

North American Natural Gas Outlook Industrial Gas Users Association May 2010

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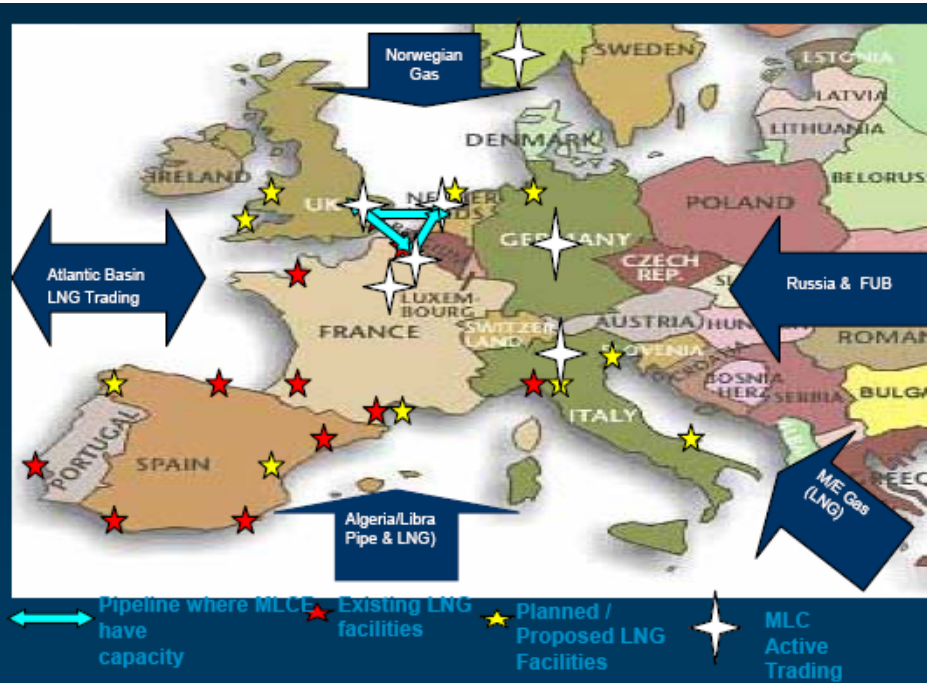
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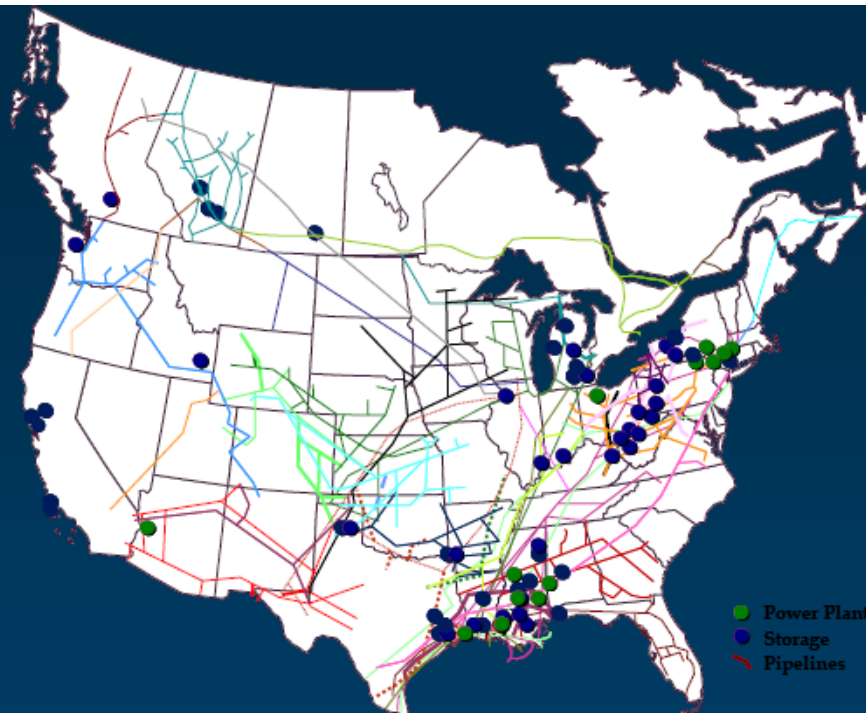
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North American and European Trading Capabilities



European Capabilities:

- Active at all major gas hubs
 - Traded 3 BCM/Yr
- Active in 10 major power pools
 - Traded 220 TWh/Yr (10% of market)



North American Capabilities:

