertical well," Sharpe said.

Campbell said that in addition to the 24-hour drilling question, "we had a couple of issues that surfaced since the last update of the ordinance." Among those issues is how to regulate drilling locations "that we've annexed into the city that were not managed to the same standards that wells within the city were."

Bob Gallagher, president of the New Mexico Oil and Gas Association, said he is confident the industry will be able to work within the city's new regulations, whatever final form they take.

"I don't have any concern whether the changes will be acceptable or not. I'm certain that they will be," he said.

Gallagher said that in addition to Farmington having a long history of regulating gas and oil development within its borders, "two members of the City Council are in the oil and gas industry." Sharpe is an investment manager for Farmington-based Merrion Oil & Gas, an exploration-and-production company, and Sandel owns Aztec Well Service, a drilling rig services company.

"They have a need to have some sort of control over what goes on inside the city limits," Gallagher said of Farmington officials. "It's a totally different ball game when you're in an urban setting than it is when you're drilling a well three miles from hell." — *Jim Magill*

EPA's proposed regulation to reduce emissions 'clearly unlawful,' API says

The American Petroleum Institute said Wednesday that regulations put forward by the Obama administration to regulate greenhouse gas emissions by using the Clean Air Act are "clearly unlawful," but the trade group stopped short of threatening a lawsuit.

The Environmental Protection Agency put forward proposed regulations in late September that would force new or existing industrial facilities that emit more than 25,000 tons of carbon dioxide to implement what is called the "best available control technology" to limit emissions. The so-called "tailoring rule" is designed to include refineries, power plants, and other heavy industry as part of the Prevention of Significant Deterioration program within the Clean Air Act.

Howard Feldman, director of regulatory and scientific affairs at API, said the move was "clearly unlawful" because the act explicitly says that 250 tons of a regulated pollutant is the threshold for such permits.

EPA has said it increased the threshold because it did not want to subject small businesses and homes to regulations. It estimates that 14,000 facilities would be impacted by the rules.

The agency also uses the "absurd results" and "administrative necessity" doctrines to justify the increase, which would be specific to greenhouse gases but not other pollutants subject to the PSD requirement.

"The broad departure from the plain language of the statute to sustain EPA's proposed threshold increase is patently inconsistent with the statute," Feldman said at an EPA public hearing in Arlington, Virginia. The hearing featured speakers from trade groups such as API and the National Petrochemical and Refiners Association, as well as environmental groups such as the Sierra Club and several private citizens who support the proposed rule.

EPA attorney Howard Hoffman said in an interview that the absurd results and administrative necessity doctrines would hold up in a "solid" manner in court given the scope of the program. "The law says 250 tons but there are situations where courts will not follow the literal reading of the law," said Hoffman, who works in the EPA Office of General Counsel. "There is ample precedent for both of those to be applied."

He said EPA felt that there was a high chance for a legal challenge but that it is impossible to know whether industry groups or environmentalists may sue.

Feldman added in comments to reporters that API has "made no decisions to go to court," but he said that a decision would be made when the final rule comes out, which could be as early as spring 2010.

Congress is in the midst of writing climate change legislation, but negotiations are proving to be contentious, particularly in the Senate. The House passed its carbon cap-and-trade bill this summer, and both President Obama and EPA Administrator Lisa Jackson have said they would prefer legislation over EPA regulations. — *Alexander Duncan*

Holiday Notice

Gas Daily will not publish Thursday, November 26, or Friday, November 27, due to the Thanksgiving Day holiday. Gas price information collected Wednesday, November 25, for the Daily Price Survey to be published in the November 30 *Gas Daily* will be for gas flowing November 26-30. Gas price information collected Monday, November 30, for the Daily Price Survey to be published in the December 1 issue will be for gas flowing December 1.

Rockies producers criticize Interior ... *from page 1*

But IPAMS Director of Government Affairs Kathleen Sgamma said government decisions made now will affect Rockies production well into the future.

"Sure, for the short term, prices are down and there's shut-in production," she told Platts. But Salazar's actions are "putting at risk future production" because of the long planning times required for drilling on federal lands, from which 54% of Rockies gas comes, Sgamma said.

