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NO SHALE SLOWDOWN

Marcellus, Utica Production Stays Strong Amid Low Prices

By: Bradley Kramer

Oil prices have taken a dive from the highs of last summer, and high production has kept natural gas prices at sustained lows. Despite sinking profits, production remains high, thanks in large part to the major shale regions in the United States. In particular, the Marcellus and Utica plays have made the Northeast United States a shining beacon of energy production.

Since 2012, the Marcellus and Utica plays have provided 85 percent of U.S. shale gas production growth, with productivity of natural gas wells in the region steadily increasing because of ongoing improvements in precision and efficiency of horizontal drilling and hydraulic fracturing, according to the U.S. Energy Information Administration (EIA). Collectively, shale gas production from the Marcellus and Utica regions increased by 12.6 billion cubic feet per day (Bcf/d) from January 2012 to June 2015, making these regions the driving forces behind overall U.S. natural gas production growth.

The Marcellus alone accounted for 21 percent of the natural gas produced in the United States during the first five months of 2015, according to the EIA, which reported that in August the Marcellus would produce 16.5 Bcf/d and the Utica would produce 2.7 Bcf/d.

The Marcellus and Utica shale lie beneath a large section of the Northeast United States and parts of Canada. However, most of the oil and gas activity is concentrated in the tri-state region of Ohio, Pennsylvania and West Virginia.

In 2008, experts estimated that the Marcellus shale contained more than 500 trillion cubic feet (Tcf) of natural gas, with about 10 percent of that being recoverable, which would be enough to supply the entire United States for about two years and have a wellhead value of about \$1 trillion dollars, according to Geology.com, an online resource published by Hobart King, Ph.D., a licensed professional geologist in Pennsylvania.

In 2011, however, the EIA reported that the Marcellus shale contained approximately 410 Tcf of technically recoverable natural gas. The following year the agency revised that number down to 141 Tcf, as it's difficult to estimate the amount of gas in a rock unit that varies in thickness, composition and character and is located thousands of feet underground.

By early 2015, the Marcellus shale was yielding about 14.4 Bcf/d of natural gas. In addition, wells in the western part of the play, near the Pennsylvania-Ohio border and westward, were yielding valuable natural gas liquids (NGL) and small amounts of oil.

The Utica shale lies a few thousand feet below the Marcellus and is thicker than the Marcellus, more geographically extensive and has already shown that it can be of commercial value. The U.S. Geological Survey estimates that the Utica shale's undiscovered, technically recoverable unconventional resources contain about 38 Tcf of natural gas, about 940 million barrels of oil and 208 million barrels of NGLs.

Most of the drilling activity in the Utica shale has occurred in eastern Ohio, where it is closer to the surface. The Ohio Department of Natural Resources estimates a recoverable Utica Shale potential between 1.3 and 5.5 billion barrels of oil and between 3.8 and 15.7 Tcf of natural gas.

The Marcellus and Utica shale has made the tri-state region one of the strongest production areas in North America. However, without enough pipelines to ship natural gas out of the region, profits have sunk, prompting companies to look for ways to save on costs and boost revenues, including cutting jobs and improving efficiency.

Jobs Lost

Job cuts in the oil and gas industry have reached more than 195,000 worldwide, according to some estimates. In August alone, U.S. oil and gas companies and supporting service firms laid off 8,300 workers, according to data released Sept. 4 by the Bureau of Labor Statistics. By contrast, other U.S. industries added 173,000 jobs in August.

The number of workers providing support activities for mining, which includes the extraction of oil and gas, dropped by 2 percent, or about 7,200 jobs, according to an article by Jennifer A. Dlouhy of the Houston Chronicle's FuelFix.com. Another 1,100 oil and gas extraction jobs also were lost in August, representing about 1 percent of that particular workforce.

Continued on page 4.

NGLs: What They Are, and Why You Should Know

By Motley Fool

Propane is a popular natural gas liquid, or NGL.

Whether it's the clean-burning propane or the ethane and butane commonly used to make plastics, rubbers, and various other materials, or as fuels for lighters, stoves, or even vehicles, NGLs are a common and important product of the oil and gas industry.

Let's take a closer look at NGLs and talk about why they matter, and what you need to know.

NGL meaning

"NGL" is shorthand for "natural gas liquids," which are a group of naturally occurring molecular compounds found in natural gas, which in its purified form is methane. Depending on the location of the well and the formation it's in, natural gas is typically between 80% and 95% methane, with the balance made up of the class of compounds lumped together under the NGLs classification:

- ◆ Ethane.
- ◆ Propane.
- ◆ Normal Butane.
- ◆ Isobutane.
- ◆ Pentanes.

