

A large, light blue, abstract graphic on the left side of the slide, resembling a flame or a stylized leaf, curves upwards and then downwards.

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# Supply Outlook

Jennifer Deegan

NARUC Gas Committee Meeting

Palm Springs, California

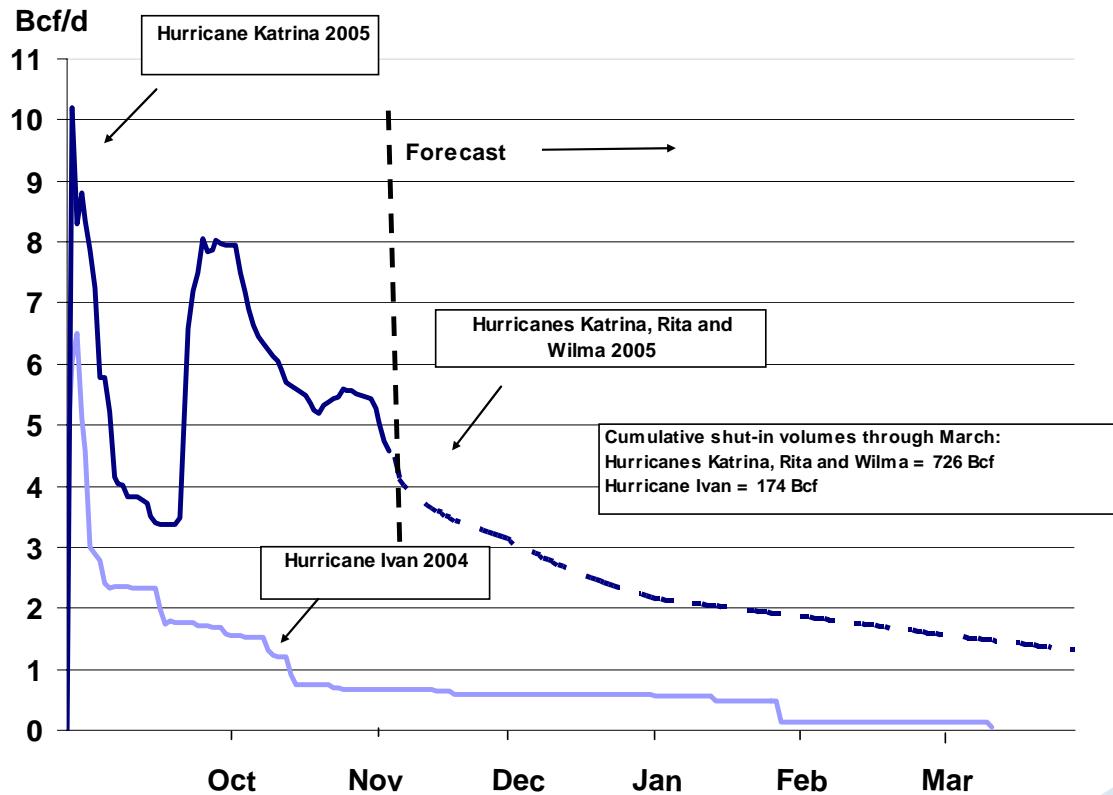
November 14, 2005

# North American Supply

- This winter
  - Hurricane impact
  - Supply & demand balance
- Supply response
- New frontiers
- Energy Policy Act
- Natural gas quality and interchangeability
- Market considerations