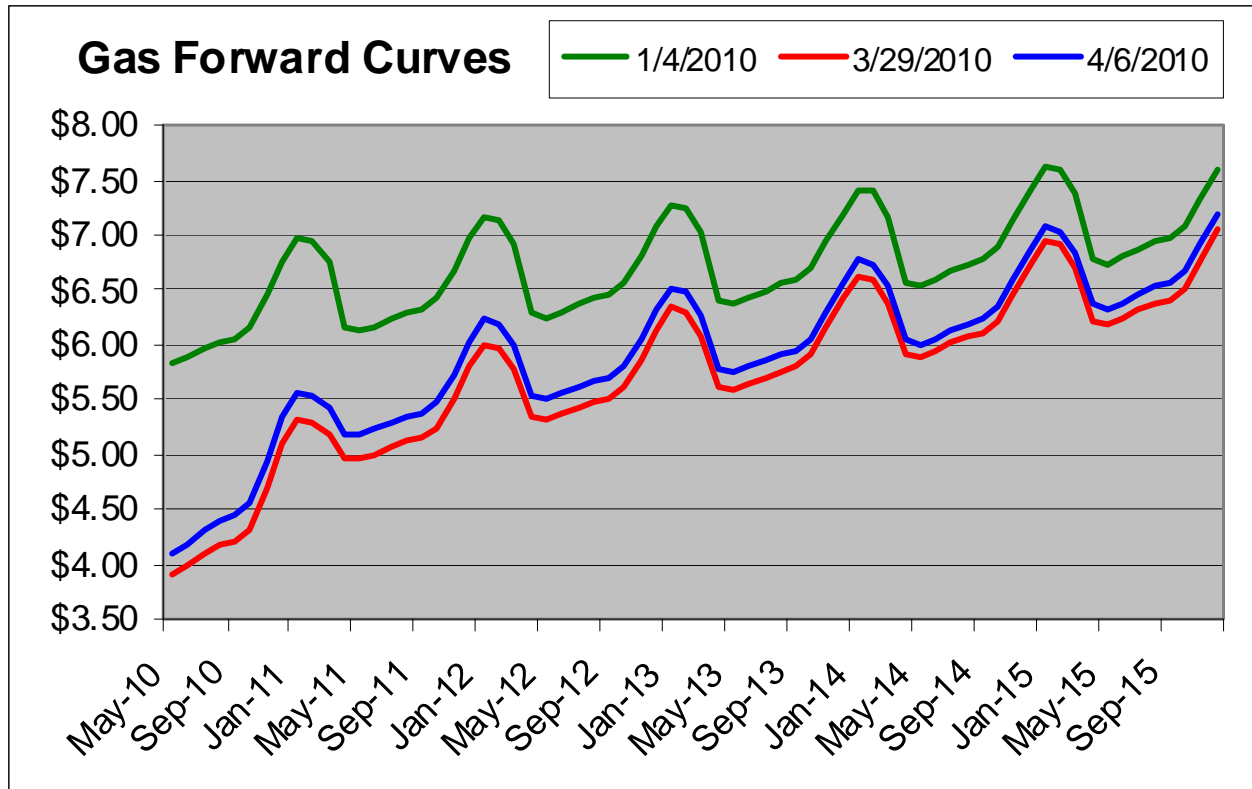
- Capacity on 90 P/L; 68 Storage Facilities
- 17 Gas/Power Asset Management Clients
 - 9,000 MW
 - 150+ Bcf storage
 - 10+ Bcf/d peak day capability

North American Natural Gas Major Themes

- Winter brought storage balances towards 5 year average, but a loose S&D balance and mild spring weather has pushed storage inventory levels back above “normal”; all eyes are on end of year storage containment risk
- Near term gas demand outlook is improving
 - Economy and industrial rebound + coal to gas switching
- Q1 2010 LNG imports + UK-USA price spread suggesting lower imports Q2-Q4 likely
- 2008 - 2010 whipsaw in prices, drilling and production have residual impacts on industry and investment flows
- Gas infrastructure buildup has significantly reduced basis spreads, and has bearish implications for volatility
 - Marcellus shale, REX pipeline, and LNG for Northeast
 - Shale gas pipelines from TX, LA, AR to southeast
- Shale production growth is real, sustainable and increasing supply share
- Longer term demand outlook is less certain
 - Carbon rules, efficiency, industrial decline, renewables offset one another

Forward Price Expectations

- Difficult to see 2010 prices above \$5 unless extreme weather occurs.
- The longer dated curve (beyond Cal 12) remains in the \$6-\$7 range.

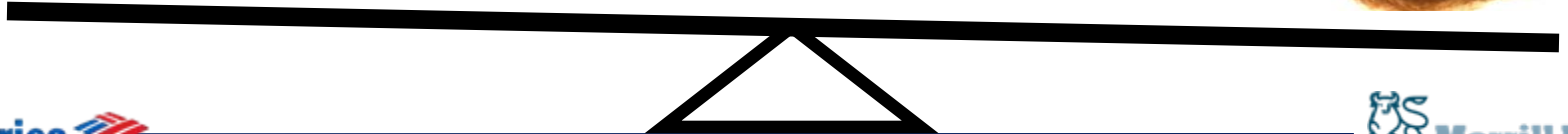


2010 Price Outlook

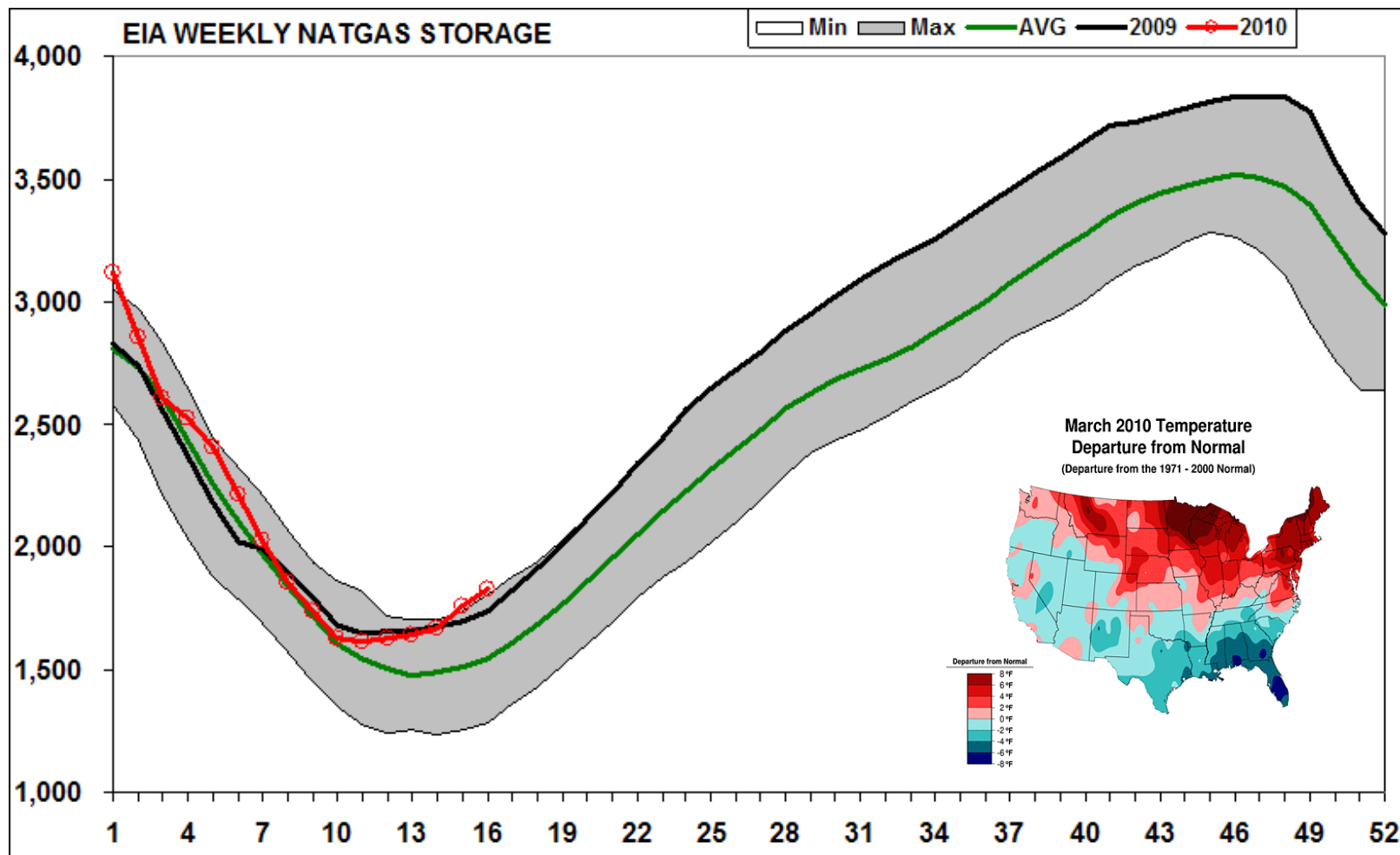
BAC Research: \$5.00 was \$6.00
 Goldman Sachs: \$5.50 was \$6.00
 Deutsche Bank: \$6.00 was \$6.00
 Tudor Pickering: \$6.20 was \$7.50
 Morgan Stanley: \$6.50
 Citigroup: \$5.25