Of these, ethane and propane are the two most common and can make up well over half of the NGLs produced along with natural gas from a well. They are byproducts of gas production—not individually produced—and considered contaminants, as they must be removed from the methane before it can be marketed or used.

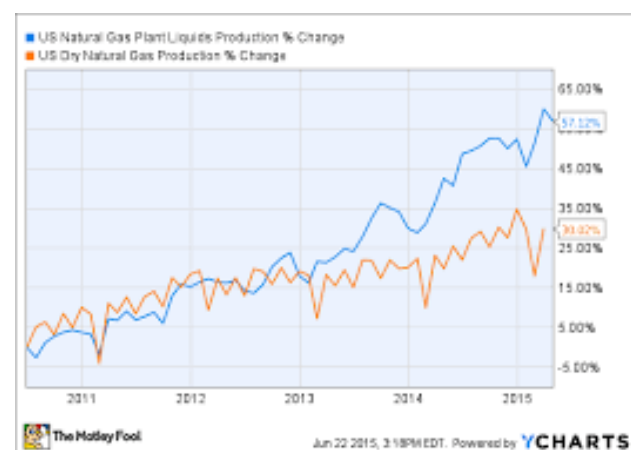
NGLs are *not* LNG

A common mistake people make with NGLs is confusing them with LNGs, or vice-versa. "LNG" stands for "liquefied natural gas," which is natural gas that's been cooled until the gas becomes a liquid, at approximately 260 degrees below zero Fahrenheit.

In short, LNG is still natural gas, methane, just in a liquefied form. NGLs are all of the non-methane parts of natural gas as it comes out of the ground.

Economic value

Their economic value varies, much like that of natural gas and crude oil. From one year to the next, producers may go from seeking so-called "liquids-rich" gas plays to eschewing them. If the volume produced from a well is low, the cost to remove the NGLs may be higher than the value that can be extracted from them on the market. Over the past few years, NGL production has skyrocketed, along with natural gas:



This has been great for consumers of NGLs (both consumers of the products made from NGLs, and manufacturers that use them as feedstocks), but not so great for the producers.

Like oil and even natural gas, NGL production has grown much faster than demand. But the value of NGLs for industry—especially petrochemical manufacturing—is Continued on page 3.

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EPA Study: Hydraulic Fracturing Not Harmful to Drinking Water

A new U.S. Environmental Protection Agency review shows that hydraulic fracturing, when conducted properly, does not have a negative impact on drinking water resources in the United States.

The nearly five-year, congressionally mandated study confirmed what many in the oil and gas industry have been saying for years. The resulting EPA draft assessment, released on June 4, shows that hydraulic fracturing activities in the United States have not led to wide-spread, systemic impacts on drinking water resources. However, the study did show that there are potential vulnerabilities in the water lifecycle that could impact drinking water.

The assessment followed the water used for hydraulic fracturing from water acquisition, chemical mixing at the well pad site, well injection of fracking fluids, the collection of hydraulic fracturing wastewater (including flowback and produced water), and wastewater treatment and disposal.

"EPA's draft assessment will give state regulators, tribes and local communities and industry around the country a critical resource to identify how best to protect public health and their drinking water resources," said Dr. Thomas A. Burke, EPA's Science Advisor and Deputy Assistant Administrator of EPA's Office of Research and Development. "It is the most complete compilation of scientific data to date, including over 950 sources of information, published papers, numerous technical reports, information from stake holders and peer-reviewed EPA scientific reports.

The American Petroleum Institute (API) responded to the EPA announcement to say that results were thanks to the safety and effectiveness of state and federal regulations and current industry practices.

"After more than five years and millions of dollars, the evidence gathered by EPA confirms what the agency has already acknowledged and what the oil and gas industry has known," said API Upstream Group director Erik Milito. "Hydraulic fracturing is being done safely under the strong environmental stewardship of state regulators and industry best practices."

In a June 4 statement, the API cited data from the Ground Water Protection Council that showed state agencies have finalized and estimated 82 groundwater-related rules for oil and gas production from 2009 to 2013, while the EPA was conducting this study.

"Continuous safety improvements have been an ongoing part of hydraulic fracturing for 65 years," Milito added. "That process will continue, with our support, under the oversight of state regulators who are most familiar with their own area's unique geology, hydrology, and other physical characteristics."

