energy insights

acclaim ENERGY ADVISORS

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NATURAL GAS – As expected, this winter has been colder than last year; however, it has been warmer than the 5-year average. NG price action continues to be driven by shifts in weather forecasts, which provide guidance on future heating related demand for natural gas. This year traders have been tracking such shifts closer than ever, and that is why we have seen big jumps in intraday volatility. We expect the March 2013 contract to continue to trade between a \$3.20-\$3.50/MMbtu trading range. Cold temperatures during the second half of February will be supportive of prices, but the high inventory level and recent underperforming injections will keep a lid on prices, avoiding a breakout above the trading range.

The weather outlook for the next couple of weeks is mixed. On the near term a Nor'easter (winter storm NEMO) is expected to affect approximately 10MM people in the Northeast. The latest 6-10 day outlook shows above normal temperatures for the eastern third of the country, but the 8 -14 day outlook is calling for below normal temperatures across most of the continental U.S. (see Chart2).

On Thursday 2/7/13, the market consensus was calling for a fall of 132Bcf for the week ending on 2/1/2013. EIA reported a withdrawal of 118Bcf, which was bearish on most counts. The inventory surplus compared to the 5-year average increased from 12.2% to 15% from last week. The actual pull was above the year-earlier level of 94Bcf, but less than the 5-year average drop of 165bcf for the same week. If withdrawals from inventory for the rest of the winter (ending around 3/31/2013) are in line with the 5-year average pace, inventories will end close to 2.06TCF, which is about 20% above normal.

The table below shows a list of factors that are affecting the trend of supply and demand:

Supply	Direction	Trend
Gross natural gas production in November rose to a record high of 73.55bcf/day	Increase	Bearish
Working gas in storage stands at 2.684Bcf as of Thursday, 2/7/13. Stocks are 7.8% lower than last year and 15% above the 5-year average for the same week.	Decrease	Bearish
Working NG rig count dropped by 6, to 428 on 2/1/2013. Slightly above the 13 yr. record low.	Decrease	Bullish

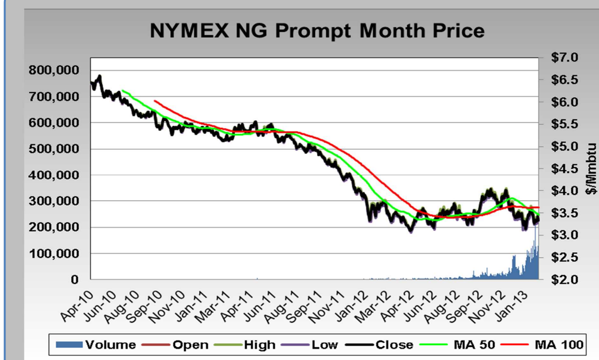

Chart 1- On 2/7/13 NYMEX NG March-2013 Contract settled at \$3.285/MMBtu.

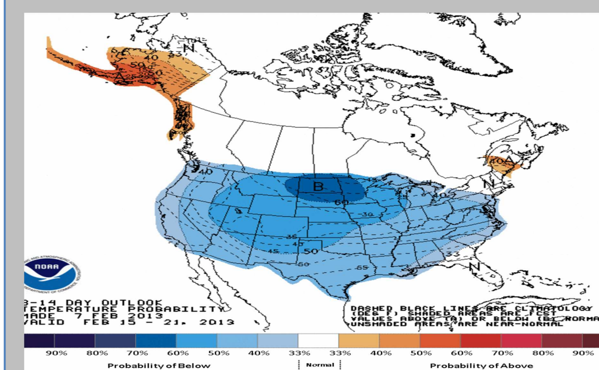

Chart 2- NOAA's 2/7/13 8-14 day outlook.

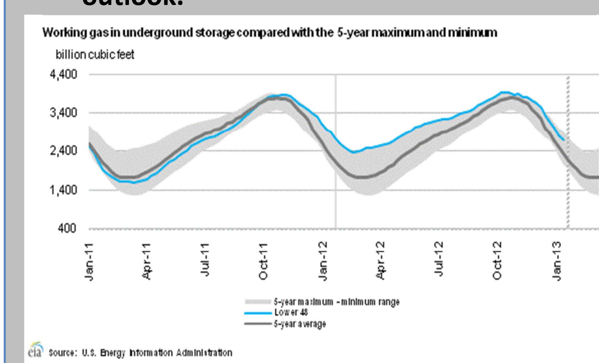

Chart 3- NYMEN NG Strips as of 2/7/13.

Demand	Direction	Trend
EIA reported NG Consumption increased from NOV2011-NOV2012 by 7%.	Increase	Bullish
1-5 Day weather forecast	Increase	Bullish
6-10 Day weather forecast	Decrease	Bearish
15 Day weather Outlook	Increase	Bullish
Above normal Nuclear Plant Outages	Increase	Bullish

Chart 4

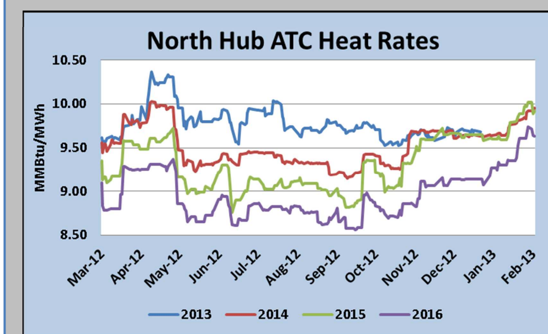

Chart 5

<u>Technical Analysis:</u> During the first week of February-2013 prices consolidated around the $3.30/MMBtu level (see chart 4). On 2/5/13, we noticed a breakout above the congestion range that started to lose momentum yesterday as prices failed to reach the next level of resistance at $3.50/MMbtu. We do expect to see some support around $3.25/MMBtu in light of the cold weather on tap for the week of the 2/18; however, we are in the last stretch of the peak winter season and probabilities for a sustained cold spell are diminishing..

<u>2013 Price Outlook:</u> The EIA increased its estimate for 2013 Henry Hub natural gas prices to $3.74/MMBtu, compared with the previous estimate of $3.68MMbtu. We anticipate seeing a range between $3.40-$4.25/MMBtu.

<u>ERCOT</u>: Forward heat rates were relatively flat between November 2012 and February 2013; however, during the last couple of weeks we have seen a sustained increase for the balance of 2013 through calendar year 2017 (see chart 5). The increase has been mainly driven by higher summer on-peak (5x16) heat rates. Heat rates are directly correlated with real time prices, and in June 2013, the cap will be increased from $4,500/MWh to $5,000/MWh. Not only does a higher cap support the increase in on peak summer heat rates, but heading into spring also increases the probability of price spikes in real time prices. This is due to planned outages of base load capacity during months of low electricity demand. Even though electricity demand is low in the shoulder months, unplanned outages during spring have historically caused real time prices to reach the cap. Typically, these events raise concerns in future summer months where reserve margins are expected to be below ERCOT's 13.75% threshold. In short, we do not expect to see much relief before the spring, and there will be a bullish bias in the market for the reasons described above.

If you have open exposures for the balance of 2013 contact your Acclaim representative to discuss the best strategy for you to weather adverse price movements in the front months.

ACCLAIM Energy Advisors is a full-service energy management firm headquartered in Houston, Texas. We help clients take control of their energy costs by providing a full complement of solutions, including: energy markets information, utility bill verification, energy risk management, energy procurement, energy efficiency, measurement and verification, and strategic energy-planning services. We provide services in both the wholesale and retail markets for electricity and natural gas within deregulated and regulated energy markets across the United States and Canada.

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