According to the IPAMS report released Wednesday, Salazar "has made several decisions that are making it increasingly difficult for producers to supply the natural gas necessary to reduce greenhouse gas emissions and increase energy security."

The report accused Salazar and Interior's Bureau of Land Management of several irregularities in the management of Western lands.

For example, BLM's failure to award properly purchased leases, and its reduction of the size of lease sales and withdrawal of lease blocks from certain sales, "mean less American energy, less economic activity and fewer jobs" for Rockies residents, the report declared.

IPAMS said BLM is currently holding on to \$100 million worth of leases in Colorado, Utah and Wyoming because of last-minute protests by environmental groups, tying up the capital of the producers that successfully bid on the leases.

"BLM has taken the companies' money, but is left waiting for guidance from Interior before it can move forward and issue leases legitimately won in public auctions," the report said.

The economic damage goes further, IPAMS contended, as budget-starved states are being deprived of the tax and royalty revenues producing leases would generate.

IPAMS said the federal government has reduced the number of Rockies leases for sale by one-third when compared with the first year of the Clinton administration and reduced the amount of acreage for lease by nearly half.

In response, Interior Press Secretary Kendra Barkoff said that in the most recent fiscal year alone, the department "held 29 onshore lease sales and two offshore auctions, offering more than 55 million acres for oil and gas development. Those sales have generated more than \$931 million in revenues."

Barkoff said Interior offered 2.7 million acres in the West, generating \$126 million in revenue.

Even so, IPAMS asserted that BLM is putting up extra obstacles to leasing land that has already been studied extensively for years or slowing permit processing times despite a 62% increase in the permitting fees. "Independents are left with high processing costs, delay and uncertainty that they can continue their drilling programs," the group said.

IPAMS' complaints echo those American Petroleum Institute President Jack Gerard made last week regarding offshore leasing and drilling.

"We wrote to Secretary Salazar three days ago reminding him that this administration has set up a series of roadblocks that discourage the investment necessary to increase domestic energy supplies, create well-paying American jobs, and provide additional government revenues at a time when we desperately need all of them," Gerard said Friday.

Changing rules and procedures for leasing federal lands "does nothing to guarantee more discoveries but rather takes away from companies the flexibility necessary to operate in an extremely challenging and risky environment."

— Bill Holland

Canadian production down sharply ... *from page 1*

Canada does have its own prolific shale plays, notably the Horn River and Montney. "Yet, conventional production in Alberta, the backbone of the Canadian industry, has been hit hard, and overall Canadian production is declining sharply," the analysts said.

Marketer rankings notice

Gas Daily is currently compiling data for a third-quarter 2009 ranking of North American gas marketers by daily physical wholesale volumes sold. *Gas Daily* staff intends to compile the rankings from information appearing in reports filed with the Securities and Exchange Commission.

For companies that are not publicly traded or do not provide such data to the SEC, staff requests quarterly gas sales data be reported in writing, and verified by executive personnel, no later than Monday, November 30. Please contact Stephanie Seay by phone at 865-690-4319, fax 865-690-0933, e-mail stephanie_seay@platts.com; or Mark Davidson at 202-383-2148, mark_davidson@platts.com, with any questions.

Advertisement

Open Season

Southern Louisiana Natural Gas Storage Facility

BCR Holdings, Inc. (BCR) will be accepting non-binding requests for 15 Bcf of firm storage capacity at its proposed **Bully Camp storage facility in Lafourche Parish, LA**, approximately 35 miles southwest of New Orleans.

The storage facility is designed to provide 1,200 MMcf/d of peak deliverability and 800 MMcf/d of peak injection capacity from two salt caverns. The facility's 3 direct and 3 indirect interconnects will provide customers with ample flexibility and optionality to access multiple supply sources and premium downstream markets.

The facility is scheduled to be online in the 4th quarter of 2013. **Non-binding requests for capacity will be accepted from November 16 to December 18, 2009.**

Contact **Tom Cook**
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And while unconventional gas production in Canada has tremendous potential, substantial output from such plays represents “a long-term target and would take years to achieve.”

