

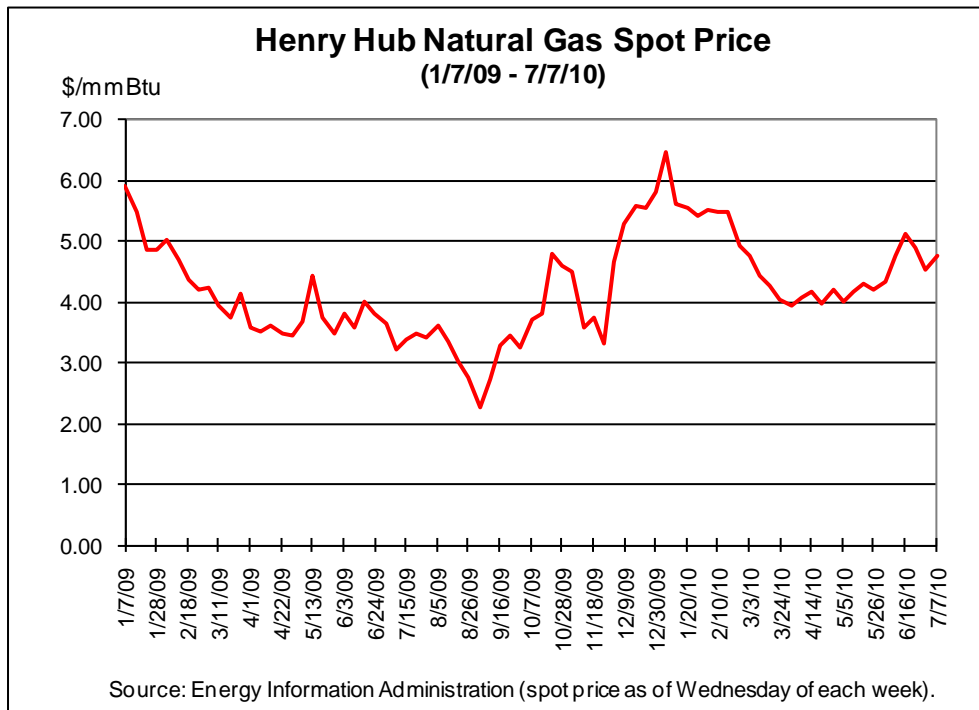
WHOLESALE NATURAL GAS MARKET ASSESSMENT
Wholesale Natural Gas Futures Prices as of July 2, 2010

by

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Outlook for Wholesale Natural Gas Prices

This report presents the Office of Technical and Regulatory Analysis' ("OTRA") assessment of wholesale natural gas supply and prices for July 2010.¹ OTRA's current assessment of the natural gas market suggests that wholesale natural gas prices may remain below \$5.00 per million BTU ("mmBtu") for most of July 2010 (see Henry Hub Spot Price figure). Natural gas spot prices are up by more than 25 percent from the same period a year ago. The West Texas Intermediate ("WTI") crude oil price is currently trading around \$75 per barrel.



As of July 2, 2010, near-term natural gas futures prices are down at least 20 percent compared to futures prices for the same month from roughly the same period a year ago. As of July 2, 2010, natural gas in storage stood at 2,762 billion cubic feet ("Bcf"). Working gas in storage is down roughly 1 percent from the same period a year ago but is up about 12 percent compared to the 5-year average.

¹ This assessment is based on information collected from various sources. Projecting future conditions is a difficult task at best, so these comments are subject to change as new information becomes available.

Commodity prices, together with the costs Washington Gas Light (“WGL”) incurs for storage, peaking, and balancing, have resulted in higher retail prices than what was experienced last year. Specifically, the costs WGL incurs to acquire and deliver natural gas to customers are reflected in WGL’s retail commodity price, called the Purchased Gas Charge (“PGC”).² The PGC for July 2010 is 102.09 cents (\$1.02) per therm compared with 77.15 cents (\$0.77) per therm for the same period a year ago—an increase of about 32 percent. The PGC for July is also up about 27 percent compared to the previous month.

The major factors that contribute to this outlook are described briefly below. These factors include the weather, the economy, the storage situation, the supply situation, and national security.