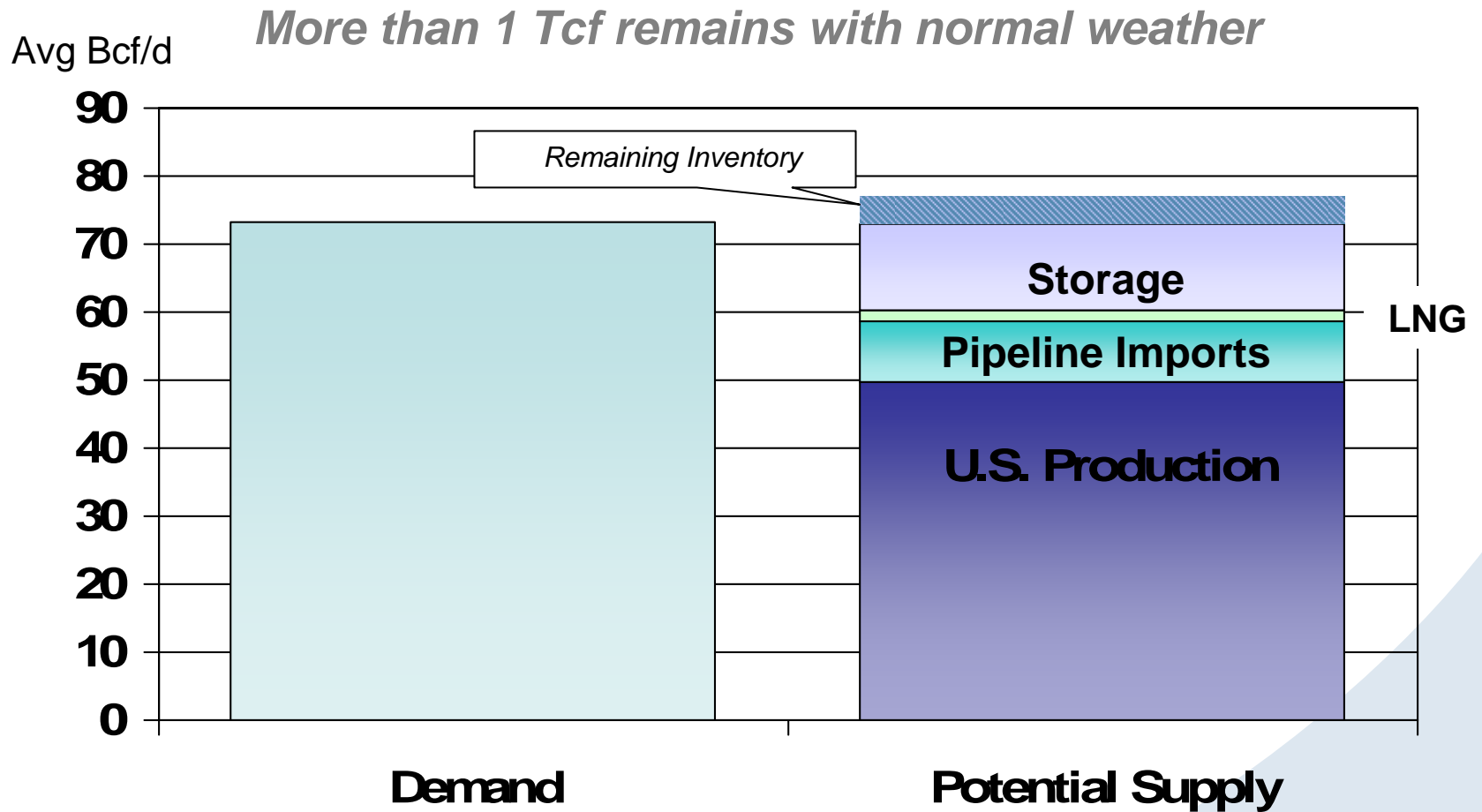
# Estimated Hurricane Impact – Expected OCS Recovery

