

# Eye On ENERGY

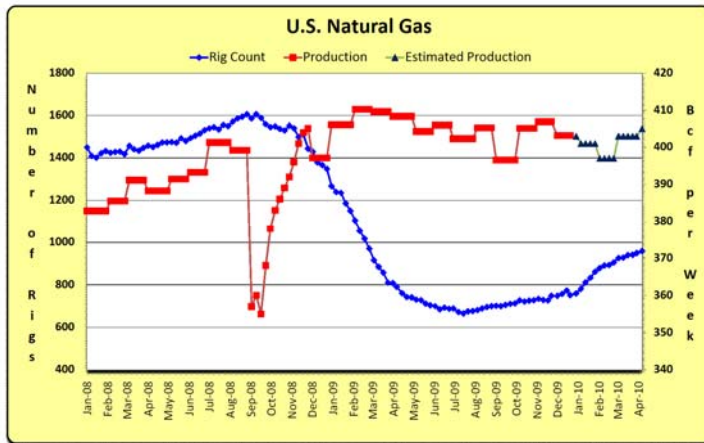
A periodic publication of American Energy.<sup>®</sup>  
Providing insight for making better energy decisions.

## COMMODITIES UPDATE

By Mike Granstaff

### April 2010 Natural Gas Report

Since our last newsletter the natural gas market price has remained weak. The injection season began earlier than normal this year due to high US natural gas production combined with a warmer than normal March and traders were able to push the spot month NYMEX futures contract into the \$3's. Traders did go on a brief Easter egg hunt on the Thursday prior to the three day holiday weekend as they took advantage of a thinly traded market in search of "buy stops". The spot month contract ultimately rallied 50 cents before reality set back in sending the market back down. This caused a lot of scratching of heads for a couple of days as to why the market was rallying and, as it turned out, there was no fundamental reason. Case in point, the April 15<sup>th</sup> EIA working storage report showed an injection of 87 Bcf which was a record high injection for this reporting period. We are now back above year ago storage levels and our models project that total working storage will be setting new record highs by mid to late May.



There seems to be a lot of depressed market participants out there that just can't stand the fact that natural gas can't get its head above water. I'm not sure why because I for one believe low natural gas prices are a good thing. Low prices are good for consumers and our fragile economy. What's more, low natural gas prices do not seem to be affecting producers although I'm sure they wouldn't complain about higher prices. But, rig counts continue to climb and production is back near record high levels even in this lower price regime.

There also has been a great deal of chatter amongst analysts about how natural gas prices are too low in relation to other commodities and especially to crude oil. Personally I don't buy into the whole "crude oil vs. natural

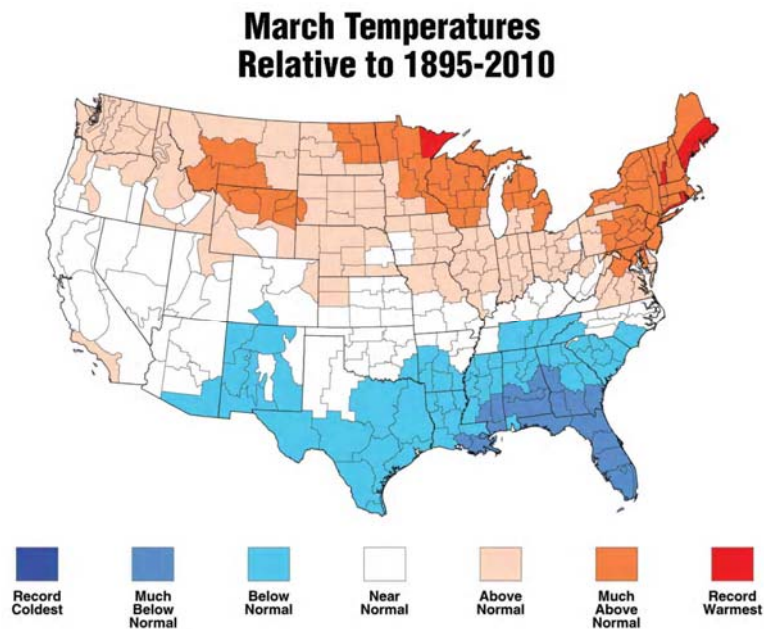
gas historical price relationship" concept that market analysts keep pointing to as a reason that natural gas prices should be higher. It's true that crude has historically traded at six to ten times the price of natural gas. That relationship is founded on a baseline reality that 6 mmcf—or 6,000 cubic feet of gas—contains about the same amount of energy as one barrel of crude. Crude just recently traded as high as \$87 a barrel, or more than 18 times the price of gas. But, in the total scheme of things, this historical six-to-one historical price relationship is relatively short-lived so it's not as if this is a hundred year mainstay that is locked in stone. In my opinion crude oil and natural gas markets are very different and should respond to their own particular fundamental market dynamics. The market dynamics for each will continue to change, and they are not necessarily directly related to one another. Now I know that there are a lot smarter folks out there than me that will build a case for why these markets should fall back into their old historical range but, in my humble opinion, each market is working just as it should.

