



Friday, October 26, 2007

## **Drilling, Demand, Dust, Storage, Weather and Other Meaningful Stuff**

Anybody notice that this week there seemed to be an extra share of bearish inputs from across the gas market as we head into what looks like a pretty tame Winter heating season? EIA comes out with a redo of sorts about the age-old question of “how full is full” this week (see story above), EIA and other industry groups tell us that production is up nicely this year, LNG imports have risen, the economy is slowing down, housing is in the basement and the big news -- the weather is expected to be even tamer than last year. We pulled some bits from half a dozen of the leading weather forecasting firms’ latest Winter assessments and there seems to be relative consensus among the various wizards. We also heard this week that the dust situation in the upper atmosphere recently had a hand in defining the Atlantic’s lamest hurricane season in many moons (story at right).

This week WSI Corporation, AccuWeather, Weather Insight, Weather Intel Services, various government agencies and some professional dart players issued their latest seasonal outlooks for the upcoming Winter period (the next three months). WSI expects the upcoming three months to average warmer than normal in all locations except for parts of the northern Rockies, northern Plains, and extreme northern New England. The WSI November forecast indicates warmer than-normal temperatures across the entire northern tier of the country, except Washington and Oregon. WSI says that this will delay early season heating demand for gas and should extend the injection period for natural gas into storage. Thanks to the extra storage capacity, this year’s tally should be enormous, if the weather plays nice.

The WSI December forecast indicates colder-than normal temperatures across the northern and eastern regions of the country, particularly in the north-central region. Cold weather across all the major heating-demand areas in December should be bullish for gas prices, but supply concerns are likely to be moderated by high natural gas inventories at the start of the heating season in mid-November, WSI says. The WSI January forecast indicates warmer-than-normal temperatures in the Northeast and much warmer-than-normal in the Southeast. Warmer temperatures in January would tend to reduce the chances for extended cold snaps, which would provide price volatility in natural gas, WSI says. But the La Niña event could bring occasional shorter periods of very cold weather. Natural gas demand should be below normal given the generally warmer profile across most regions.

AccuWeather’s chief long-range forecaster, Joe Bastardi, called for a cooler-than-normal beginning and end to this Winter, and lots of warmer-than-normal stuff in the middle. Bastardi said that this year may be even warmer than last year. For November through March,

AccuWeather forecast a warmer Winter than last year on the whole, especially in the second half of January and February. He went on to say that while the two bookends of the season – November and March – may be colder than normal, temperatures between December and February could make the Winter of 2007-2008 as warm as the 1998-1999 and 2001-2002 Winters.

Steve Gregory of WeatherIntel Services says that since September he's been indicating an ever-increasing probability of a warm Winter ahead. "We have reached the point where the overwhelming preponderance of evidence supports a very warm Winter in the key demand regions of the nation, and the chances of being wrong are as low as I have seen them. I cannot emphasize this enough – I have never seen so many indicators pointing to a warm Winter. I literally can find nothing to suggest that this will not occur," he says. He says he wouldn't be surprised if this turned out to be the warmest Winter on record.

More immediately, WeatherInsight's Dave Melita tells us the second half of November is forecast to be warmer relative to averages than the first half of the month, "with seasonal temperatures replacing cold air outbreaks focused into the Great Lakes and Northeast." Meanwhile he says above-average warmth will be re-established across the southern US from California through the Southwest and Texas to the Southeast and mid-Atlantic Coast. Melita isn't calling for an extremely warm Winter just yet, rather he qualifies it to "average out at seasonal or below-average seasonal temperatures during the upcoming Winter, with above-average warmth confined to the South."

Melita says that Southwestern and Southeastern droughts are forecast to continue through Winter 2007-08 due to continued below-average precipitation. "Strong temperature and dew point discontinuity between southern US above-average warmth and periodic cold air focused deep into the central US will lead to an above-average number of snow and ice storms, with the latter icing events focused through the Ohio Valley into the mid-Atlantic region and Northeast," he says. This is news to us. As Melita tends to be right more than most folks we hear from, that last little detail might be worth factoring into your Winter strategy. He also says that "recently developed La Niña conditions are viewed as having reached their peak, and are expected to moderate to the point of insignificance to temperature and precipitation across North America during the upcoming Winter."

NOAA also forecast recently that above-average temperatures over most of the country and a continuation of drier-than-average conditions across much of the Southwest and Southeast is a gimme. The agency's updated heating degree day forecast for December through February projected a 3.4 percent warmer Winter than the 30-year normal, but a 0.7 percent cooler Winter than last year. Additionally, the entire eastern and central slices of the country are expected to see warmer-than-normal temps with the south-central region recording the warmest temperatures above normal, NOAA said.