Furthermore, Milito said that hydraulic fracturing has been used safely in more than 1 million wells and has resulted in the United States' rise as a global energy superpower, as well as growth in energy investments, wages and new jobs.

"Surging production of natural gas is a major reason U.S. carbon emissions are near 20-year lows," Milito said. "Remaining questions cited by EPA have all been addressed by a wide array of strong state regulations, industry standards, and federal laws."

The API reports that hydraulic fracturing supports more than 2 million U.S. jobs, has increased supplies of oil and natural gas and has helped to put downward pressure on energy prices. Regarding the vulnerabilities found in the EPA review, the agency found specific instances where well integrity and waste water management related to hydraulic fracturing activities impacted drinking water resources, but they were small compared to the large number of hydraulically fractured wells across the country. The report provides valuable information about potential vulnerabilities, some of which are not unique to hydraulic fracturing, to drinking water resources, but was not designed to be a list of documented impacts.

According to the draft assessment, these vulnerabilities to drinking water resources include:

- ◆ Water withdrawals in areas with low water availability;
- ◆ Hydraulic fracturing conducted directly into formations containing drinking water resources;
- ◆ Inadequately cased or cemented wells resulting in below ground migration of gases and liquids;
- ◆ Inadequately treated wastewater discharges into drinking water resources; and
- ◆ Spills of hydraulic fluids and hydraulic fracturing wastewater, including flowback and produced water.

The EPA has also released nine peer-reviewed scientific reports that were a part of the agency's overall hydraulic fracturing drinking water study and contributed to the findings outlined in the draft assessment.

EPA announced that its draft assessment benefited from extensive stakeholder engagement conducted across the country with states, tribes, industry, non-governmental organizations, the scientific community and the public to ensure that the draft assessment reflects current practices in hydraulic fracturing and utilizes all data and information available to the agency.

The study will be finalized after review by the Science Advisory Board and public review and comment.

Shale and Natural Gas Lead U.S. Manufacturing Resurgence

By David Holt, President of Consumer Energy Alliance

Just a short time ago, domestic manufacturing—the one-time, well-oiled engine that helped power the economy—was in the middle of a record-breaking decline with the elimination of more than 6 million jobs, many of which were sent overseas. The fallout weakened the middle class and the American cities that depend on manufacturing to support them, and analysts said conditions would only worsen.

But thanks to advancements in technology and the advent of new drilling techniques, which has lowered energy costs for Americans coast to coast, manufacturing's worst-case scenario never unfolded. Instead, the world's largest energy consumer—America—is now awash in so much shale gas that it has unexpectedly emerged as the new world leader in energy development. And almost every layer of the economy has come out a winner, especially manufacturing.

That's because the energy boom that propelled U.S. shale production to historical peaks and helped cut U.S. carbon emissions to near 20-year lows has made the power needed to run operations here cheaper and more cost effective. As a result, manufacturers that sent operations overseas have considered moving their operations back home; many either have already or have begun doing so.

In fact, the Boston Consulting Group says that more than 50 percent of U.S.-based manufacturing firms worth at least \$1 billion and have operations in China are discussing whether they will send portions or all of their production back home.

Even foreign-based manufacturers, especially those based in Europe, are moving their operations to America. The National Association of Manufacturers explains that America is now more attractive for manufacturing because it beats most of its foreign counterparts in almost every conceivable way.

In China, wages are not only increasing but so are air pollution levels, real estate prices and energy costs—all financial categories that now lean in America's favor. The energy market is also far higher in Europe than it is in the U.S. The developing "onshoring" trend has sent both innovation and investment in American manufacturing skyrocketing. And thanks to lower energy overhead, manufacturers now have the resources to hire more; and it shows.

President Barack Obama says that manufacturing has added more than 500,000 jobs since the beginning of the decade, and the Federal Reserve says that affordable natural gas has boosted job creation since 2006. The U.S. Conference of Mayors, meanwhile, reports that energy-intensive manufacturing sectors added more than 196,000 jobs between 2010 and 2012. HIS Global In-

sights, a consulting and forecasting firm, estimates that unconventional energy development will support close to 400,000 manufacturing jobs by 2015 and 500,000 by 2025.

The National Association of Manufacturers backs this, reporting that the combined upstream, mid-stream and downstream unconventional oil and gas production process and the massive chemical industry benefiting from it will support more than 460,000 combined manufacturing jobs by 2020 and 515,000 by 2025.

