

United States Natural Gas Fund, LP
Form 10-Q
November 12, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2013.**

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .**

Commission File Number: 001-33096

United States Natural Gas Fund, LP
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-5576760
(I.R.S. Employer
Identification No.)

1999 Harrison Street, Suite 1530
Oakland, California 94612
(Address of principal executive offices) (Zip code)

(510) 522-9600
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes
☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: United States Natural Gas Fund, LP - Form 10-Q

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

UNITED STATES NATURAL GAS FUND, LP

	Page
Part I. FINANCIAL INFORMATION	
Item 1. Condensed Financial Statements.	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	43
Item 4. Controls and Procedures.	46
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings.	46
Item 1A. Risk Factors.	46
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	46
Item 3. Defaults Upon Senior Securities.	46
Item 4. Mine Safety Disclosures.	46
Item 5. Other Information.	46
Item 6. Exhibits.	47

Part I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements.

Index to Condensed Financial Statements

Documents	Page
Condensed Statements of Financial Condition at September 30, 2013 (Unaudited) and December 31, 2012	2
Condensed Schedule of Investments (Unaudited) at September 30, 2013	3
Condensed Statements of Operations (Unaudited) for the three and nine months ended September 30, 2013 and 2012	4
Condensed Statement of Changes in Partners' Capital (Unaudited) for the nine months ended September 30, 2013	5
Condensed Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2013 and 2012	6
Notes to Condensed Financial Statements for the period ended September 30, 2013 (Unaudited)	7

United States Natural Gas Fund, LP
Condensed Statements of Financial Condition
At September 30, 2013 (Unaudited) and December 31, 2012

	September 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents (Notes 2 and 5)	\$ 847,246,412	\$ 1,100,510,722
Equity in UBS Securities LLC trading accounts:		
Cash and cash equivalents	130,182,040	144,803,499
Unrealized loss on open commodity futures contracts	(47,006,220)	(14,596,843)
Unrealized gain (loss) on open swap contracts	394,058	(3,470,939)
Receivable for units sold	11,004,516	19,007,766
Dividend receivable	9,304	16,356
Other assets	37,013	11,953
Total assets	\$ 941,867,123	\$ 1,246,282,514
Liabilities and Partners' Capital		
Payable for units redeemed	\$ -	\$ 57,644,550
Professional fees payable	1,100,993	1,602,883
General Partner management fees payable (Note 3)	462,739	585,420
Brokerage commissions payable	81,750	122,250
Interest payable	153	153
Other liabilities	42,631	54,602
Total liabilities	1,688,266	60,009,858
Commitments and Contingencies (Notes 3, 4 and 5)		
Partners' Capital		
General Partner		
Limited Partners	940,178,857	1,186,272,656
Total Partners' Capital	940,178,857	1,186,272,656
Total liabilities and partners' capital	\$ 941,867,123	\$ 1,246,282,514
Limited Partners' units outstanding	51,366,476	62,866,476
Net asset value per unit	\$ 18.30	\$ 18.87
Market value per unit	\$ 18.28	\$ 18.90

See accompanying notes to condensed financial statements.

United States Natural Gas Fund, LP
Condensed Schedule of Investments (Unaudited)
At September 30, 2013

	Number of Contracts	Unrealized Loss on Open Commodity Contracts	% of Partners' Capital
Open Futures Contracts Long			
United States Contracts			
ICE Natural Gas Futures LD1 H November 2013 contracts, expiring October 2013	29,993	\$ (16,180,090)	(1.72)
NYMEX Natural Gas Futures NG November 2013 contracts, expiring October 2013	13,580	(25,455,160)	(2.71)
NYMEX Natural Gas Futures NN November 2013 contracts, expiring October 2013	9,952	(5,370,970)	(0.57)
Total Open Futures Contracts***	53,525	\$ (47,006,220)	(5.00)

	Principal Amount	Market Value	
Cash Equivalents			
United States Treasury Obligations			
U.S. Treasury Bills:			
0.07%, 10/31/2013*	\$ 100,000,000	\$ 99,993,920	10.64
0.06%, 11/21/2013	65,000,000	64,994,475	6.91
Total Treasury Obligations		164,988,395	17.55