Weather

Weather variations always have an effect on natural gas price formation. As of June 17, 2010, the National Oceanic and Atmospheric Administration (“NOAA”) indicated that its outlook for the months of July, August and September 2010 calls for above normal temperatures for parts of the Great Basin and the desert southwest, extending eastward into Texas and the southeastern states, and then northward along the Eastern Seaboard to New England. Below normal temperatures are more favorable for parts of the Central Great Plains, due to wet initial soil moisture conditions. Other parts of the nation are showing equal chances of above, near, or below normal temperatures.³ During the summer cooling season, warmer temperatures can place upward pressure on natural gas prices through, for example, an increase in electricity generation using natural gas as a fuel source.

As noted in last month’s Outlook, NOAA released its 2010 Atlantic Hurricane season outlook on May 27, 2010 and generally expects above normal activity. NOAA is projecting a 70 percent probability of the following ranges: 14 to 23 named storms (top wind speed of 39 mph or higher), including 8 to 14 hurricanes (top wind speed of 74 mph or higher), of which 3 to 7 could be major hurricanes (Category 3, 4 or 5; wind speed of at least 111 mph). Any disruptions to energy production facilities in the Gulf of Mexico will tend to contribute to upward pressure on natural gas prices.

Economic Conditions

National economic factors also contribute to the formation of wholesale natural gas prices. Any improvement in economic activity will provide some support for natural gas prices. In its latest statement released on June 23, 2010, the Federal Open Market Committee (“FOMC”) stated that **“[i]nformation received since the [FOMC] met in April suggests that the economic recovery is proceeding and that the labor market is improving gradually.**

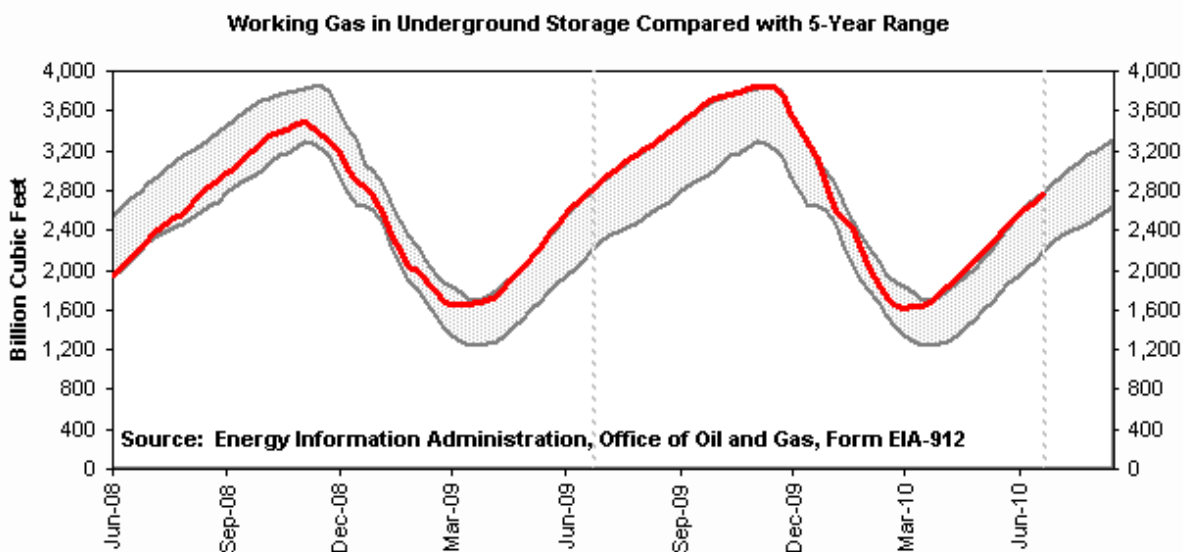
² The current Purchased Gas Charge reflects current market conditions and current collections. The current cost of gas (commodity/demand/peaking/storage carrying cost charges) portion reflects the seasonal market. Alternative suppliers’ newer fixed price offers should generally reflect the PGC benchmark, with anticipated price changes as well, over the next twelve months.

³ NOAA at <http://www.cpc.ncep.noaa.gov/>.

Household spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software has risen significantly; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time.”⁴ As a result, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, the Committee kept its short-term interest rate target range at 0 to 1/4 percent. The FOMC continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the target interest rate for an extended period.

Storage

The Energy Information Administration (“EIA”) reports that the working gas in storage was 2,762 Bcf as of July 2, 2010, a net increase of 78 Bcf from the previous week. However, stocks were 23 Bcf lower than the same period a year ago—down nearly 1 percent—but up 285 Bcf from the 5-year average of 2,477 Bcf—an increase of 11.5 percent.



Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2005 through 2009. The dashed vertical lines indicate current and year-ago weekly periods.
 Source: EIA, *Weekly Natural Gas Storage Report* (released July 8, 2010)

⁴ Statement of the Federal Open Market Committee, June 23, 2010.

Supply

Continued flexibility in the nation's domestic production may help dampen any significant upward price movement going forward. EIA expects **“total marketed natural gas production of 61.3 Bcf/d [billion cubic feet per day] in 2010, an increase of 1.3 Bcf/d over 2009 levels. EIA projects a continuing decline in Gulf of Mexico production, which is offset by gains in onshore production. Forecast marketed production declines by 0.4 Bcf/d to 60.9 Bcf/d in 2011. Federal Gulf of Mexico natural gas production falls by about 10 percent in both 2010 and 2011 as a result of hurricane outages, the announced offshore drilling moratorium, and the decline in active drilling rigs over the last 4 years. The estimated median outcome for hurricane outages from June through November is a cumulative 166 Bcf this year, compared with 19 Bcf in 2009. The offshore drilling moratorium is projected to reduce Gulf of Mexico production by an average of 0.05 Bcf/d for the last 6 months of 2010 and 0.25 Bcf/d for 2011. Projected lower-48 onshore production increases by 2 Bcf/d (3.8 percent) in 2010 and 0.2 Bcf/d (0.3 percent) in 2011. According to Baker-Hughes, natural gas rig counts have climbed from under 670 in July 2009 to about 950 in April this year and have remained relatively stable since then.”**⁵

EIA also mentions that **“[f]orecasted imports of liquefied natural gas (LNG) average 1.37 Bcf/d in 2010, a downward revision of about 0.14 Bcf/d from last month. Projected imports increase to 1.52 Bcf/d in 2011. While imports are expected to grow, higher prices in European and Asian markets will likely divert LNG cargoes from the United States. EIA also forecasts gross pipeline imports of 8.8 Bcf/d in 2010, a decrease of about 2.9 percent from 2009. EIA expects gross pipeline imports of 8.2 Bcf/d in 2011.”**⁶

National Security

As stated in previous reports, we see little danger to the natural gas supply, even with the Department of Homeland Security's current national threat level at Yellow, or Elevated.⁷ Most of the U.S. supply is secure, in that it is generally domestically produced or imported from Canada.

Future Natural Gas Prices

The PGC rate of \$1.02 per therm for July 2010 is up 27.5 percent from the previous month and is also up 32.3 percent compared to the same period a year ago. Last month, OTRA suggested that the July 2010 PGC would be around an adjusted amount of \$0.80 per therm (assuming that the commodity market adjustment factor is zero), based on near-term NYMEX futures prices generally remaining between \$4.50 and \$5.00 per mmBtu.⁸ For June 2010, the near-term NYMEX futures prices ranged between \$4.15 and \$5.25 per mmBtu.

⁵ EIA, STEO (July 2010) at 5.

⁶ Ibid.

⁷ As of July 12, 2010, the U.S. threat level remains at Orange, or High, for all domestic and international flights.

⁸ If the commodity market adjustment factor were zero then the PGC rate for July 2010 would be about \$0.85 per therm.

Currently, OTRA suggests that the August 2010 PGC (assuming that the commodity market adjustment factor is zero) may be around \$0.78 per therm, based on the expectation that near-term NYMEX futures prices trade between \$4.30 and \$4.90 per mmBtu. OTRA's assessment of natural gas prices may be significantly different from actual market prices if: (i) there are significant variations in weather-related factors, (ii) crude oil prices change significantly, (iii) other substantial disruptions to the energy market occur, or (iv) certain cost-related assumptions are significantly different.

As always, investments in energy efficiency and conservation measures are important ways toward reducing energy consumption and lowering energy bills. Ratepayers are encouraged to invest in measures such as insulation, weather stripping, or replacing an old inefficient water heater and/or furnace. Finally, for those residential consumers whose budgets are severely challenged, arrangements for assistance should be made as soon as possible in anticipation of need. Contact either the District Department of the Environment's Energy Office or the D.C. Public Service Commission's Office of Consumer Services for advice and/or solutions as well as programs such as the Washington Area Fuel Fund (888-318-9233).