The shale renaissance has even supported lesser-known niche industries, like the fertilizer industry, which was greatly diminished at the turn of the century and was expected to go overseas. But today, fertilizer manufacturers are expanding their respective U.S. operations, including CF Industries, a member of Consumer Energy Alliance, which has opened three new plants in the last few years.

Fortunately, the fertilizer industry continues to see growth in the U.S. The American Chemistry Council has stated that approximately \$10 Billion in capital investments have been made to expand fertilizer manufacturing through 2020.

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NGLs: What They Are, and Why You Should Know, continued

significant and should lead to growing demand for NGLs and natural gas over the next decade.

According to the American Chemistry Council, chemical companies have already committed to—and in many cases begun investing—more than \$138 billion in capital spending in the U.S., tied to natural gas and NGLs such as ethane. This new development is estimated to create 383,000 new permanent jobs in the country, both directly in manufacturing and through the additional economic value in consumer spending.

NGLs and investing

As I mentioned, NGLs can be a boon and a bane for producers, depending on their economic value (i.e., market price), the cost to remove and gather them, and the volume that's produced at the well. And as things stand today, NGLs aren't doing producers, or midstream companies that gather and sell them, any favors.

In other words, it's a good practice to understand, just as you would with oil or natural gas, how much a company is exposed to NGL market prices as a percentage of its production.

On the other side of the coin, the petrochemical industry gets a big boost from cheap NGLs, which are common feedstocks, along with natural gas. Everything from fabrics to plastics to fertilizer can be produced from natural gas and its byproducts, and cheap access to plentiful supplies lies behind the major investments the industry is making in America. Some of the companies set to benefit from this growing supply boom of NGLs are the same companies involved in producing and distributing them, including ExxonMobil, Chevron, and Phillips 66, all of which have major manufacturing segments. Chevron and ExxonMobil are also two of the largest natural gas producers in the world, which means they're also major NGL producers.

Shale and Natural Gas Lead U.S. Manufacturing Resurgence continued.

These are all reasons why Americans who support manufacturing have been, and will continue to, counter the misleading efforts by special interest conglomerates like the Sierra Club and the Food and Water Watch, who use hysteria rather than science to stop their neighbors from earning new prosperity. The continued development of shale is reigniting industries once lost to the high cost of energy. People are going back to work. Economically depressed cities, once boarded up and abandoned, are becoming manufacturing and energy capitals once again.

In Colorado, for instance, companies have invested billion of dollars in developing the Niobara shale in Northern Colorado. The resulting positive economic impacts can be seen statewide from school districts to homeowners to local businesses. More than 111,000 Coloradans are employed by the oil and gas industry, and the impact of these jobs indirectly created thousands of more jobs for Coloradans across every major sector including real estate, construction, education, agriculture, hospitality and above all else, manufacturing sector. Other states with large shale formations producing record quantities of natural gas, such as Texas, Ohio, Pennsylvania, West Virginia and North Dakota, have reported similar manufacturing boosts.

Advancing shale energy is unquestionably the wave of the future, not just for tax revenue, school funding, and lower electricity costs, but also for increases in innovation, technology and job growth, in American manufacturing and beyond.

Natural gas is no longer the ugly stepchild

San Antonio Business Journal

Marsha. Marsha. Marsha.
Natural gas has always been the "Jan Brady" to crude oil's "Marsha Brady."

Everyone fawns over crude oil while natural gas has to remain content in the shadows. But all that changed in 2015 where natural gas is starting to come into its own.

Crude oil prices went on a wild roller coaster ride and hit seven-year lows just below \$36 per barrel in December. With record production from the shale revolution, natural gas is also trading at historic lows but is promising to have huge market potential.

One area where natural gas has emerged as a winner is electricity generation.

