

Fundamental Shifts for Natural Gas Market

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Strategic Analysis

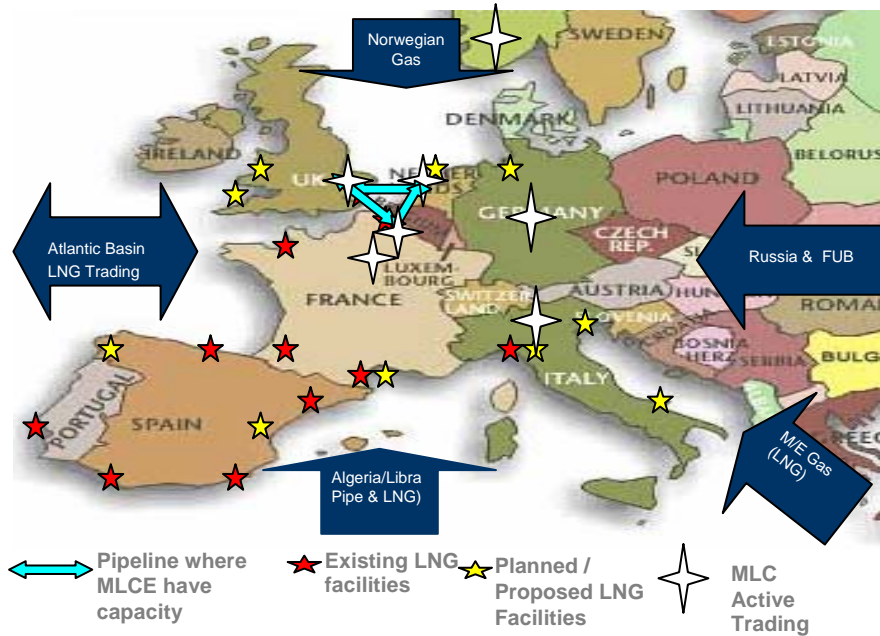
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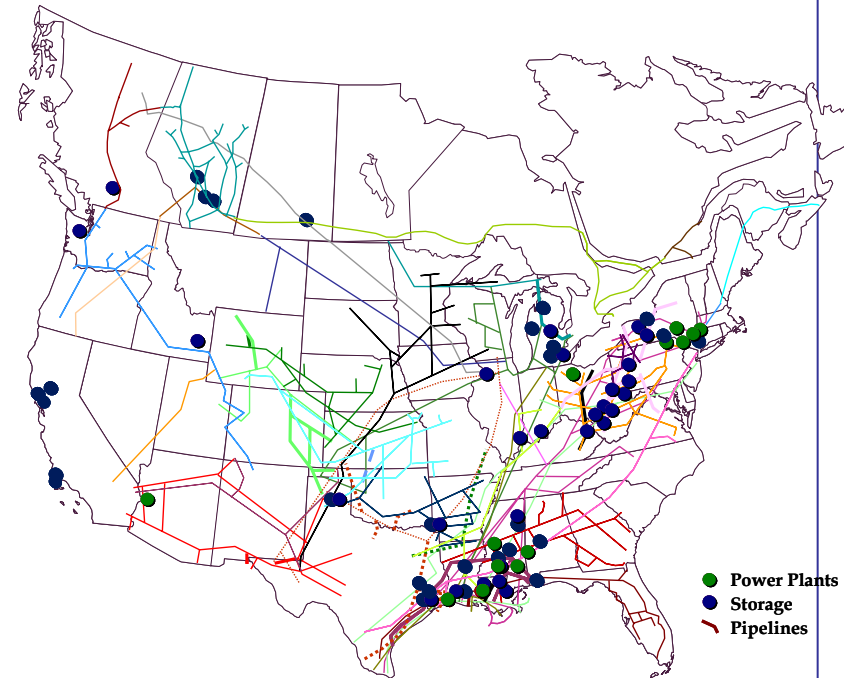
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European and North American Energy Capabilities



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

Natural Gas Major Themes

- Growth in North American gas production is real, sustainable, and ill defined on price elasticity
- North America ***could be*** self sufficient in natural gas for several years (including ~ 1 Bcfd of embedded LNG imports in Boston and Altamira), ***but it likely will not be***
- The demand story for gas has shifted from strong to weak to mixed
- Infrastructure buildup will shift basis weakness to new, and in some cases, unexpected areas