Current Bullish and Bearish Factors – Natural Gas

POV	Bulls	Bears
Near Term	<ul style="list-style-type: none"> Coal-gas switching should put floor under price Favorable comparison to oil linked contracts Quicker rebound in some Asia economies Wide spread between UK and USA pulling LNG to Europe 	<ul style="list-style-type: none"> Rigs and production grew even as prices weakened Storage withdrawals less than modeled based upon cold weather Weak economic rebound in Europe LNG supply growth threat
Longer Term	<ul style="list-style-type: none"> Global demand for LNG should minimize imports to NA CO2 potential and bias against coal for power NA E&P investment cycle requirements for marginal gas resources 	<ul style="list-style-type: none"> Shale gas and tight sands should provide "all the gas you want" at NYMEX under \$6.50 Economic growth outlook is reduced



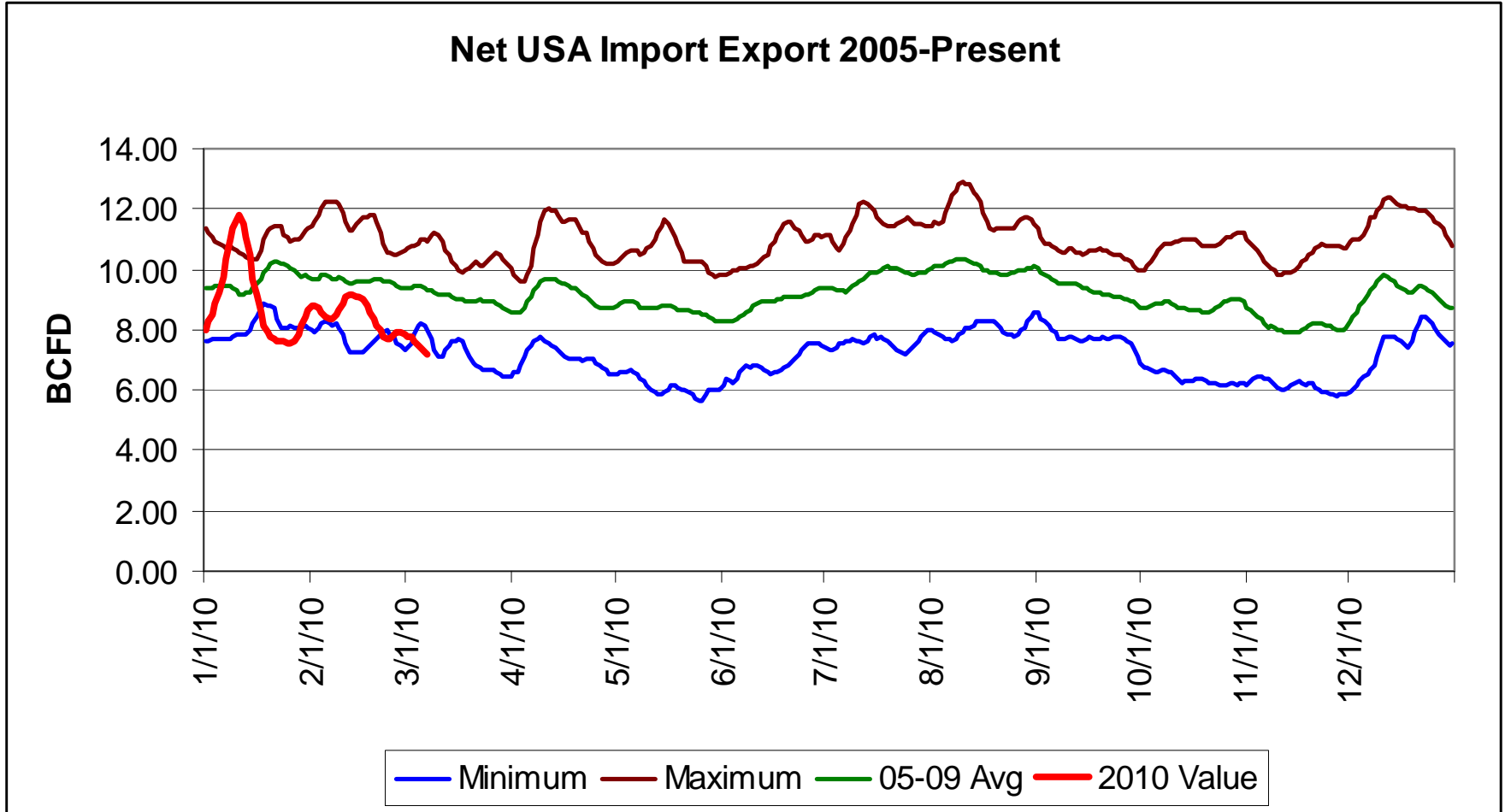
Storage Inventories: Return to Average Until March "Lamb"



