

Municipal Gas Systems of Oklahoma

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MEMORANDUM

To: Municipal Gas Systems of Oklahoma (MGSO)

From: Shane Woolbright
General Manager

Re: Gas Industry News for February 2012

Date: January 26, 2012

Gas Prices Continue Plummet

Gas prices continued to decline this month with Boone Pickens stating that he would not be surprised to see short term gas rates drop below \$2.00 per mcf. Many advisors were suggesting that it was time to hedge some gas for the future. In mid-January four year gas contracts were being priced at \$3.50 per mcf by some brokers. That price is below the cost of finding new gas according to Chesapeake and Devon spokesmen. The low price give impetus to those trying to convince the Obama Administration to support exports of natural gas to increase the sales and continue to push to find more gas.

I would be one who would likely hedge half my gas buys for some time at current rates. The down side seems to be small while the upside is much greater. Of course, I have always wanted to hedge some amount of gas and doing so has been a higher cost than buying purely spot gas for the past few years. Still, for your consumers, locking in some low-priced gas may be a good choice now.

Meanwhile on Capitol Hill

Neither the Senate nor the House is giving much indication of what they want to accomplish this year other than political posturing. The major House measure announced thus far is an energy bill that would fund infrastructure improvements by expanding domestic oil drilling in the Gulf of Mexico and the Alaska National Wildlife Reserve. Both of these items have been debated for 30 years so their inclusion is an indication that Speaker Boehner wants to rehash old debates. In light of the Deepwater Horizon disaster, major expansion in the Gulf will not see

the local support of Gulf States is it once did. Bills to support and expand use of natural gas as a vehicle fuel seem stalled by oil company objections.

Not waiting on Congress, Boone Pickens Clean Energy Fuels Corporation unveiled its America's Natural Gas Highway which will have 150 new fueling stations for natural gas vehicles with half being done this year. The corridors are San Diego to Los Angeles, Houston-San Antonio- Dallas, Houston to Chicago and Chicago to Atlanta. Pilot-Flying J Travel Centers will be heavily involved. There are 550 of these nationwide, and they will be taking a lead at adding fueling stations for truckers.

Kenworth and Cummins will have next-generation gas trucks and engines relatively soon with prices similar to diesel units.

The move to natural gas fueling is very expensive, but the mark-up for the retailer for natural gas is about six times as much as the mark-up for gasoline. So we can expect the interstate fuel stations to move in this direction even if Congress won't get in the act of helping.

The American Public Gas Association board recently established a Natural Gas Vehicles Task Force to aid cities in the transition to natural gas vehicles. The Task Force will focus on three areas: To act as a clearinghouse for information on NGVs, to provide advice to members on matters about NGVs, and to play an active role in NGV-related advocacy. To become a member or to participate, contact Dave Schryver at dschryver@apga.org.

At the Capitol in OKC

While over 2,000 new pieces of legislation have been introduced in the legislature this month, none are directly of interest of municipal gas distribution at this time. There are many affecting the Corporation Commission and city governments in general, but I saw none that were objectionable to gas distributors.

Gas Rate Survey

Attached to this newsletter is our gas rate survey for January of 2012. Amounts are printed as reported to us.

If your city is not listed in the survey, please send us what you billed for the various amounts (20 mcf and 100 mcf for commercial service and 20 and 10 mcf for residential service) and we will insert your city in the survey and send you a new one.

Training

We sent out a survey form for various types of training and got very little response to those surveys for SHRIMP or employee training. I will continue to work on this to try to get enough folks for a class.

Markey Questions Gas Exports

Representative Markey, a long-serving liberal representative from Massachusetts, has formally asked Secretary of Energy Chu to justify the Obama Administration's support of export of US produced natural gas. Markey cited the municipal position opposing natural gas exports in the letter. He asks that the administration provides several justifications for the action. The American Public Gas Association has not supported exports due to the possibility of increases in the price for natural gas here if major amounts are exported.