

Oil and Gas Scene



Spring 2013

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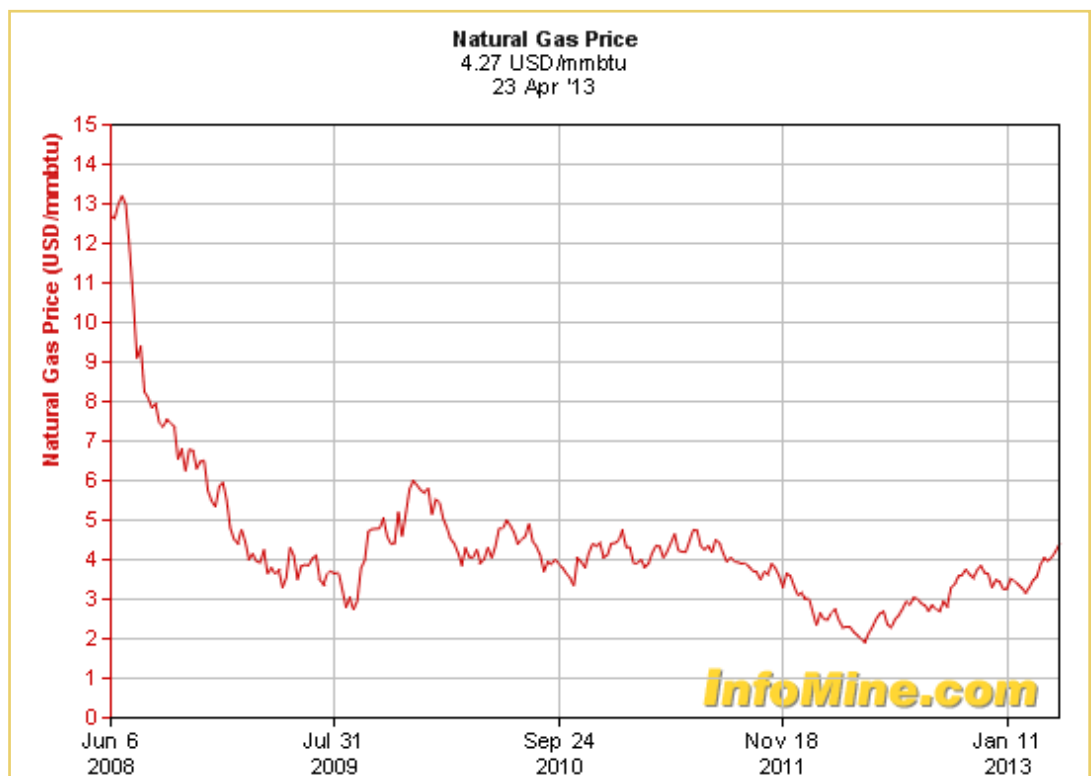
Flying Low on Gas

by David Smith, Vice President - Oil and Gas Management

As a pilot, I occasionally need to fly at a lower altitude below an overcast cloud layer. A heavy lower layer of clouds can limit pilots to fly by visual flight rules at a lower flight level. We often look for smooth air for our passengers and more favorable winds aloft for a faster trip. We call this being stuck on the deck. This means we are going to have a slow and rough flight because we are forced to a lower altitude.

Natural gas prices "are stuck on the deck" as well. This has created a slow and bumpy ride for many exploration and production companies that have large natural gas holdings. Back in 2008, natural gas prices skyrocketed to \$13 per thousand cubic feet and then hit the deck in 2009 at \$2. The prices have continued at low levels for the past three years, reaching the incredible price of \$1.82 a year ago and now sits at just over \$4 per thousand cubic feet. What happened to create this price ceiling? A sluggish economy, a huge surge in shale gas production, as well as some of the mildest winters on record. Those are the low-lying clouds that natural gas prices will be flying under for the next several months.

Continued on reserve side...



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Flying Low on Gas (continued from front)

All indications are that prices will remain in the \$3.50-\$4.50 per thousand cubic feet range for the balance of 2013 and most of 2014. Domestic producers need to see the ceiling raised to the \$5.00-\$6.00 range to make it profitable to begin leasing and drilling again for natural gas. The low gas prices continue to be good news for the consumer in the United States; but even at the \$5 to \$6 range, it would still be cheap compared to the \$10-\$14 per thousand cubic feet consumers are paying in Asia and Europe.