The analysts predicted a drop in Canadian production this year of 900,000 Mcf/d to 15.2 Bcf/d, and a further 800,000 Mcf/d drop in 2010 to 14.4 Bcf/d.

Alberta dominated Canadian gas production last year, contributing 77% of the total. However, most of that “comes from conventional fields that are well into their mature years” and require substantial new well additions to counter existing well declines.

Production levels in the province have dropped by a cumulative 1.7 Bcf/d since 2006, and from January through August of this year Alberta volumes have averaged 700,000 Mcf/d lower than in the same period in 2008.

“It is not that Alberta lacks in resource potential,” the analysts said. “Rather, recent price levels do not make these resources cost-effective.”

The Alberta production drop “underpins the trend for Canada overall, with gains and losses in other provinces’ output roughly offsetting each other,” the report said. Moreover, weak rig counts and dwindling well completions “paint a rather dismal picture for the future of Canadian production in the near term.”

The analysts noted that rig counts year-to-date have averaged 45% lower than last year, while well completions are down 40% since the beginning of 2009.

But at the same time, those declines have helped strengthen Canadian prices relative to US hubs. While AECO-NIT basis traded at an average discount of US\$1.48/MMBtu to Henry Hub last year, this year the discount is averaging only 67 cents. The analysts predicted a 70-cent average discount this year and a 50-cent discount in 2010.

Despite that strengthening basis, Canadian production recovery is still likely to lag US production recovery next year. The analysts maintained that their predicted Henry Hub average price of \$5.05/MMBtu in 2010 “does not provide for

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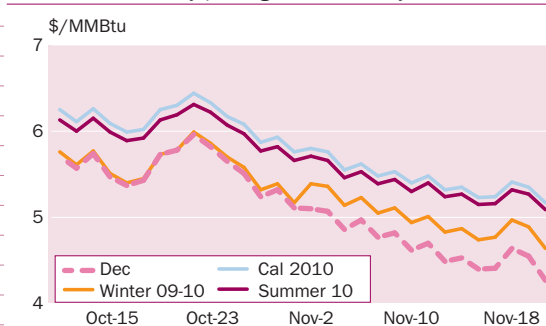
Platts-ICE Forward Curve — Natural Gas, Nov 18 (¢/MMBtu)

Prompt month: Dec 09

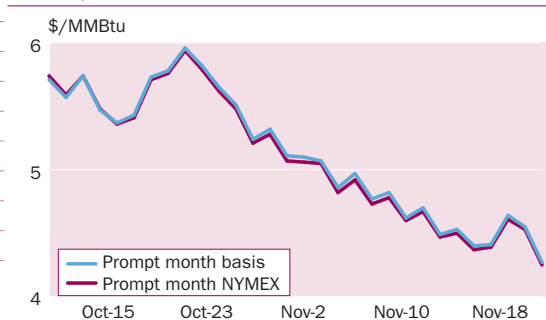
Algonquin, city-gates	114.50
Transco, zone 6-NY	159.50
Texas Eastern, M-3	87.50
Columbia Gas, Appalachia	16.25
Transco, zone 3	2.00
Transco, zone 4	1.75
Florida Gas, zone 3	2.00
Trunkline, LA	-2.25
Houston Ship Channel	-5.50
Chicago city-gates	28.50
MichCon city-gate	27.75
Panhandle, TX-Okla.	-5.50
Waha	4.00
El Paso, Permian Basin	2.25
El Paso, San Juan Basin	-1.25
PG&E city-gate	78.50
SoCal Gas	28.25
Northwest, Rockies	-3.25
Northwest, Sumas	80.50
Dawn, Ontario	55.25
AECO, Alberta	18.25

Summer season is April-October. Winter is November-March. *Balance of the season.