United States - Money Market Funds			
Fidelity Institutional Government Portfolio - Class I	101,608,278	101,608,278	10.81
Goldman Sachs Financial Square Funds - Government Fund - Class SL	150,508,087	150,508,087	16.01
Morgan Stanley Institutional Liquidity Fund - Government Portfolio	200,495,952	200,495,952	21.32
Wells Fargo Advantage Government Money Market Fund - Class I	100,001,712	100,001,712	10.64
Total Money Market Funds		552,614,029	58.78
Total Cash Equivalents		\$ 717,602,424	76.33

Open Over-the-Counter Total Return Swap Contracts

	Notional Amount**	Market Value	Unrealized Gain	Termination Dates	Collateral Pledge
Swap agreement to receive return on the Custom Natural Gas Index (UNG) - Excess Return	\$ 100,892,244	\$ 394,058	\$ 394,058	10/23/2013	\$ 15,239,140 ****

*Security or partial security segregated as collateral for open over-the-counter total return swap contracts.

*** The aggregate notional amount of USNG's over-the-counter swap transactions represented 10.71% of USNG's total assets as of September 30, 2013.*

**** Collateral amounted to \$130,185,922 on open futures contracts.*

***** Financial instruments.*

See accompanying notes to condensed financial statements.

United States Natural Gas Fund, LP
Condensed Statements of Operations (Unaudited)
For the three and nine months ended September 30, 2013 and 2012

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Income				
Gain (loss) on trading of commodity contracts:				
Realized gain (loss) on closed futures contracts	\$ (7,662,805)	\$ 120,434,518	\$ 69,898,707	\$ (200,481,655)
Realized gain (loss) on closed swap contracts	(14,494,336)	21,863,449	(6,290,828)	(64,420,592)
Change in unrealized gain (loss) on open futures contracts	(2,591,930)	(34,822,414)	(32,409,377)	109,485,403
Change in unrealized gain (loss) on open swap contracts	11,245,517	(1,242,090)	3,864,997	22,100,866
Dividend income	28,790	29,534	100,407	82,332
Interest income	40,717	85,497	141,104	150,367
Other income	51,000	60,000	173,000	166,000
Total income (loss)	(13,383,047)	106,408,494	35,478,010	(132,917,279)
Expenses				
General Partner management fees (Note 3)	1,392,568	1,671,929	4,317,497	4,387,127
Brokerage commissions	615,823	848,929	1,814,781	2,799,540
Professional fees	415,870	276,910	1,313,124	891,829
Other expenses	86,424	86,878	255,998	220,730
Total expenses	2,510,685	2,884,646	7,701,400	8,299,226
Net income (loss)	\$ (15,893,732)	\$ 103,523,848	\$ 27,776,610	\$ (141,216,505)
Net income (loss) per limited partnership unit	\$ (0.59)	\$ 2.09	\$ (0.57)	\$ (4.52)
Net income (loss) per weighted average limited partnership unit	\$ (0.32)	\$ 1.79	\$ 0.57	\$ (2.73)
Weighted average limited partnership units outstanding	49,127,346	57,783,867	48,795,780	51,759,859

See accompanying notes to condensed financial statements.

United States Natural Gas Fund, LP
Condensed Statement of Changes in Partners' Capital (Unaudited)
For the nine months ended September 30, 2013

	General Partner	Limited Partners	Total
Balances, at December 31, 2012	\$	\$ 1,186,272,656	\$ 1,186,272,656
Addition of 86,600,000 partnership units		1,700,911,332	1,700,911,332
Redemption of 98,100,000 partnership units		(1,974,781,741)	(1,974,781,741)
Net income		27,776,610	27,776,610
Balances, at September 30, 2013	\$	\$ 940,178,857	\$ 940,178,857
Net Asset Value Per Unit:			
At December 31, 2012			\$ 18.87
At September 30, 2013			\$ 18.30

See accompanying notes to condensed financial statements.