End of March Inventories:
 2010: 1,667 Bcf
 5 year average: ~1,500 Bcf
 10 year average: ~1,300 Bcf

End of October Inventories:
 2009: 3,807 Bcf
 5 year average: 3,484 Bcf
 10 year average: ~3,284

Daily Import Export Balance Showing Volatility

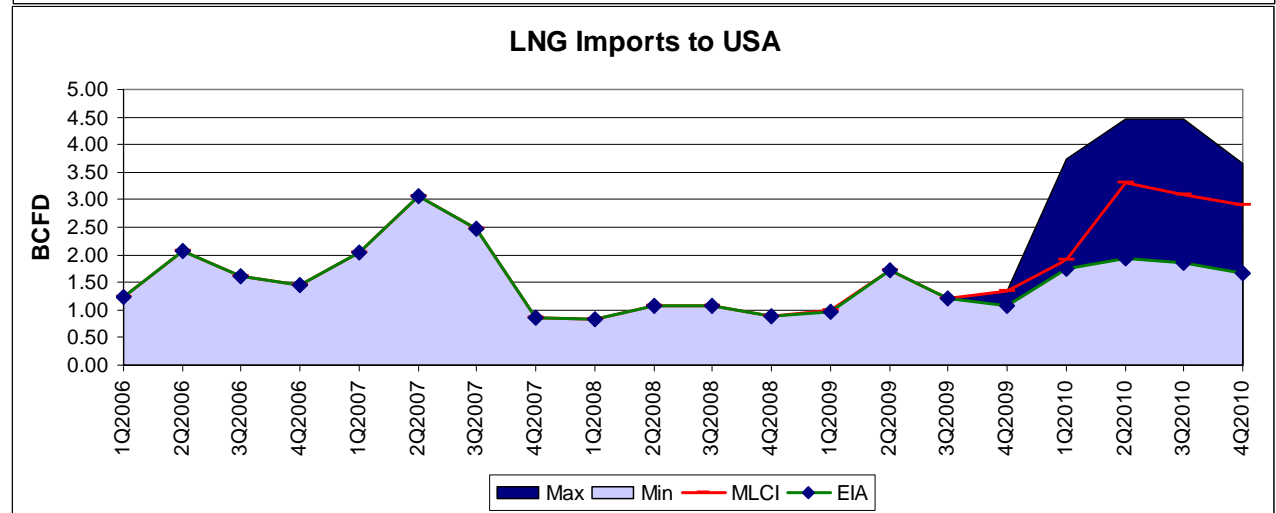
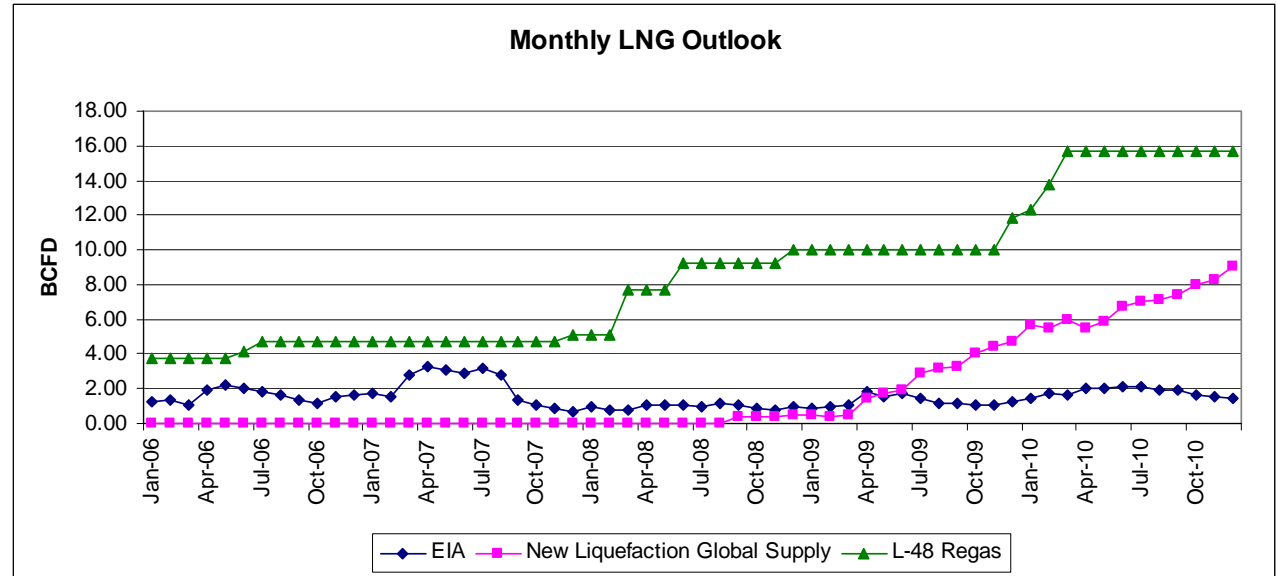