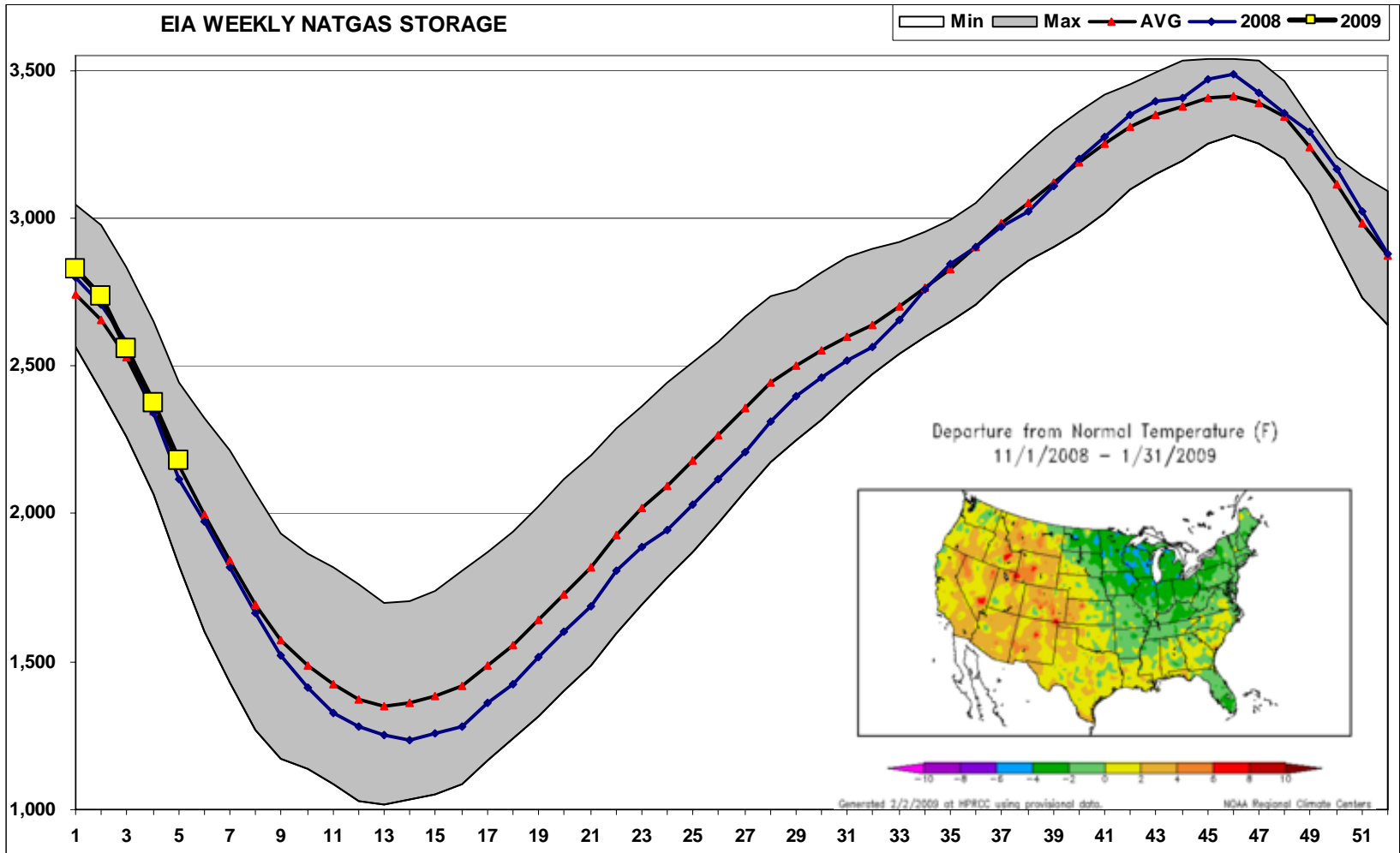
Gassy Consequences

- North American gas prices are likely to oscillate between cash cost and marginal play's life cycle investment cost [$< \$2.50$ up to $\$7.50$]
- No room for LNG sloshing from other markets, so incremental LNG pushes price hard
 - Likely outcome for 2009 and 2010
- Storage less attractive; understand rule of thumb
- Some pipe assets may experience periods of low utilization for segments of their system