United States Natural Gas Fund, LP
Condensed Statements of Cash Flows (Unaudited)
For the nine months ended September 30, 2013 and 2012

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Cash Flows from Operating Activities:		
Net income (loss)	\$ 27,776,610	\$ (141,216,505)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Increase) decrease in commodity futures trading account cash and cash equivalents	14,621,459	(44,148,580)
Unrealized (gain) loss on open futures contracts	32,409,377	(109,485,403)
Unrealized gain on open swap contracts	(3,864,997)	(22,100,866)
(Increase) decrease in dividend receivable	7,052	(1,553)
Increase in interest receivable		(373)
Increase in other assets	(25,060)	(8,602)
Decrease in investment payable		(772)
Decrease in professional fees payable	(501,890)	(884,979)
Decrease in General Partner management fees payable	(122,681)	(57,467)
Decrease in brokerage commissions payable	(40,500)	(30,000)
Decrease in other liabilities	(11,971)	(32,500)
Net cash provided by (used in) operating activities	70,247,399	(317,967,600)
Cash Flows from Financing Activities:		
Addition of partnership units	1,708,914,582	1,949,325,153
Redemption of partnership units	(2,032,426,291)	(1,723,420,515)
Net cash provided by (used in) financing activities	(323,511,709)	225,904,638
Net Decrease in Cash and Cash Equivalents	(253,264,310)	(92,062,962)
Cash and Cash Equivalents, beginning of period	1,100,510,722	938,678,961
Cash and Cash Equivalents, end of period	\$ 847,246,412	846,615,999

See accompanying notes to condensed financial statements.

United States Natural Gas Fund, LP
Notes to Condensed Financial Statements
For the period ended September 30, 2013 (Unaudited)

NOTE 1 ORGANIZATION AND BUSINESS

The United States Natural Gas Fund, LP (“USNG”) was organized as a limited partnership under the laws of the state of Delaware on September 11, 2006. USNG is a commodity pool that issues limited partnership units (“units”) that may be purchased and sold on the NYSE Arca, Inc. (the “NYSE Arca”). Prior to November 25, 2008, USNG’s units traded on the American Stock Exchange (the “AMEX”). USNG will continue in perpetuity, unless terminated sooner upon the occurrence of one or more events as described in its Fourth Amended and Restated Agreement of Limited Partnership dated as of March 1, 2013 (the “LP Agreement”). The investment objective of USNG is for the daily changes in percentage terms of its units’ per unit net asset value (“NAV”) to reflect the daily changes in percentage terms of the spot price of natural gas delivered at the Henry Hub, Louisiana as measured by the daily changes in the price of the futures contract on natural gas as traded on the New York Mercantile Exchange (the “NYMEX”), that is the near month contract to expire, except when the near month contract is within two weeks of expiration, in which case the futures contract will be the next month contract to expire (the “Benchmark Futures Contract”), less USNG’s expenses. It is not the intent of USNG to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the spot price of natural gas or any particular futures contract based on natural gas. It is not the intent of USNG to be operated in a fashion such that its per unit NAV will reflect the percentage change of the price of any particular futures contract as measured over a time period greater than one day. United States Commodity Funds LLC (“USCF”), the general partner of USNG, believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Natural Gas Futures Contracts (as defined below) and Other Natural Gas-Related Investments (as defined below). The net assets of USNG consist primarily of investments in futures contracts for natural gas that are traded on the NYMEX, ICE Futures Exchange (“ICE Futures”) or other U.S. and foreign exchanges (collectively, “Natural Gas Futures Contracts”) and, to a lesser extent, in order to comply with regulatory requirements or in view of market conditions, other natural gas-related investments such as cash-settled options on Natural Gas Futures Contracts, forward contracts for natural gas, cleared swap contracts, and non-exchange traded (“over-the-counter”) transactions that are based on the price of natural gas, crude oil and other petroleum-based fuels, as well as futures contracts for crude oil, heating oil, gasoline and other petroleum-based fuels and indices based on the foregoing (collectively, “Other Natural Gas-Related Investments”). Market conditions that USCF currently anticipates could cause USNG to invest in Other Natural Gas-Related Investments including those allowing USNG to obtain greater liquidity or to execute transactions with more favorable pricing. For convenience and unless otherwise specified, Natural Gas Futures Contracts and Other Natural Gas-Related Investments collectively are referred to as “Natural Gas Interests” in this quarterly report on Form 10-Q. USCF is authorized by USNG in its sole judgment to employ, establish the terms of employment for and terminate commodity trading advisors of futures commission merchants. As of September 30, 2013, USNG held 13,580 NG Futures November 2013 Contracts and 9,952 NN Financially Settled Futures November 2013 Contracts traded on the NYMEX, 29,993 LD1 H Futures November 2013 Contracts traded on the ICE Futures US, and over-the-counter swap transactions with two counterparties, JPMorgan Chase Bank, NA and Deutsche Bank AG. The over-the-counter swap transaction with Deutsche Bank AG was terminated effective September 30, 2013.