Most of 2009 daily values established new minimum import levels

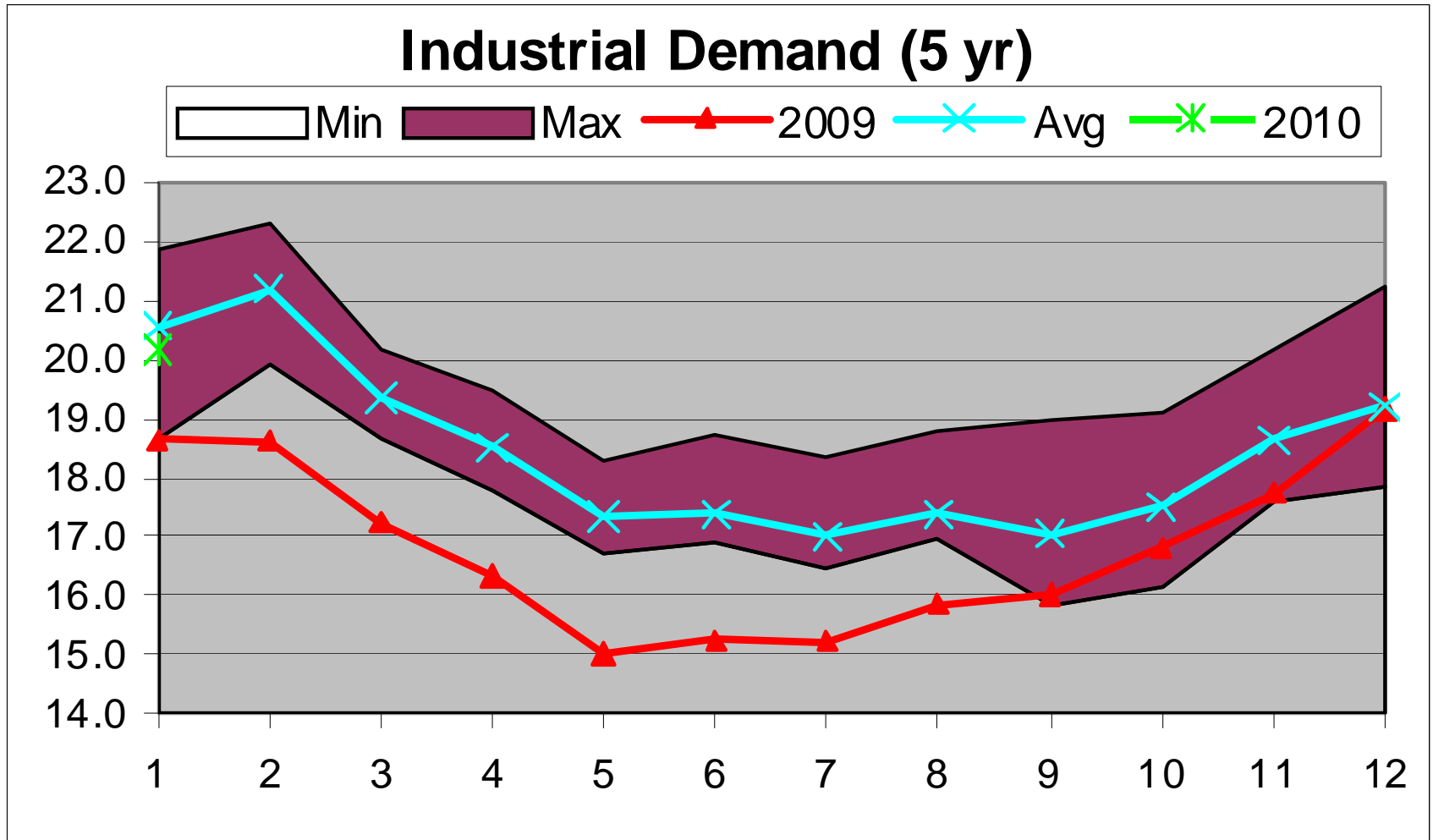
2010 values spiked during early cold with strong LNG sendouts and some Canadian increases

Recent activity suggests USA market does not "need" higher level of imports to satisfy S&D balance