Transco, zone 3: Key packages, last 30 days



Transco, zone 3: Basis market vs NYMEX



Transco, zone 3: Forward curve

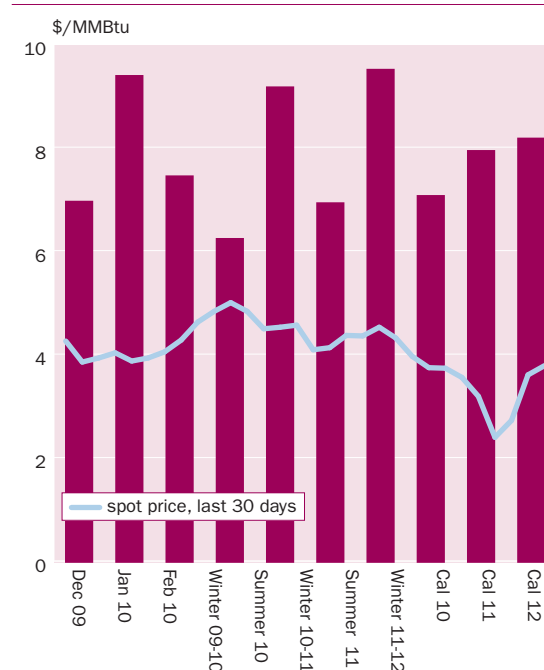


Table and graphs are created using Platts-ICE Forward Curve — Natural Gas (North America) data. Forward assessments as basis to the Henry Hub and full values are available for periods spanning three years. To see a sample and find information on how to subscribe to the full data set go to www.risk.platts.com. For more information on Platts services, please call +1-800-PLATTS8. For editorial questions call Sheetal Nasta +1-713-658-3203 or Samantha Santa Maria +1-713-658-3271.

sufficiently strong prices to rekindle development of Canada's vast conventional reserves." — *Melanie Tatum*

Warnings sounded on OTC regulation ... from page 1

Boling said if Southwestern were prevented from hedging this year because of restrictive cash requirements, including being forced to post margins, it would have drilled 240 fewer gas wells in the Fayetteville Shale, resulting in a loss of 1,500 jobs and depriving Arkansas' economy of \$1.6 billion.

More broadly, "fewer wells drilled in the United States means less domestic gas is produced, and less gas produced unfortunately means higher prices for consumers," Boling said in prepared testimony.

Southwestern typically hedges between 60% and 80% of its gas production volumes and it "does not post collateral with any swap counterparty — for a very good reason: natural gas swaps lower Southwestern's business risk and make it a much more stable company," Boling said.

He said he supports allowing exemptions from the clearing and margining requirements for "bona fide hedging transactions, where at least one party involved is a company that produces, owns and sells (or purchases and consumes) the commodity" and the transaction is intended to lower commodity price risks.

That element is included in a draft bill sponsored by Senator Chris Dodd, a Connecticut Democrat, and in measures that passed the House Agriculture and Financial Services committees (*GD 11/11*). In each case, standardized OTC transactions would be exempt from clearing and exchange-trading requirements if one party is not a major financial dealer.

Neil Schloss, vice president and treasurer at Ford, said the major auto manufacturer has about \$108 billion in notional outstanding derivatives, including interest-rate derivatives to hedge asset-backed securitization transactions.

"The securitization and other funding Ford Credit uses enables it to provide financing to the vast majority of Ford's 3,000-plus dealers and over 3 million active consumer accounts in the US alone," Schloss said.

Similar to Southwestern, Ford posts very little margin on its derivatives transactions, Schloss said. Rather, it pays an "up-front credit charge commensurate with the risk of the underlying transaction."

Moreover, unlike swap dealers and major swap participants, Ford does not have "expedient and low-cost access to liquidity sources," Schloss testified. As a result, it takes a longer time for the company to generate additional capital, thus leaving it at a disadvantage to manage and generate cash for margin.