*Avg 2.5 Bcf/d shut-in during winter period*



Source: EEA

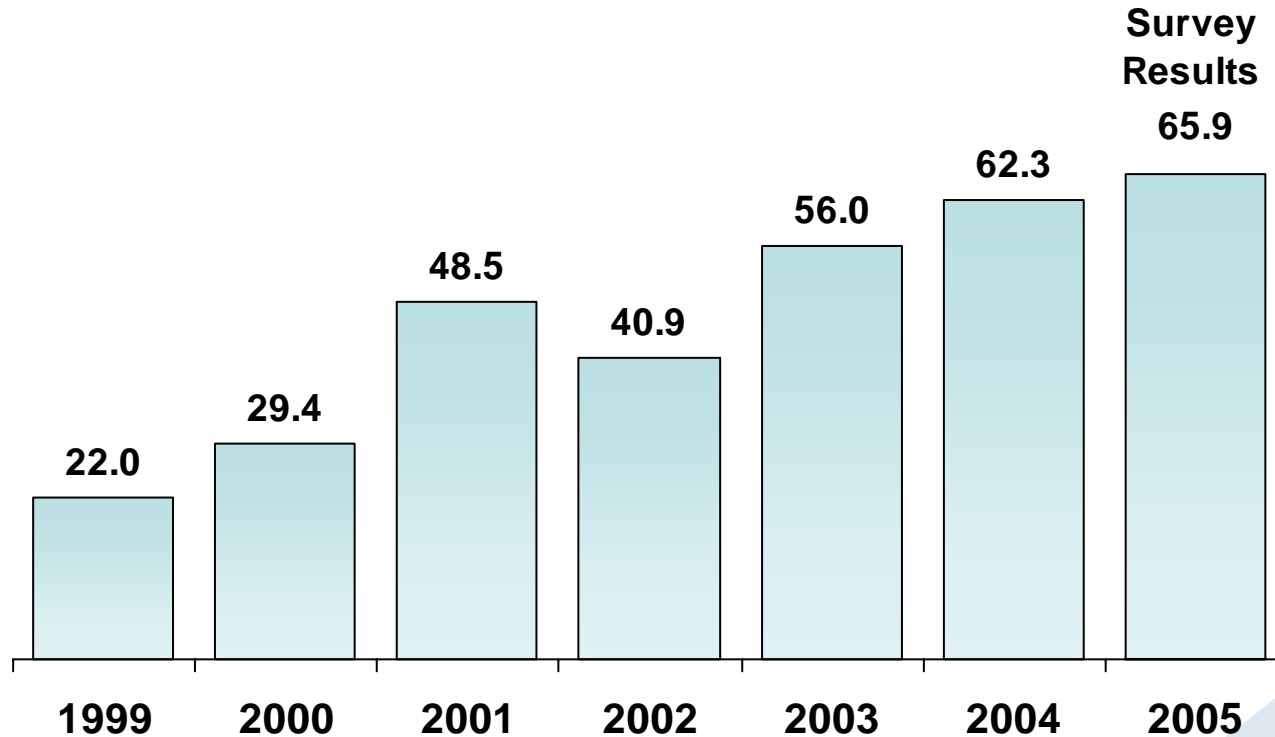
# U.S. Supply and Demand Balance for Winter Season 2005 - 2006