LNG Imports to the US

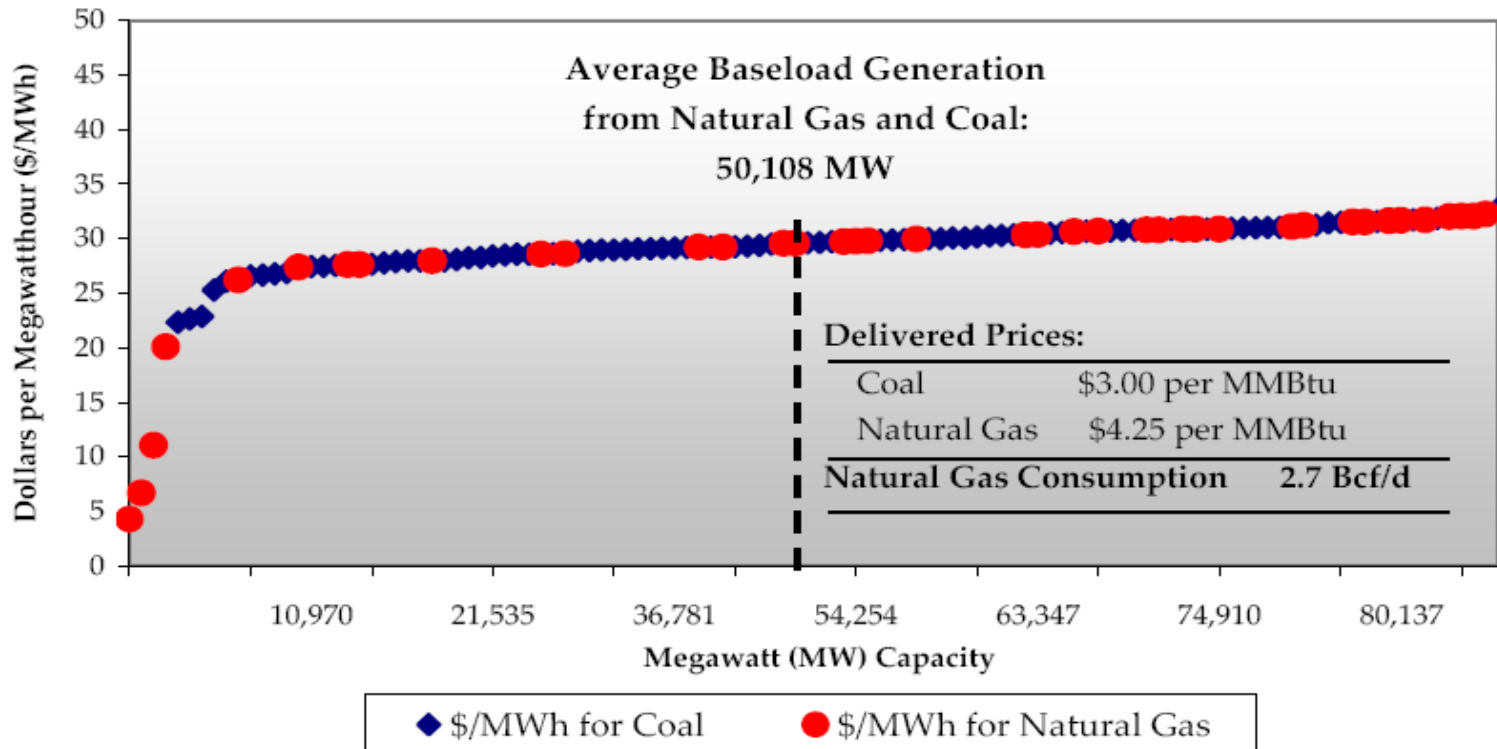


Industrial Demand Recovery



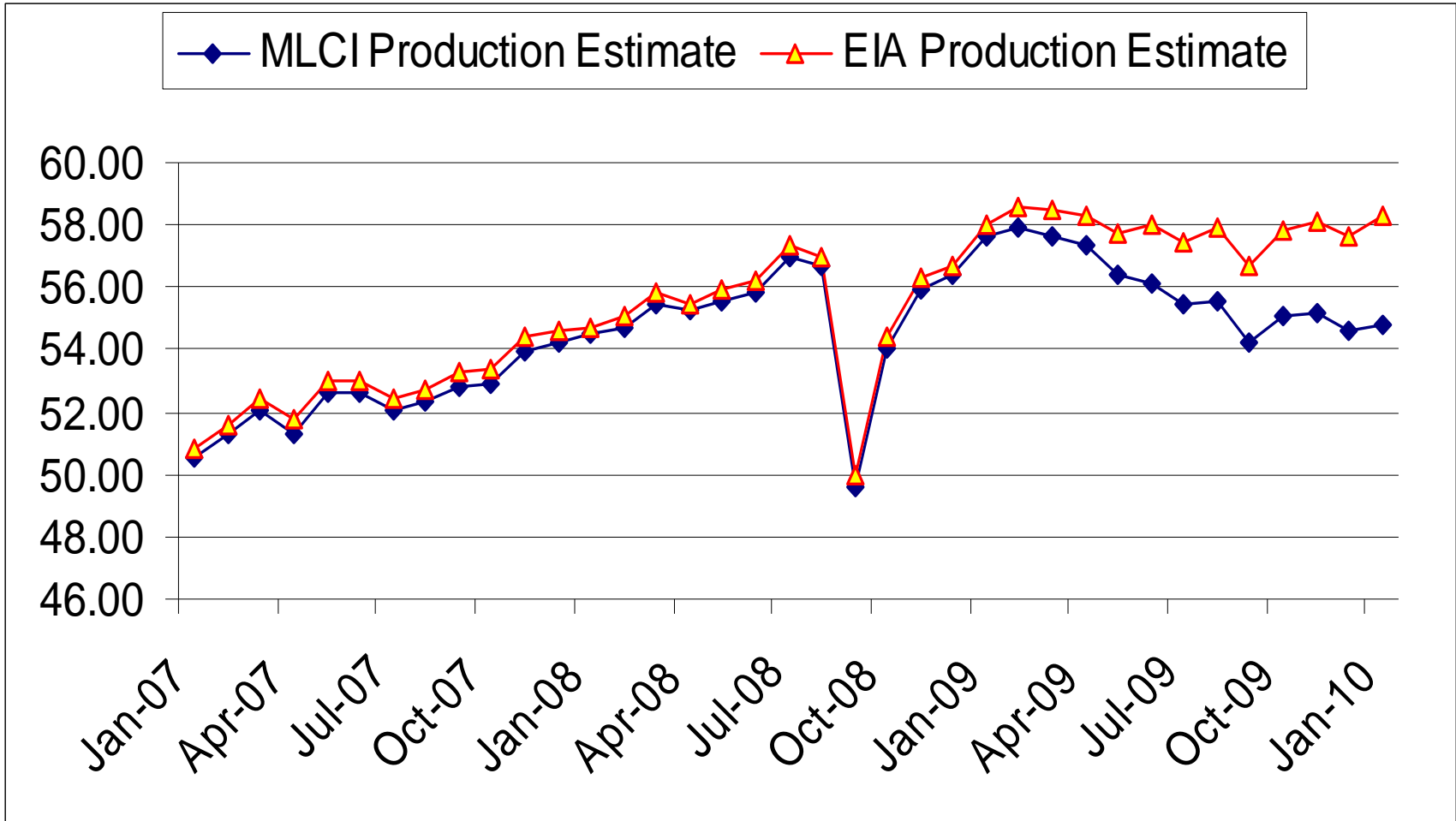
The "New Normal" Includes Increased Gas Burn vs. Coal

Figure 8. Estimated Dispatch Curve of Coal and Natural Gas-Fired Baseload Generation Capacity from Electric Utilities in the South Atlantic