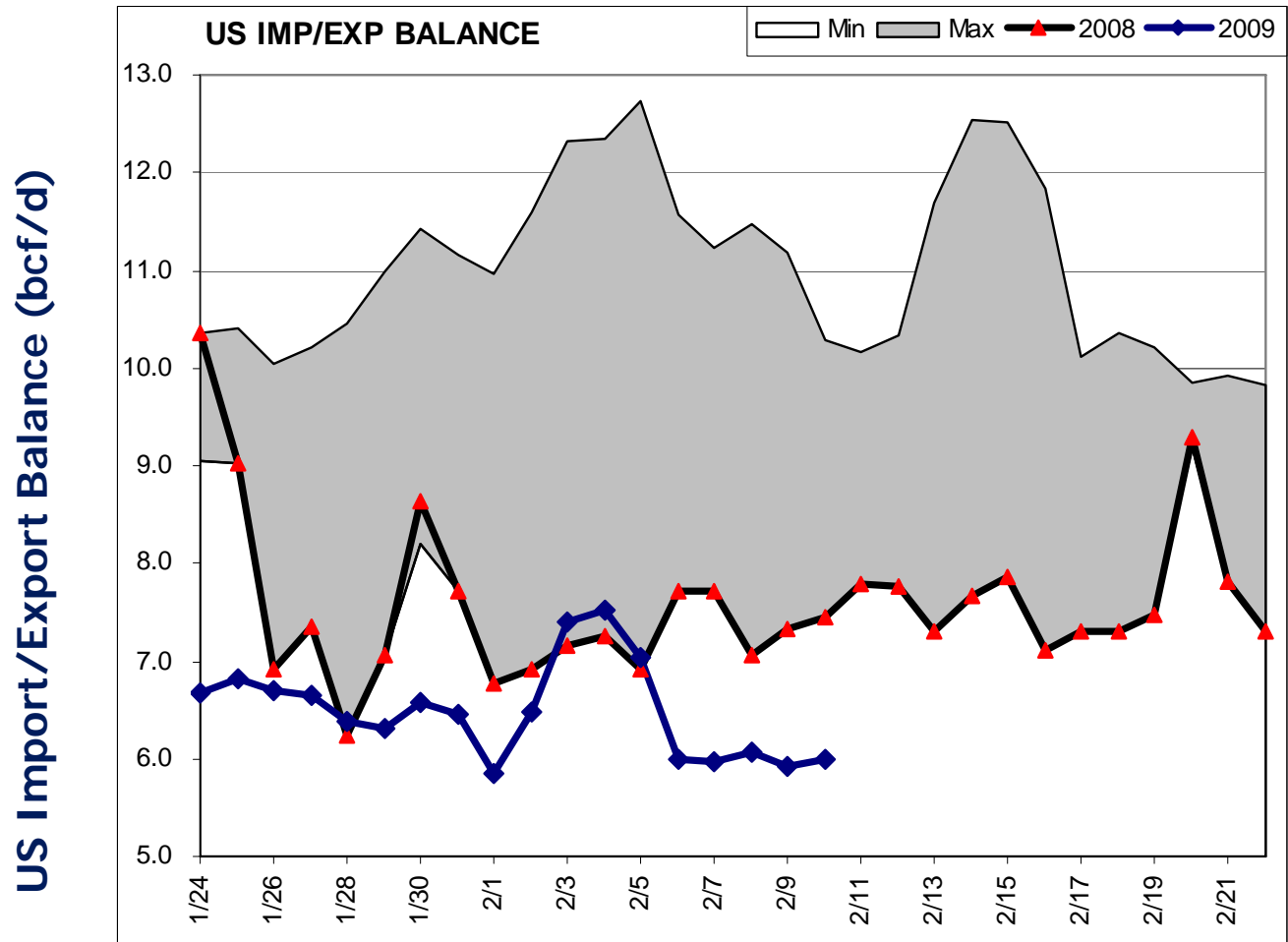
Policy Considerations

- U.S. production
 - Access to resources; onshore and offshore
 - Workforce issues
 - Shale gas water requirements and completion techniques
- LNG
 - Regasification capacity: quantity and location
 - Contract terms; pricing, quantities, flexibility
 - Willingness to engage in global trade including exporting U.S. natural gas as LNG
 - Gas quality and interchangeability