Wholesale Natural Gas Price/Supply Assessment Information

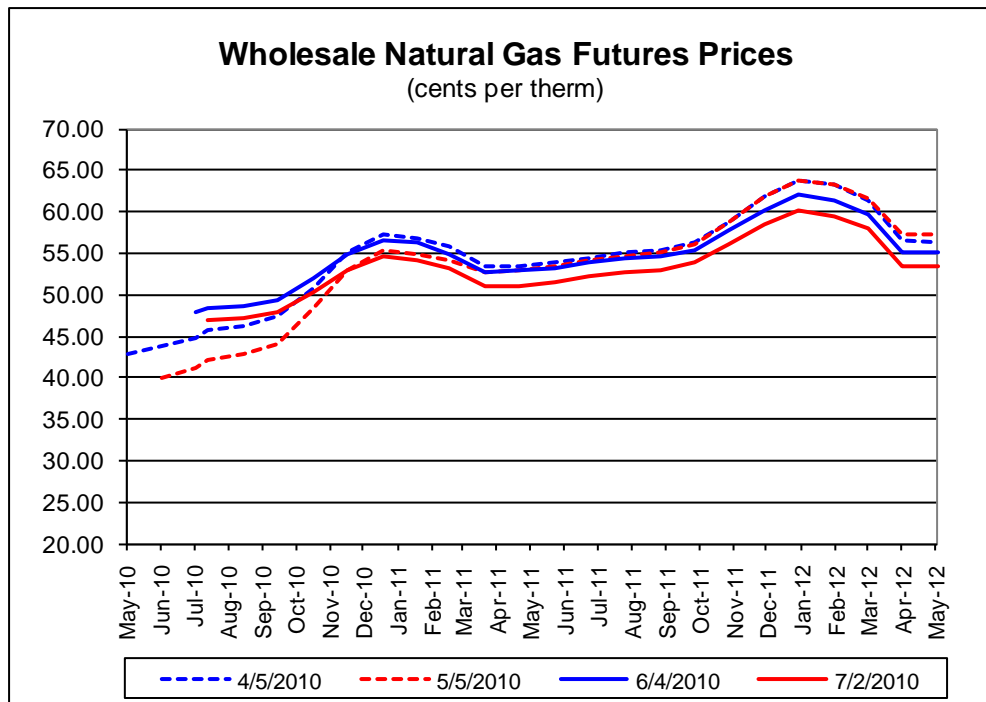
Current for July 2, 2010

Price Information

Twelve Month NYMEX Strip Components
7-2-10 cents per therm

Henry Hub Spot Market Price
7-2-10 cents per therm

	<u>Current Month</u>	<u>Previous Month</u>	<u>Current Only Available</u>
Aug 10	46.87	Aug 10 48.42	47.2
Sep 10	47.17	Sep 10 48.63	
Oct 10	47.95	Oct 10 49.40	
Nov 10	50.40	Nov 10 52.02	
Dec 10	52.91	Dec 10 54.90	
Jan 11	54.51	Jan 11 56.64	
Feb 11	54.21	Feb 11 56.18	
Mar 11	53.22	Mar 11 54.91	
Apr 11	50.90	Apr 11 52.64	
May 11	51.08	May 11 52.82	
Jun 11	51.53	Jun 11 53.29	
Jul 11	52.18	Jul 11 53.84	



The current PGC for July 2010 is 102.09 cents per therm. Assuming that near-term futures prices remain around \$4.30 to \$4.90 per mmBtu, OTRA suggests that the PGC rate (excluding the commodity market adjustment factor) for August 2010 should be around 78 cents per therm. However, given the volatility in the crude oil market and uncertainty about the weather, as well as other factors, this assessment could easily change. The overall assessment for July 2009 is that wholesale prices may remain below \$5.00 per mmBtu, resulting in wholesale prices that are still higher compared to year ago levels (see Market Conditions Summary).

Weather Forecast

1. Current for next few days to one week:

<http://www.cnn.com/Weather/>

<http://home.accuweather.com/>

2. National Oceanic and Atmospheric Administration Forecast for the Winter

<http://www.noaa.gov/>

3. U.S. Weather Service Atlantic Hurricane and Storm Reports

<http://www.nhc.noaa.gov/>

**Wholesale Natural Gas Market Conditions Summary
July 12, 2010**

Factors	This Month	Summer Season
Oil Prices	Yellow	Yellow
Weather - Temperature	Red	Red
Weather - Hurricanes	Yellow	Red
Economic Conditions	Yellow	Yellow
Storage	Blue	Blue
Natural Gas Supply	Yellow	Yellow
National Security	Yellow	Yellow
Overall	Yellow	Red

Code: Red - Upward Pressure

Blue - Downward pressure

Yellow - No Change

No color - N.A.
Not Applicable