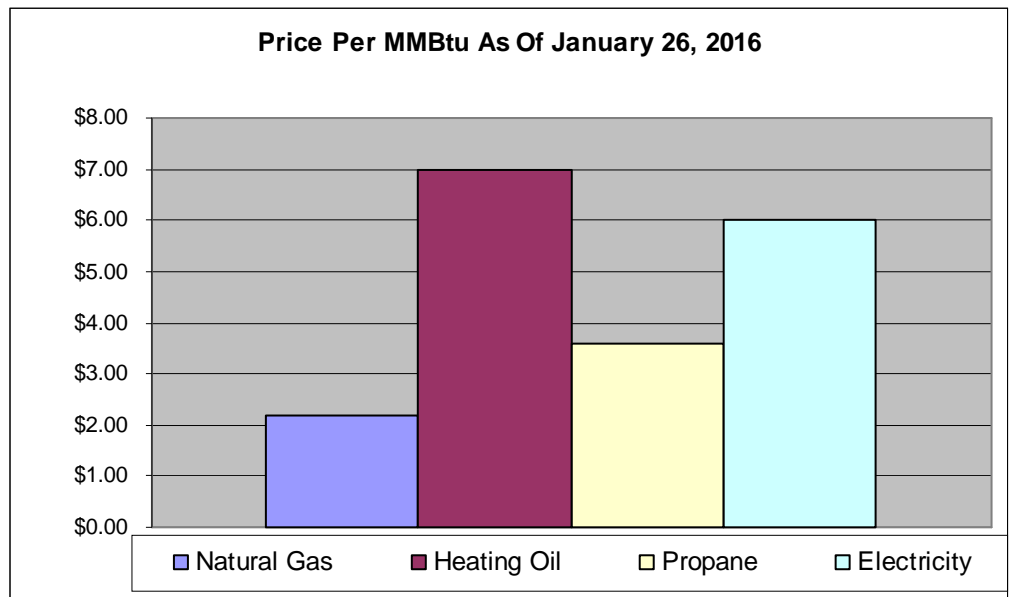
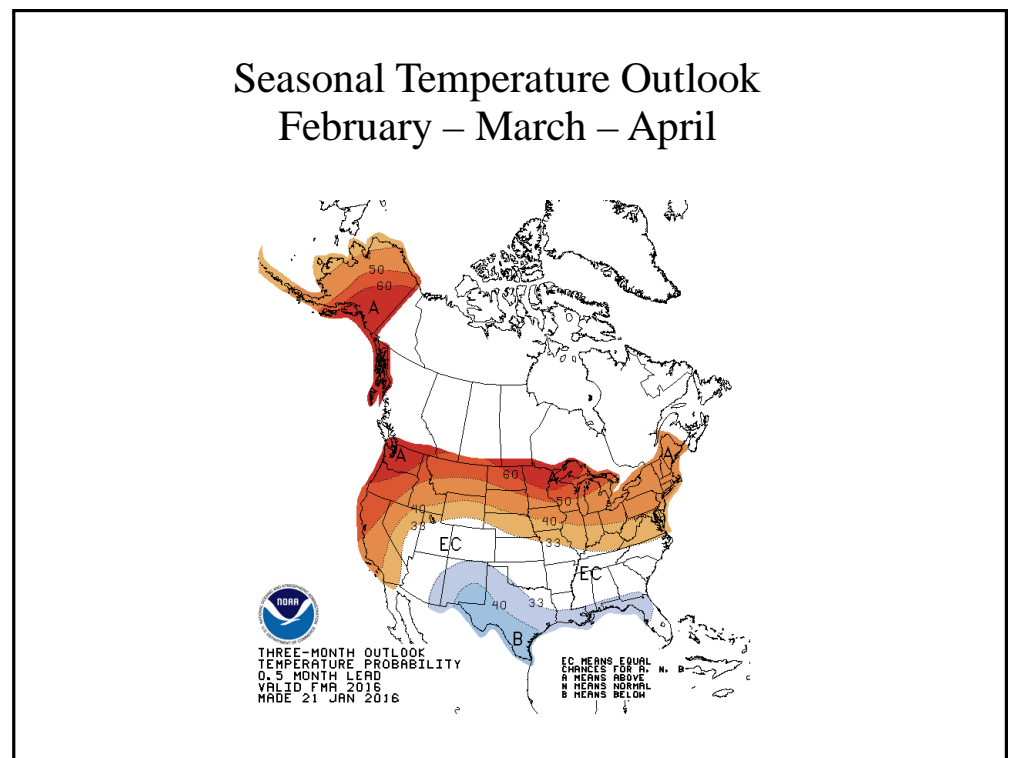
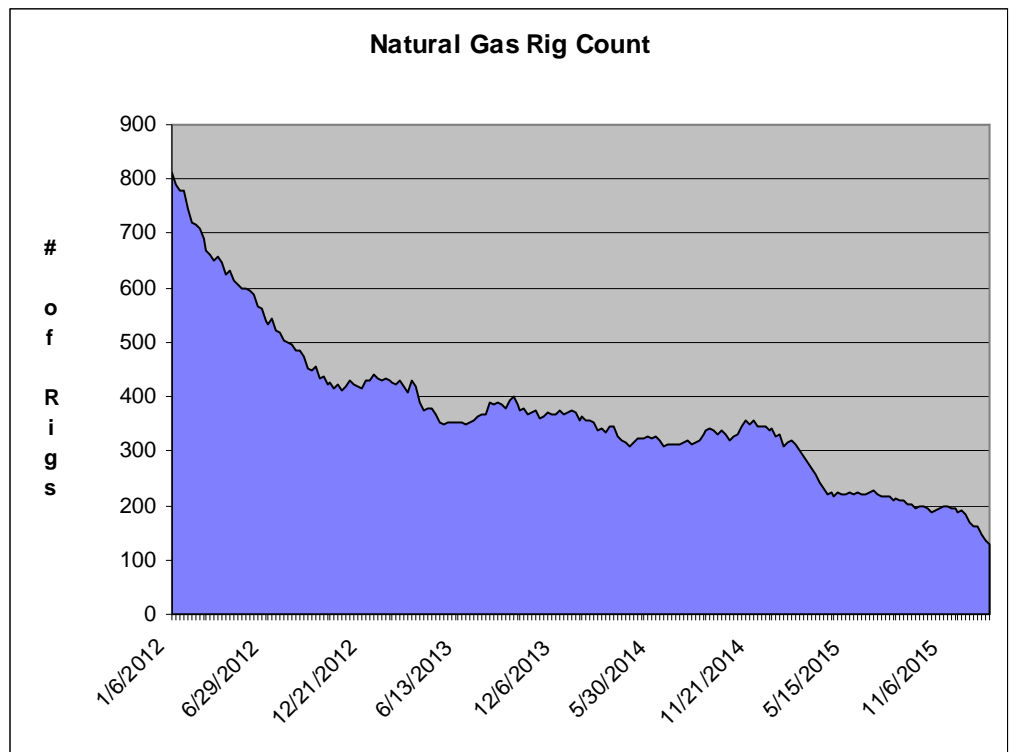
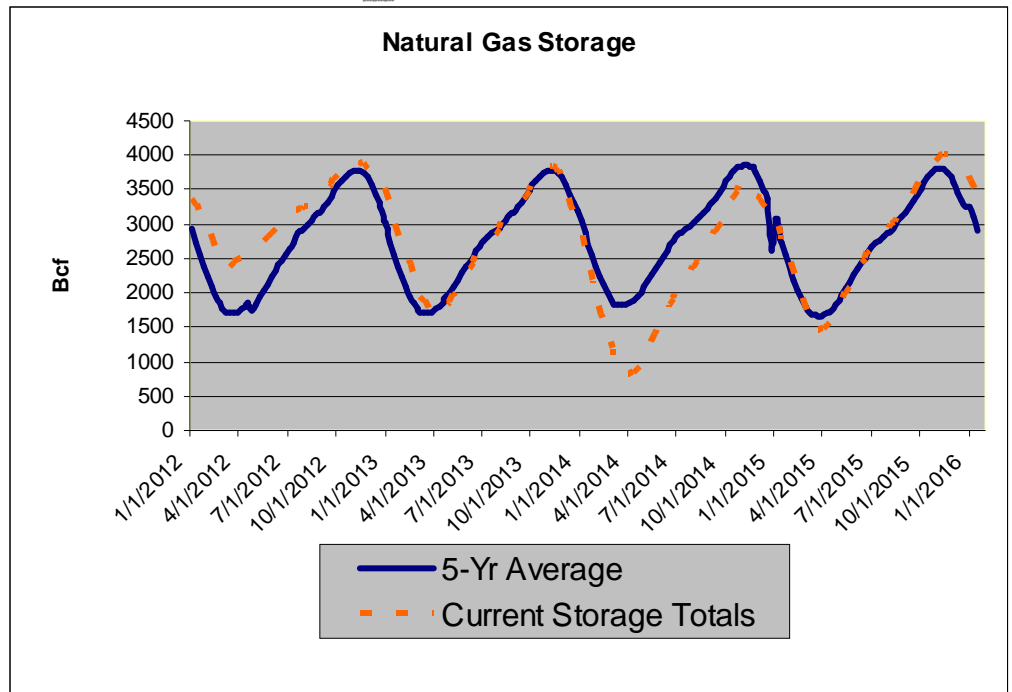
The U.S. Energy Information Administration reports that natural gas has become the cheapest source of power production. EIA figures show it costs \$869 million to build a natural gas power plant capable of generating 1,000 megawatts of electricity compared to \$2.72 billion for coal and \$4.64 billion for nuclear. Utilities are turning away from polluting coal plants and switching to cleaner burning natural gas for reliable baseload power.