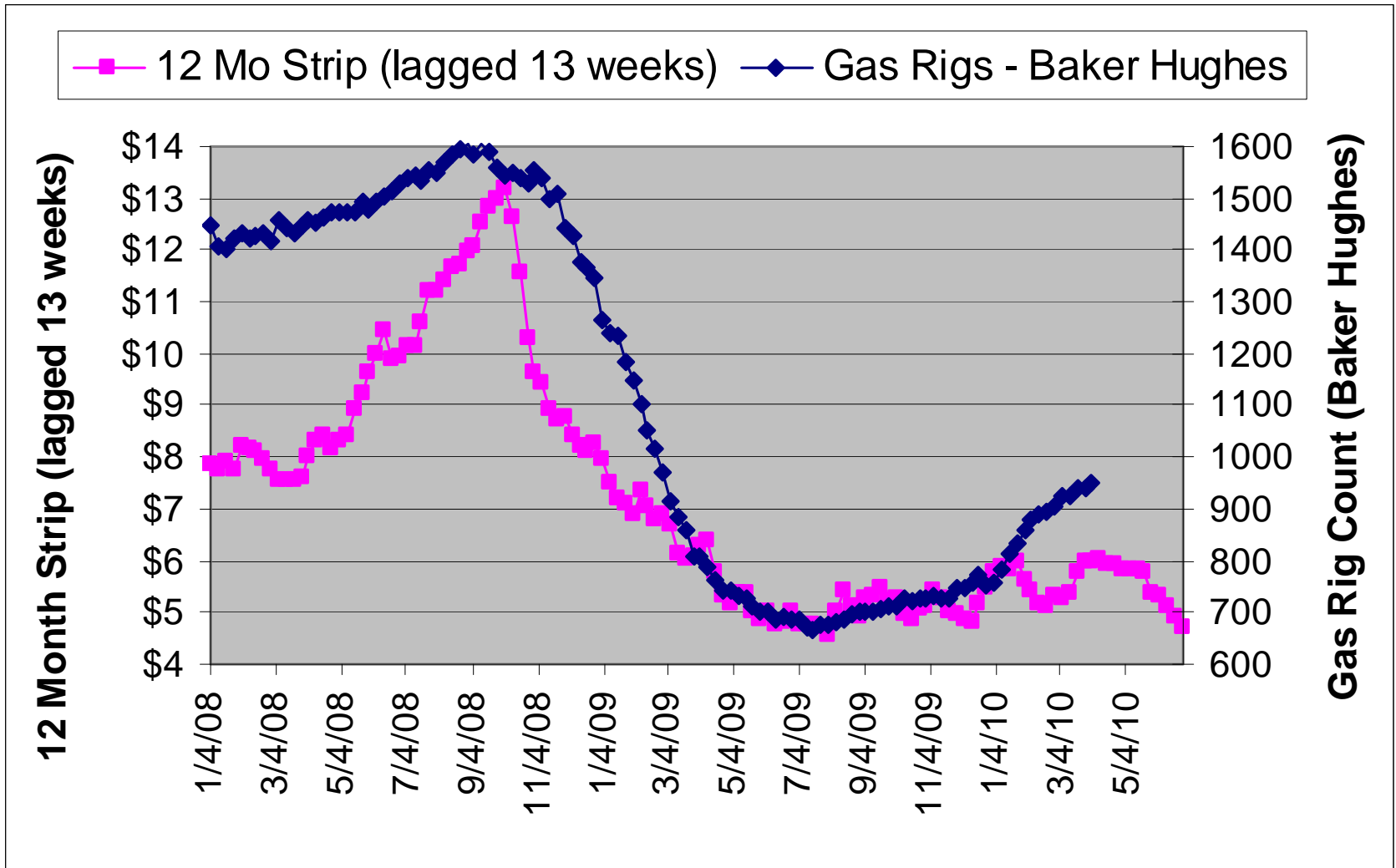


Source: Energy Information Administration, EIA-923 and EIA-860.