Source: EEA

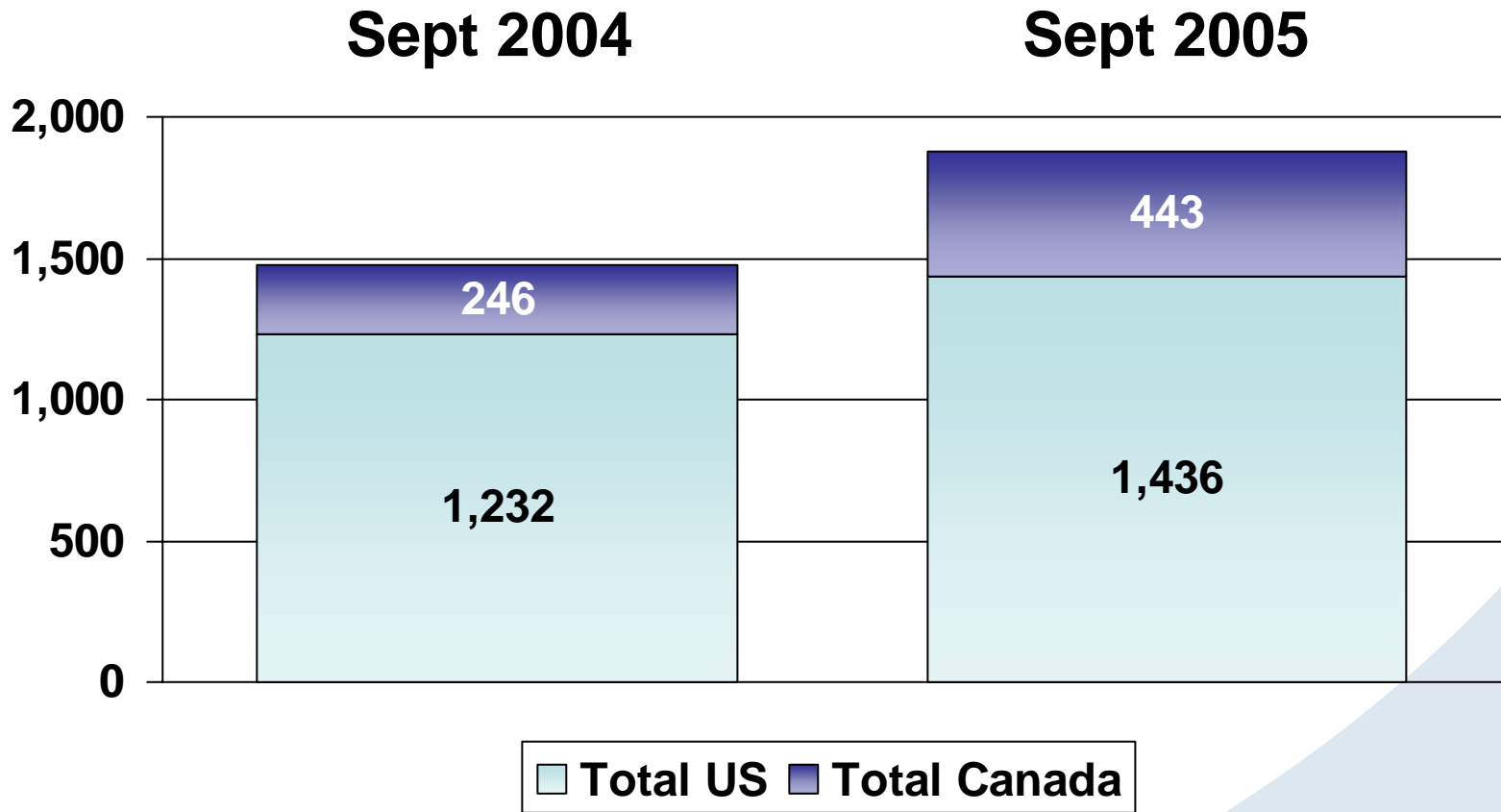
# Growing Producer Expenditures

U.S. UPSTREAM CAPITAL EXPENDITURES (\$ Billion)