USNG commenced investment operations on April 18, 2007 and has a fiscal year ending on December 31. USCF is responsible for the management of USNG. USCF is a member of the National Futures Association (the “NFA”) and became a commodity pool operator registered with the Commodity Futures Trading Commission (the “CFTC”) effective December 1, 2005. USCF is also the general partner of the United States Oil Fund, LP (“USOF”), the United States 12 Month Oil Fund, LP (“US12OF”), the United States Gasoline Fund, LP (“UGA”) and the United States Diesel-Heating Oil Fund, LP (formerly, the United States Heating Oil Fund, LP) (“USDHO”), which listed their limited partnership units on the AMEX under the ticker symbols “USO” on April 10, 2006, “USL” on December 6, 2007, “UGA” on February 26, 2008 and “UHN” on April 9, 2008, respectively. As a result of the acquisition of the AMEX by NYSE Euronext, each of USOF’s, US12OF’s, UGA’s and USDHO’s units commenced trading on the NYSE Arca on November 25, 2008. USCF

is also the general partner of the United States Short Oil Fund, LP (“USSO”), the United States 12 Month Natural Gas Fund, LP (“US12NG”) and the United States Brent Oil Fund, LP (“USBO”), which listed their limited partnership units on the NYSE Arca under the ticker symbols “DNO” on September 24, 2009, “UNL” on November 18, 2009 and “BNO” on June 2, 2010, respectively. USCF is also the sponsor of the United States Commodity Index Fund (“USCI”), the United States Copper Index Fund (“CPER”), the United States Agriculture Index Fund (“USAG”) and the United States Metals Index Fund (“USMI”), each a series of the United States Commodity Index Funds Trust. USCI, CPER, USAG and USMI listed their units on the NYSE Arca under the ticker symbol “USCI” on August 10, 2010, “CPER” on November 15, 2011, “USAG” on April 13, 2012 and “USMI” on June 19, 2012, respectively. All funds listed previously are referred to collectively herein as the “Related Public Funds.” USCF has also filed registration statements to register units of the United States Sugar Fund (“USSF”), the United States Natural Gas Double Inverse Fund (“UNGD”), the United States Gasoil Fund (“USGO”) and the United States Asian Commodities Basket Fund (“UAC”), each a series of the United States Commodity Funds Trust I, and the US Golden Currency Fund (“HARD”), a series of the United States Currency Funds Trust. USSF, UNGD, USGO and HARD are currently not available to the public, as such funds are still in the process of review by various regulatory agencies which have regulatory authority over USCF and such funds. UAC has been declared effective by the regulatory agencies which have regulatory authority over USCF and UAC, but at the time of the filing of this quarterly report on Form 10-Q, UAC has not been made available to the public.

USNG issues units to certain authorized purchasers (“Authorized Purchasers”) by offering baskets consisting of 100,000 units (“Creation Baskets”) through ALPS Distributors, Inc., as the marketing agent (the “Marketing Agent”). The purchase price for a Creation Basket is based upon the NAV of a unit calculated shortly after the close of the core trading session on the NYSE Arca on the day the order to create the basket is properly received.

In addition, Authorized Purchasers pay USNG a \$1,000 fee for each order placed to create one or more Creation Baskets or to redeem one or more baskets (“Redemption Baskets”), consisting of 100,000 units. Units may be purchased or sold on a nationally recognized securities exchange in smaller increments than a Creation Basket or Redemption Basket. Units purchased or sold on a nationally recognized securities exchange are not purchased or sold at the per unit NAV of USNG but rather at market prices quoted on such exchange.

In April 2007, USNG initially registered 30,000,000 units on Form S-1 with the U.S. Securities and Exchange Commission (the “SEC”). On April 18, 2007, USNG listed its units on the AMEX under the ticker symbol “UNG”. On that day, USNG established its initial per unit NAV by setting the price at \$50.00 and issued 200,000 units in exchange for \$10,001,000. USNG also commenced investment operations on April 18, 2007, by purchasing Natural Gas Futures Contracts traded on the NYMEX based on natural gas. As of September 30, 2013, USNG had registered a total of 430,100,000 units.