## Working Storage

The EIA reported that 87 Bcf was injected into working storage the week ending April 9<sup>th</sup>. We would normally expect to see an injection of 21 Bcf for this reporting period. Working storage is now 1,756 Bcf which is 246 Bcf greater than the 5 year average and 64 Bcf greater than last year.

## Weather

For the month of March the temperature, averaged across the contiguous U.S., was above normal. Several storms developed along the Atlantic Coast, bringing below-normal temperatures to the South and Southeast, while bringing warm and wet weather to the Northeast and East North Central regions. Because the warm air was in the north and cool air was in the south, NOAA's Residential Energy Demand Temperature Index (REDTI), the contiguous U.S. temperature-related energy demand was 8.2 percent below average for March.



Population weighted heating degree days for the month of April have been well below normal. The temperature forecast for the 2<sup>nd</sup> half of the month moves back closer to normal. So, nothing bullish to natural gas prices related to near-term weather. Summer forecasts are generally looking for a cool start and a fairly warm finish. Overall it is looking warmer than last summer but not extreme. Hurricane forecasters are generally upping their estimated number of storms as El Nino fades and Atlantic water temperatures rise. It's still too early for the natural gas market to get excited about these longer term forecasts though.

Bottom-line, the story remains the same. Natural gas fundamentals remain very weak. We are injecting record amounts of gas into working storage. By next month's newsletter we may be reporting new record high working storage. We are on schedule to see new all-time record high working storage levels by the end of the injection season.

## Technical Analysis

NYMEX May contract

Upside resistance is \$4.50, \$5.00, \$6.72

Downside support is \$3.91, \$3.15, \$2.41

# EXECUTIVE INSIGHT ■

By Dan Wastler, Director of Sales and Marketing

## “Going Green” Is Raising Questions Among Businesses

Businesses pursuing the growing trend of “going green” should take note of retail giant Wal-Mart Stores, Inc. Over the last few years, the nation’s largest retail chain has made tremendous strides toward greening its business. Wal-Mart focused on managing its supply chain in a more environmentally friendly manner. It also developed a green index for its customers to use when purchasing products.

Many businesses such as Wal-Mart have begun proactively making environmental issues and sustainability part of their business models – a strategy that can be important as more laws and regulations are being proposed to limit the impact of businesses on the environment.

Wal-Mart was not forced to look at their supply chain, but it is a way for them to save money, make business more sustainable and show environmental sensitivity to their customers and their employees.

As companies look at their business model, environmental issues have to be a part of the evaluation process. Environmental issues aren’t just big with smokestack industries like Ford, GM and John Deere or someone that manufactures something, they have stretched to all businesses like office buildings, hotel chains, retail chains with multiple locations, logistics companies, transportation, etc.

Pending legislation and regulations will have a significant impact on businesses across the United States. For instance, the greenhouse-gases bill passed last year by the U.S. House of Representatives, which is pending in the U.S. Senate, could enact numerous changes for businesses, including a cap-and-trade system that would require some businesses to obtain allowances for the pollution they emit. And even if the bill stalls in Congress, the U.S. Environmental Protection Agency is moving forward potential regulations of greenhouse-gases. It is also possible that the EPA will classify greenhouse-gases as a pollutant. Both changes would have a major impact on businesses, especially those that burn fossil fuels or use power generation plants, or those that release substantial quantities of carbon dioxide.

Another consideration for businesses is that the utility costs might rise as the financial impact of increased environmental regulations trickle down to utility customers. This is the one single area to have potentially the most impact on businesses. Some businesses are seeking to complete modifications quickly so they can get ahead of the game and take advantage of savings now, but many are not; instead waiting for pending legislation to dictate their “green” initiative. What decisions are you making for your business?

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