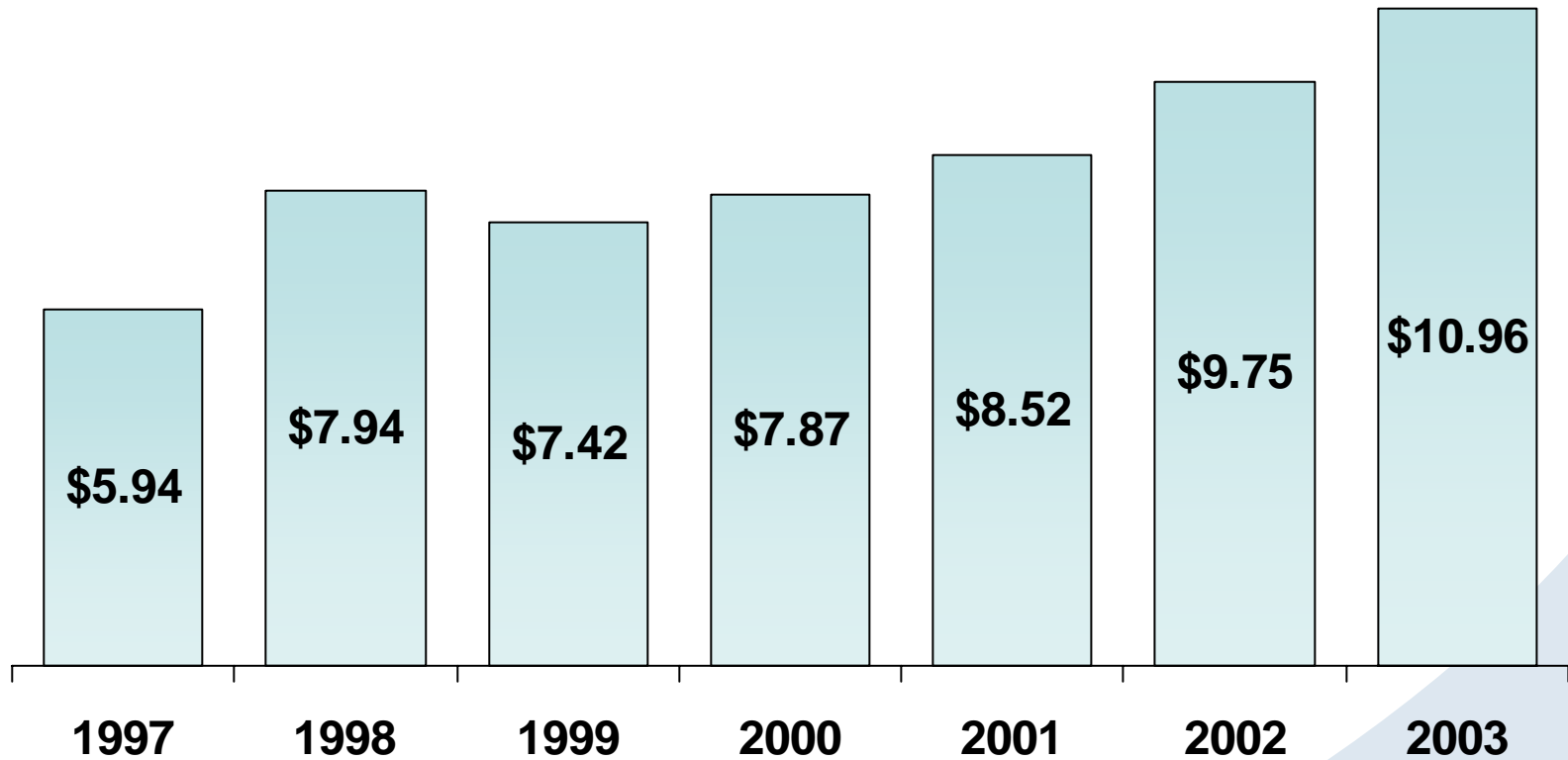
Source: April, 2005 Oil and Gas Journal and prior April issues.