Another area where natural gas is showing promise is in the transportation sector. Compressed natural gas, or CNG, vehicles are becoming more and more common in commercial and public transportation fleets. To meet the growing demand, companies like TravelCenters of America LLC are adding natural gas fueling stations across the country.

All eyes in the natural gas industry are on the Texas Gulf Coast where three liquefied natural gas export terminals are under construction in Port Arthur, Freeport and Corpus Christi. Companies like Houston-based Cheniere Energy plan to take natural gas from the Eagle Ford Shale and Permian Basin, liquefy it and export it to lucrative markets in Latin America, Europe and Asia.

Natural gas producers in both the Eagle Ford and Permian Basin stand to benefit from a unique set of circumstances south of the border in Mexico. Although the Mexican government approved sweeping energy reforms, Mexico still does not produce enough natural gas to meet growing demand for power plants, automobile factories, aerospace manufacturing facilities and maquiladoras. Because Mexico needs to import 40 percent of its natural gas, a number of cross-border pipelines are being built in Texas. Mexico's Federal Electricity Commission, or CFE, is spending billions of dollars on the natural gas pipeline projects over the next few years.

Snapshots



No Shale Slowdown

Continued from page 1.

Since oil prices started their descent in June 2014, when U.S. benchmark West Texas Intermediate crude topped out at \$107.26 per barrel, the deepest cuts have come from the ranks of oilfield service firms and drilling contractors, not the upstream exploration workforce. Dlouhy reports that about 14 percent of the country's mining support jobs have been cut since July 2014 compared to about 3 percent of upstream oil and gas extraction jobs during the same time.

However, the BLS data may not show the whole picture. Oklahoma-based Continental Resources estimates more than 90,000 lost jobs across the energy industry since prices started falling last summer, Dlouhy writes. And more recently, ConocoPhillips announced Sept. 1 that it would cut about 10 percent of its global workforce.

Efficiency Gains

To combat a contracting workforce and to make up for low prices, companies are seeking efficiency gains in the hydraulic fracturing process. The U.S., Department of Energy's National Energy Technology Laboratory (NETL) and its partners, West Virginia University (WVU), Northeast Natural Energy (NNE) and the Ohio State University, have been studying unconventional gas production in the Marcellus shale in part to improve operational efficiency.

As part of the Marcellus Shale Energy and Environmental Laboratory (MSEEL) project launched in fall 2014, the research team began drilling an observational well in Morgantown, West Virginia, on June 27. The project will facilitate a number of research topics and provide a venue to train and educate next-generation scientists and engineers.

Researchers will use the vertical science well, situated between the two horizontal production wells, to gather valuable information that will assist with optimizing well placement and hydraulic fracture design within the Marcellus shale.

During final drilling and completion operations of the two production wells later this fall, NNE will deploy technologies not yet widely used in the industry to assess their potential to improve operational efficiency and lower the overall environmental footprint of unconventional oil and gas operations. Some of these technologies include bi-fuel (e.g., natural gas and diesel) drilling and completion units, dissolvable fracture plugs, coil-assisted fracturing and dynamically engineered fracture design based on logging-while-drilling of the production laterals.

While the industry seeks to improve efficiency during this market downturn, natural gas production across all major shale regions is projected to decrease for the first time in September, according to the EIA. In its Aug. 26 Drilling Productivity Report, a near-term assessment of the Marcellus, Utica, Bakken, Eagle Ford, Haynesville, Permian, and Niobrara plays, all but the Utica were scheduled for a drop off.

Production from these seven shale regions reached a high in May at 45.6 billion cubic feet per day (Bcf/d) and is expected to decline to 44.9 Bcf/d in September, the EIA reported. In each region, production from new wells is not large enough to offset production declines from existing, legacy wells.

The Utica region in eastern Ohio was the only region expected to show production increases in June, July and August, according to the EIA. New-well natural gas production per rig is estimated to be about 7 MMcf/d, an increase of 47 percent from September 2014. Production from new wells is expected to reach 52.2 MMcf/d in September, partially countering the decline from legacy wells in the Utica.