Storage Inventories Tell the Tale

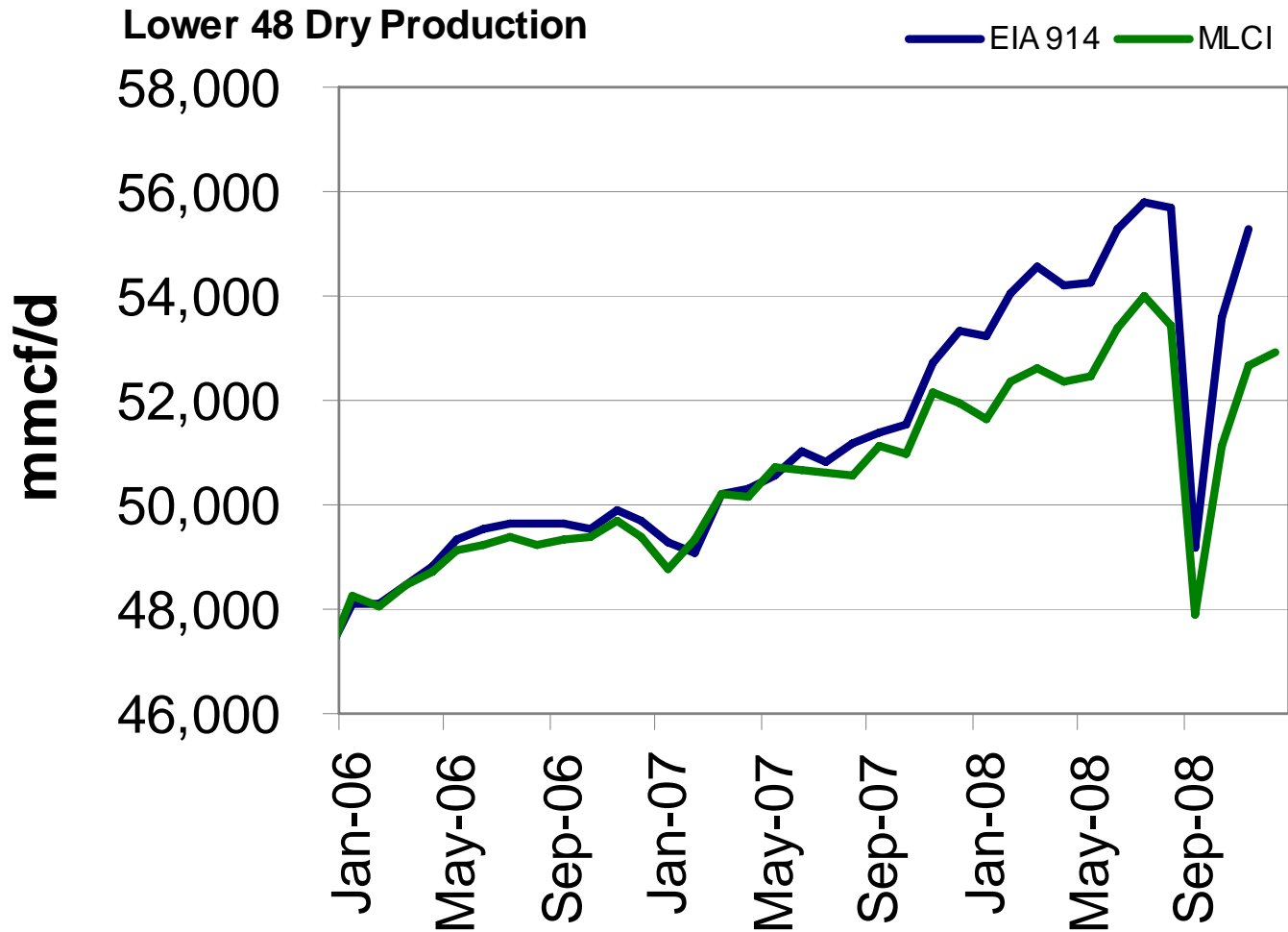


Tightest Import/Export Balance in Recent History