# North American Rig Count Continues Increase



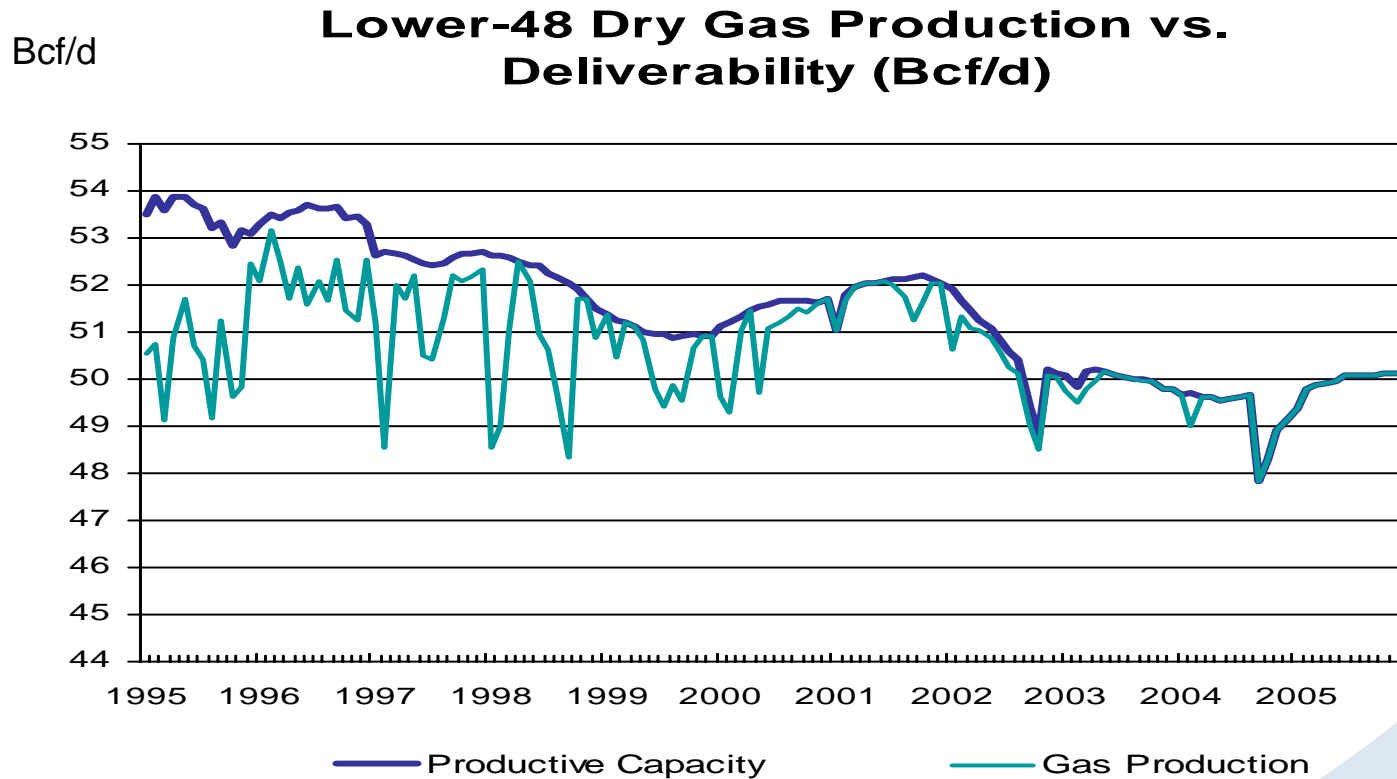
Source: Oil & Gas Journal Sept 26, 2005

# Average Finding & Development Costs Increase (\$/BOE)



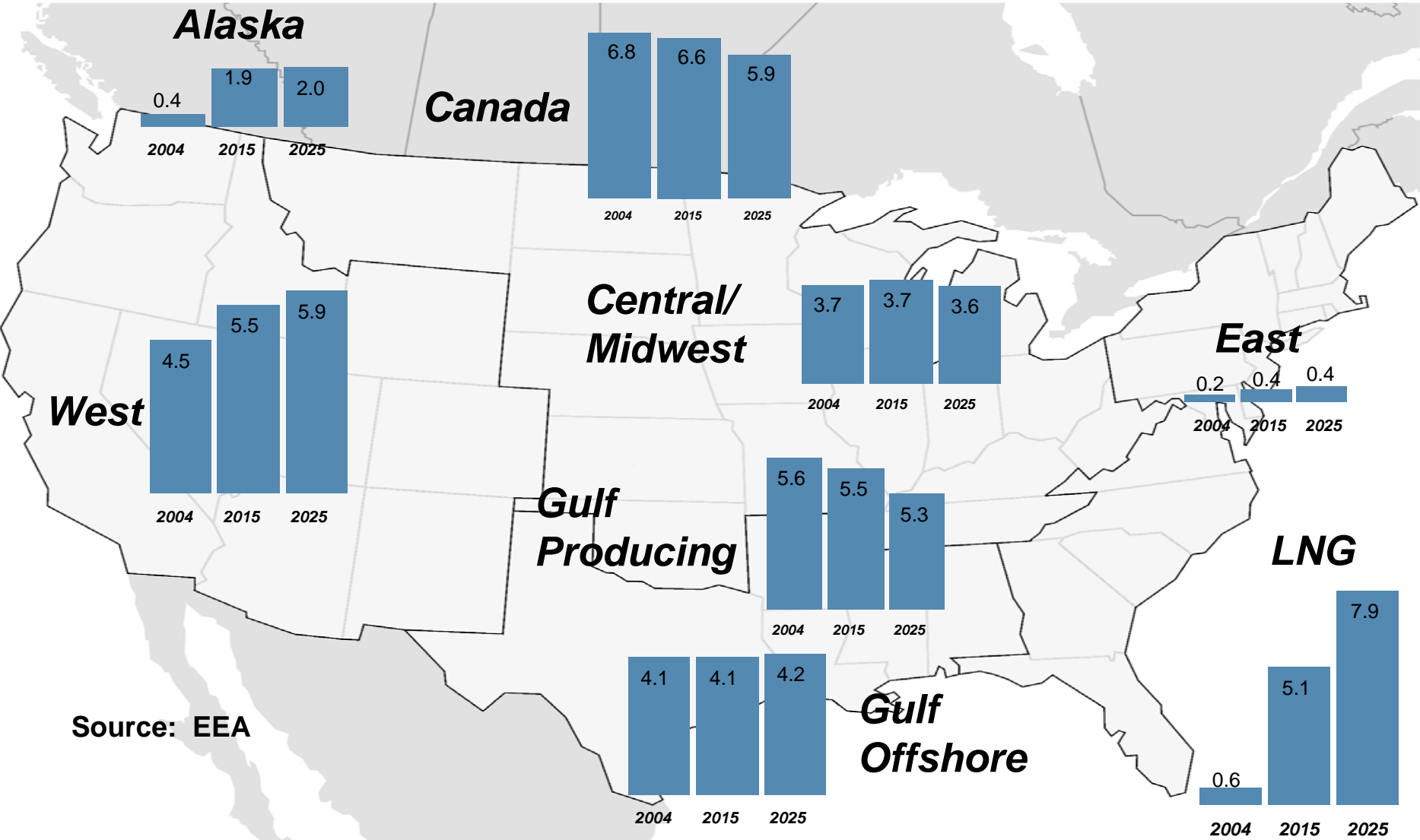
Source: Credit Suisse First Boston

# Production at Capacity



Source: EEA

# New Supply Sources Emerge (Tcf/Yr)



Source: EEA

# Expected Major Domestic Supply Contributors by 2010

Region	Production Increase by 2010 (Bcfd)	Recoverable Resource (Tcf)
Rockies	1.2 – 2	33-53
Gulf Coast & Mid-Continent	1.1 – 1.7	30
GOM (Deep Water)	1.3 – 2.3	43-63
Western Canada	1.1 – 1.6	23-38