However, the overall pace of drilling in the Utica has fallen as a result of low benchmark prices, according to an Aug. 9 article by Shane Hoover of the Canton (Ohio) Repository. Rig counts have declined in Ohio from 59 rigs operating in December 2014 to 20 as of Aug. 1. Benchmark natural-gas prices dropped from a high around \$6 per 1,000 cubic feet in February 2014 to a low of \$2.68 in April 2015, and prices are projected to stay below \$4 per 1,000 cubic feet for the next several years as production exceeds demand. In some parts of Pennsylvania, prices as low as \$1 per 1,000 cubic feet were reported.

More Capacity

One way to improve revenues from Marcellus and Utica production is to move the product to a market with better prices. On Aug. 1, the Rockies Express Pipeline (REX) started to deliver 1.8 Bcf/d of Appalachian natural gas production west on its existing mainline as part of the Zone 3 East-to-West Project, delivering natural gas to the Midcontinent region, according to the EIA.

This increase in takeaway capacity may encourage increased production from regions such as the Marcellus and Utica. Other projects, such as Kinder Morgan's Tennessee Gas Pipeline and Spectra Energy's Texas Eastern Transmission, will add about 3.4 Bcf/d of capacity through 2017. Still others, such as NEXUS and Rover, are in the planning stages.



Even as natural gas production is expected to slowdown, the Marcellus-Utica tri-state region is still expected to produce more than it can use and will become a net exporter in 2015, according to a Sept. 1 article by Pittsburgh Post-Gazette reporter Stephanie Ritenbaugh. Most Marcellus gas is sent to the Midwest, Southeast and Canada, but eventually it will have access to Mexico through pipelines and globally through liquefied natural gas (LNG) exports.

"In terms of global markets, a bevy of projects are in the works to export liquefied natural gas," Ritenbaugh writes. "The closest such facility, Dominion Resource's Cove Point project in Maryland, will be able to ship 0.7 Bcf/d of LNG overseas starting in late 2017. Late this year, Cheniere Energy's Sabine Pass will begin shipping LNG from the Gulf Coast."

By November, infrastructure projects should bring about 3.9 Bcf/d of new capacity to the Northeast, with production forecasted to grow about 3.4 Bcf/d at that time, she adds, citing information from Bentek.

Silver Lining

However, it's not all doom and gloom. According to an annual report from the International Energy Agency (IEA), global demand for natural gas continues to grow.

Despite a marked slowdown in 2013 and 2014, lower prices will feed a pick-up in demand over the next five years. The IEA's 2015 Medium-Term Gas Market Report released in June projected global demand for natural gas to rise by 2 percent per year by the end of 2020. That number is a slightly downward revision of previous projections that showed 2.3 percent yearly growth. A significant reason for the downward revision is weaker gas demand in Asia, where persistently high gas prices had caused consumers to switch to other options.

In the short term, gas demand will benefit from plunging prices, but the report adds that the long-term outlook for gas has become more uncertain.

"For the fuel to make sustained inroads in the energy mix, confidence in its long-term competitiveness must increase," the report says.

On the supply side, the report notes that lower oil prices will have a major impact on gas upstream and infrastructure investment. Companies are cutting capital expenditures and refocusing on core assets with fast returns, which will unavoidably lead to lower production growth over the medium term.

Due to their capital-intensive nature and long lead times, LNG projects are soft targets for investment reductions and several of them are likely to be delayed or even cancelled, the IEA says. If current low prices persist, LNG markets could start tightening substantially by 2020, with demand gradually absorbing the large supply upswing expected over the next three years.

In the short term, gas markets will need to cope with a flood of new LNG supplies. The report projects global LNG export capacity to increase by more than 40 percent by 2020, with 90 percent of the additions coming from Australia and the United States. Lower oil prices pose little risk to the timing of projects already under construction. Project operators in the United States have limited price exposure once deals have been signed. New projects, however, will struggle to get off the ground at current prices.

As LNG supplies surge over the next five years, Europe is set to offer an important outlet for producers. The IEA report projects that the region's LNG imports will roughly double between 2014 and 2020.

It's clear that global demand for cheap energy will remain strong over the next five years, but producers must find a way to get their product to market. Meanwhile, efficiency gains can help shore up the bottom line during these lean times. The Marcellus and Utica shale plays provide an example of how companies can build out new infrastructure and find new uses for existing pipelines and facilities to improve their return on investment.

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The IMGA Evening Report is an excellent way to stay up to date on NY-MEX prices, weather, gas storage, and industry news. Each issue includes the days closing market prices for natural gas futures and crude oil, as well as a short commentary on market movement and industry related news.

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