Glenn English, CEO of the National Rural Electric Cooperative Association,

Natural gas hub flow, Nov 18

Hub Name	Scheduled Flow	+/-	% Change	Daily Price	—31 Day Average— Flow Price
ANR, La.	1,053	-20	-1.90	3.590	976 4.014
Dracut, Mass.	15	-79	-83.69	4.085	118 4.401
Florida city-gates	1,457	46	3.23	3.835	1,724 4.433
Iroquois, receipts	542	-74	-12.05	4.265	609 4.448
Kern River, Opal plant	856	109	14.65	3.510	830 3.851
Niagara	112	-161	-58.96	4.255	255 4.380
Northern, Ventura	537	-287	-34.87	4.140	717 4.227
Northern, demarc	1,224	139	12.83	4.105	1,031 4.218
Northwest, Can. bdr. (Sumas)	669	-89	-11.79	4.485	739 4.367
PG&E, Malin	1,113	-80	-6.71	4.245	1,249 4.320
Stanfield, Ore.	256	12	4.77	4.240	169 4.283
Transco, zone 3	1,086	-48	-4.26	3.615	1,190 4.033
Transco, zone 6 N.Y.	1,520	-2	-0.10	4.045	1,380 4.423

Volumes in 000 MMBtu; prices in \$/MMBtu. For more information, contact Bill Murphy at 720-548-5485.

Source: Platts data

NYMEX Henry Hub gas futures contract, Nov 18

	Settlement	High	Low	+/-	Volume
Dec 2009	4.254	4.578	4.229	-27.6	111248
Jan 2010	4.659	4.946	4.629	-24.8	62631
Feb 2010	4.754	5.035	4.728	-24.0	17453
Mar 2010	4.797	5.047	4.770	-21.8	13410
Apr 2010	4.827	5.057	4.804	-19.8	11133
May 2010	4.890	5.060	4.864	-18.9	3899
Jun 2010	4.992	5.135	4.966	-18.3	1281
Jul 2010	5.104	5.270	5.074	-17.7	1319
Aug 2010	5.182	5.355	5.169	-17.7	1050
Sep 2010	5.239	5.360	5.226	-17.7	998
Oct 2010	5.374	5.508	5.360	-17.6	3362
Nov 2010	5.809	5.906	5.795	-16.1	686
Dec 2010	6.199	6.334	6.180	-15.6	1356
Jan 2011	6.426	6.560	6.419	-15.4	1249
Feb 2011	6.416	6.500	6.395	-15.4	38
Mar 2011	6.251	6.315	6.250	-14.9	107
Apr 2011	5.841	5.875	5.835	-12.4	95
May 2011	5.811	5.830	5.811	-11.9	20
Jun 2011	5.866	5.866	5.866	-11.9	0
Jul 2011	5.931	5.931	5.931	-11.9	0
Aug 2011	5.996	5.996	5.996	-11.9	0
Sep 2011	6.031	6.040	6.030	-11.9	13
Oct 2011	6.141	6.206	6.183	-11.9	2
Nov 2011	6.421	6.450	6.421	-11.9	2
Dec 2011	6.701	6.701	6.701	-11.9	0
Jan 2012	6.901	6.901	6.900	-11.9	1
Feb 2012	6.891	6.891	6.891	-11.9	0
Mar 2012	6.666	6.666	6.666	-11.4	0
Apr 2012	6.066	6.070	6.060	-9.4	6
May 2012	6.016	6.016	6.016	-8.9	5
Jun 2012	6.071	6.071	6.071	-8.9	0
Jul 2012	6.138	6.138	6.138	-8.7	0
Aug 2012	6.198	6.198	6.198	-8.7	0
Sep 2012	6.228	6.228	6.228	-8.7	0
Oct 2012	6.336	6.016	6.016	-8.4	443
Nov 2012	6.596	6.596	6.596	-8.4	0

Contract data for Tuesday

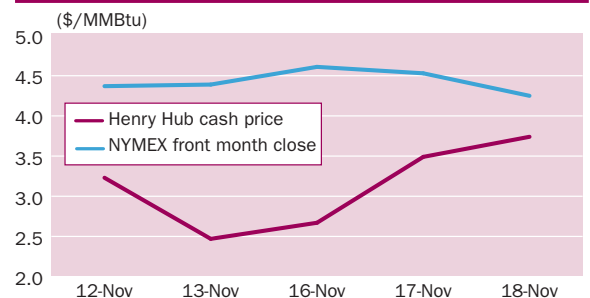
Volume of contracts traded: **272,579**

Front-months open interest:

DEC, 90,404 ; JAN, 175,454; FEB, 55,073

Total open interest: 742,183

Henry Hub/NYMEX spread



Platts oil prices, Nov 18

	(\$/b)	(\$/MMBtu)
Gulf Coast spot		
1% Resid ¹	74.45-74.55	11.85
3% Resid ¹	72.25-72.35	11.50
Crude spot		
WTI (Dec) ²	79.56-79.58	13.66
New York spot		
No.2 ¹	84.45-84.66	14.52
0.3% Resid LP ³	79.35-79.45	12.63
0.3% Resid HP ³	77.95-78.05	12.41
0.7% Resid ³	75.25-75.35	11.98
1% Resid ³	73.65-73.75	11.72

1= barge delivery; 2= pipeline delivery; 3= cargo delivery

also told the panel that clearing could harm smaller market participants in the event of an unexpected market crisis.

"If a catastrophic event triggered market concern over fuel supplies, ratings could shift and the prices for contracts could swing dramatically, triggering a sizeable margin call for a reason unrelated to the original trade," he said. "A co-op would not have the cash reserves to cover the margin call, leaving only one, unattractive option — to borrow a large sum at unaffordable rates."

Not everyone who testified Wednesday agreed. Robert Johnson, director of economic policy at the Roosevelt Institute and speaking on behalf of the Americans for Financial Reform, said end-user concerns should not trump larger issue of widespread systemic risk.

Giving end-users exemptions from certain requirements might create "loop-holes that could be large enough to drive a jet engine through" and might present unscrupulous financial firms a means of claiming exemptions from stronger regulation, Johnson said.

Although "end-users are not deserving of any particular punishment," their issues with clearing and margin should not dissuade Congress from tackling radical market reform, he contended.

CFTC Chairman Gary Gensler, meanwhile, continued to press for mandatory clearing of most OTC trades, saying it will ultimately benefit the end-users that are wary of a clearing mandate. He believes all clearable transactions should be brought to clearing, regardless of the entities on either side of the trade.

"If Congress decides, however, to exempt transactions with some end-users from a clearing requirement, that exception should be explicit and narrow," Gensler said. "I believe that it is most critical that transactions with financial firms — and in particular, hedge funds and other investment funds — benefit from a clearing requirement."

Gensler also advocated a greater emphasis on exchange trading of OTC derivatives, even if end-users are exempt from clearing mandates. Through exchange trading, "a manufacturer in Michigan would be able to see where a manufacturer in New York last trades," he said. This would result in "unfettered good for manufacturers." — *Jessica Marron*

Alaska energy adviser being vetted to replace Pearce as coordinator

An energy adviser to the Alaska State Legislature has emerged as a contender to replace the federal coordinator of the state's massive North Slope gas pipeline project.

Coordinator Drue Pearce, who was nominated by President Bush in 2006, resigned Monday at the request of the White House (*GD 11/17*). The position was created by the Alaska Gas Inducement Act as a go-between for federal and state agencies during permitting and construction.

Larry Persily, an aide to state Republican Representative Mike Hawker, confirmed Wednesday that he is under consideration for a federal position. He said the FBI had interviewed friends and neighbors.

Persily previously worked for former Governor Sarah Palin as a liaison on energy issues in her Washington office. He left before she became the vice presidential candidate last year and has since been a vocal critic of Palin.

Before working in the governor's office, Persily was a deputy commissioner for the Alaska Department of Revenue.

A spokeswoman for Senator Mark Begich, Democrat-Alaska, said several names were being floated for the position.

"There are a lot of names and rumors out there," Julie Hasquet said. "We can't confirm any of them, as the vetting process is not a public process."

Persily said he would be interested in the position if offered. "Drue did a lot of work getting it started and it would be exciting to see it to the end — the end being getting something built," he said.

Pearce will serve until January. Her replacement must be confirmed by the US Senate. — *Meghan Gordon*

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