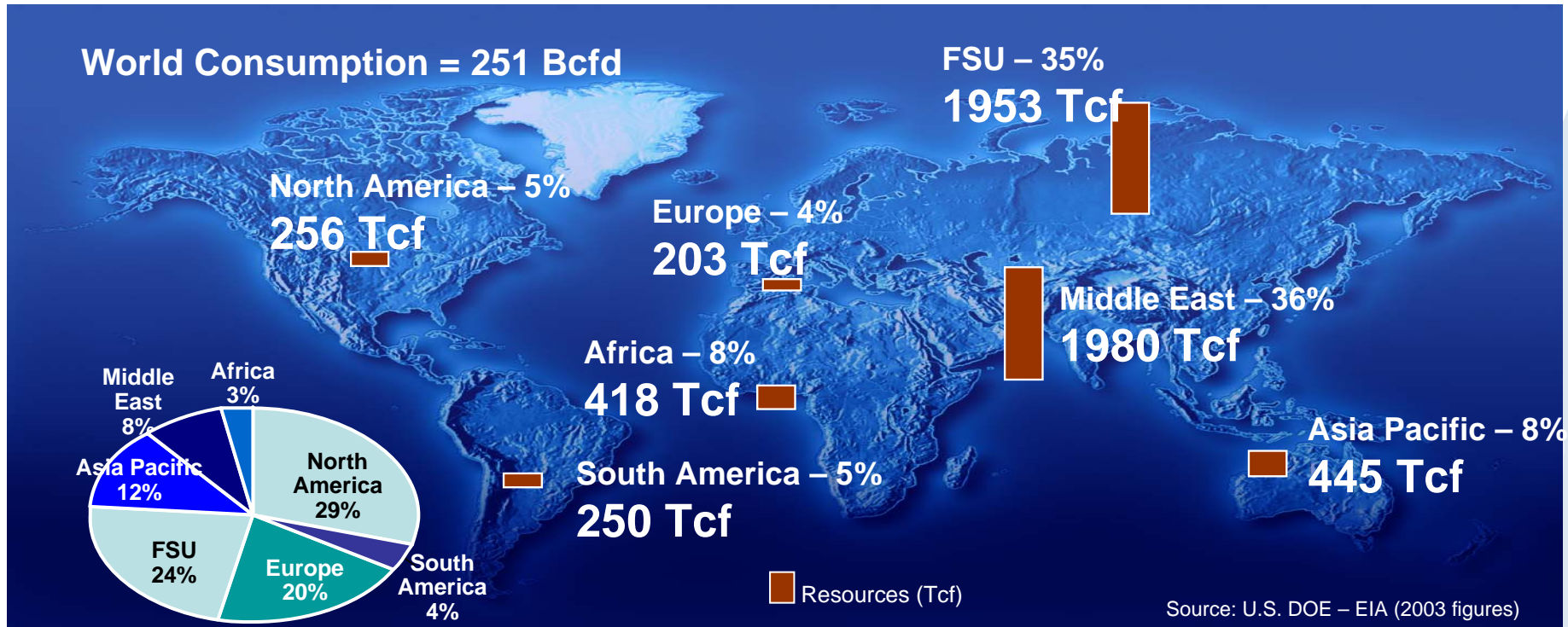
Source: EEA

# Meeting Demand Requires Supply Flexibility and Certainty

- Unconventional sources will play greater role in U.S. natural gas supply picture -- Rockies
- U.S. must attract resources within world market -- LNG
- Increased regulatory certainty and supply flexibility are essential to economical supply development decisions (import and domestic)

# Global Market to Affect North America

- North America represents 29 percent of world natural gas consumption but holds 5 percent of world natural gas resources
- Growing world dependence on LNG imports; almost doubling by 2010
- China and India begin importing LNG



# Energy Policy Act: A first step

- Expedites pipeline permitting processing
- Specifies FERC as lead authority on LNG terminal siting
- Creates tax and royalty incentives for exploration in deep-water and other areas that might be uneconomical to explore
- Authorizes inventory of OCS gas and oil resources

# Long Road Ahead

- Energy Policy Act falls short on increasing access to new supply
- Traditional North American producing areas will provide only 75% of long-term U.S. natural gas needs
- \$300 billion in potential natural gas cost savings to consumers during the next 20 years with access to multi-use, non-park, non-wilderness federal lands



# Achieving Regulatory Certainty and Supply Flexibility

- Quality Specification and Safe Harbor in All Pipeline Tariffs
- CHPD Methodology; Presumptive 15°F CHDP Floor
- Presumptive Interchangeability Specifications (1400 Maximum Wobbe, 4% Maximum Inerts, 1.5% Butanes Plus Limit, 1110 Btu Maximum)
- Public Interest Test, As Needed, to Avoid “Lowest Common Denominator”
- At Local Level, Expedited Recovery of Utility Costs for Increased Supply Flexibility

# NGSA Petition Clarified

- Policy Still Needed; Industry Benefit from Experience This Winter
- Existing Quality and Interchangeability Specs Retained
- Not One-Size Fits All; CHDP Methodology Determines “Safe Harbor”
- “Public Interest Test” Identifies Most Economical Remedial Action
- +/- 4% Wobbe Tolerance Band Applied on Case-Specific Basis As Needed

# Increasing Supplies and Resource Diversity

- Non-conventional resources more costly; face greater public resistance
- World natural gas market will influence natural gas prices

**Without additional and diversified sources of supply, the market will continue to be at risk for disruptions like Katrina and Rita, and the higher costs that inevitably result.**