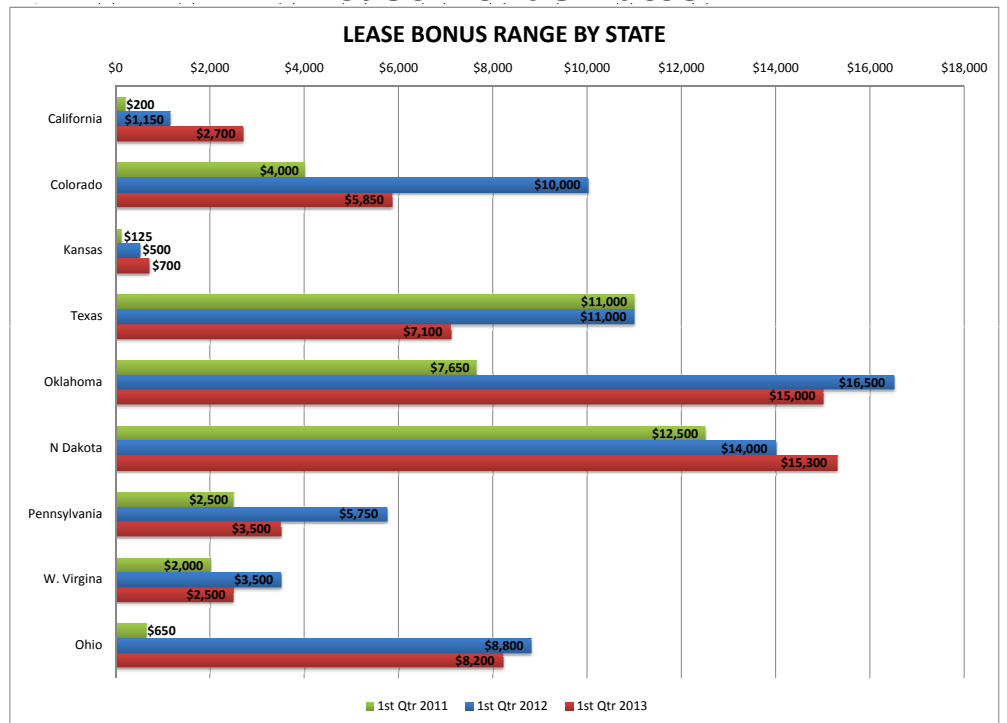
Until we begin to see the natural gas price ceiling raised, producers will continue to focus their capital and drilling attention toward the newly discovered oil plays across the country that have been exploited by using newer fracking techniques and drilling technology. The irony is that oil has been the energy source that has fueled the US economy for the past hundred years. Now, clouds or no clouds, clean burning and abundant natural gas is destined to fuel the US economy for decades to come.

Drilling Activity

The United States drilling rig count one year ago was 1,972. Today, that count is 1,758. That is 214 less rigs drilling today, a 10.8% decrease. Here is a breakdown by State according to Baker Hughes the week of April 19, 2013.

State	Count
Arkansas	15
California	41
Colorado	61
Illinois	2
Indiana	3
Kansas	24
Kentucky	2
Louisiana	108
Mississippi	13
Montana	10
New Mexico	78
New York	1
North Dakota	176
Oklahoma	180
Pennsylvania	60
Texas	837
Utah	31
West Virginia	24
Wyoming	40
Other	52
Total	1,758

Lease Bonus Rates



UPSTREAM STATISTICS

	April 2013	April 2012	2011	2010	ANNUAL % CHANGE
United States					
Average Hughes Rig Count (Rolling 12 Months)	1758	1972	1983	1735	-10.8%
PRICES					
Average WTI Crude Price (Rolling 12 Months)	\$88.76	\$99.89	\$99.54	\$94.60	-11.1%
Average U.S. Spot Market Gas Price (Rolling 12 months)	\$4.27	\$1.92	\$2.32	\$4.20	122.4%
INVENTORIES: EIA EST.					
Crude Oil storage Mmbo**	388	369	363	367	5.1%
Natural Gas storage Bcf**	1704	2498	1408	1736	-31.8%
Source of Hughes Rig Count is Baker-Hughes		**Latest Month - Not YTD			

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