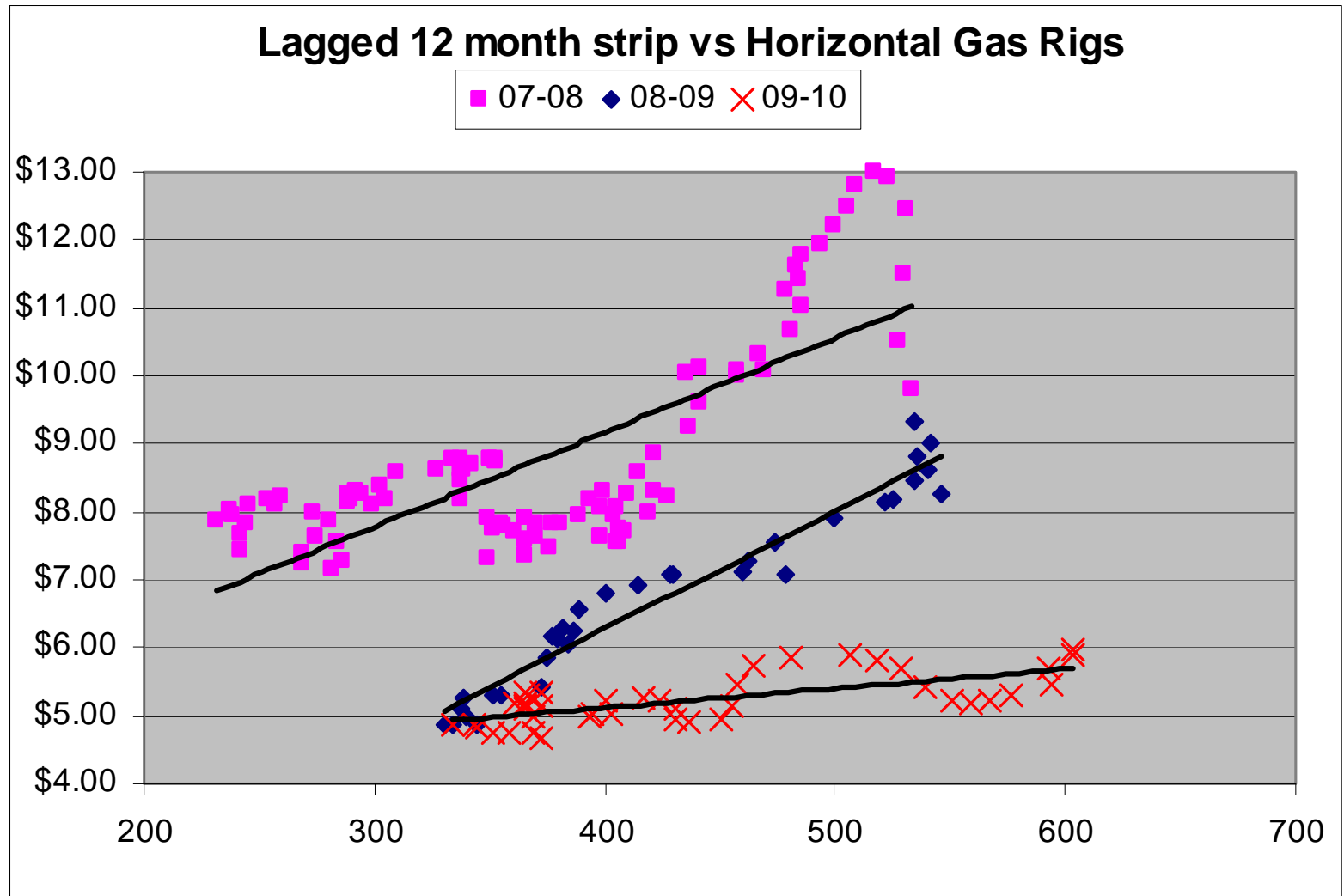
U.S. Production Response



Violent Moves in Price and Rig Counts



Supply Curve Shift Evident in Horizontal Rig Counts



Unconventional Gas Story – Shale and Tight Sands Gas

Resources are abundant and widespread

- Potential Gas Committee: 1,836 TCF (519 TCF Increase)
- INGAA Foundation: 2,300 TCF resources
- Canada has significant unconventional resources also:
 - Horn River, Montney, Cordova, etc. adds 350-1,000 TCF

Major Tight Gas Plays, Lower 48 States



Source: Energy Information Administration based on data from various published studies
Updated: April 8, 2009

Shale Gas Plays, Lower 48 States



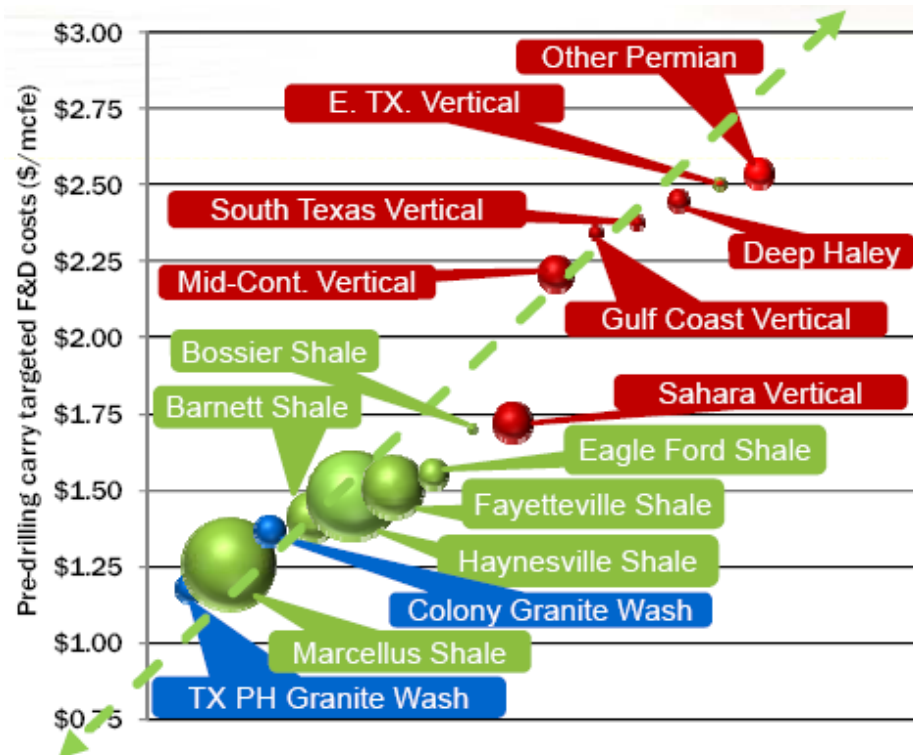
Source: Energy Information Administration based on data from various published studies
Updated: May 28, 2009

Issues facing the exploitation of unconventional gas

- Rig availability for the type of drilling needed
- Environmental concerns over hydraulic fracturing
- Water and land use concerns in emerging areas like the Marcellus Shale in the Northeast US

North American Production Economics

- New shale plays have dramatically shifted the supply curve
- Reduced drilling activity in the conventional plays has also exerted downward pressure on costs
- Public companies are showing double digit returns at today's forward prices



Summary

- Did the market balance as storage surplus worked off in winter 2009-2010
 - Supply (production) is surprising analyst with less decline / possible growth
 - What is the needed inventory going into winter of 2010-2011?
- Supply path is critical to understanding next winter and Cal 2011 pricing
 - Extra LNG and suppressed production is bullish (probably)
 - Extra production and suppressed LNG is bearish (definitely)
- Price boundaries are defined, converging and have different elasticities
 - Coal floor is rising in cash and futures; production discipline and international demand is driving U.S. coal, especially eastern supply
 - Ceiling is part psychological, “All the gas you want at \$6.50” and part fundamental
 - Prices above \$6.50 attracts incremental LNG and increased drilling (lagged)
- Longer term the unconventional gas led by Shale will ensure sufficient US gas supply, but stable price signals between \$5.50???- \$7.50? needed to encourage drilling
 - Price range seems to be moving to \$4.75 - \$6.50 given current activity and producer comments
- US demand recovery and growth remains captive to the power market
- LNG imports will be function of:
 - 1) Global S&D for gas (looks oversupplied 2010-2011)
 - 2) US prices (including East Coast Basis) relative to UK / Zeebrugge for flexible cargoes
 - 3) Overall price relationship between oil and gas (Russia, Norway, and Qatar psychology)