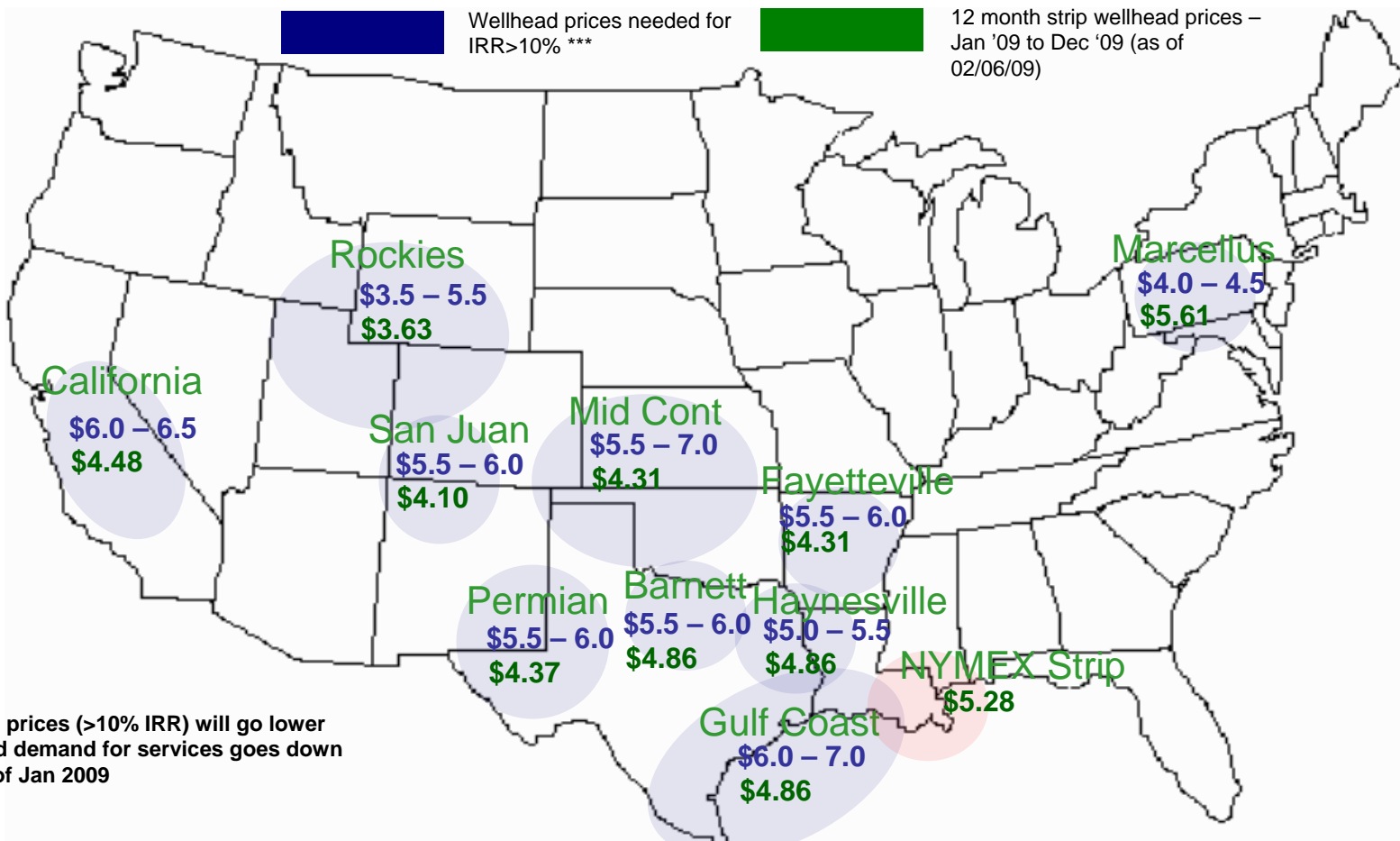


Includes imports from Canada, exports to Mexico, and LNG imports

U.S. Production Growth



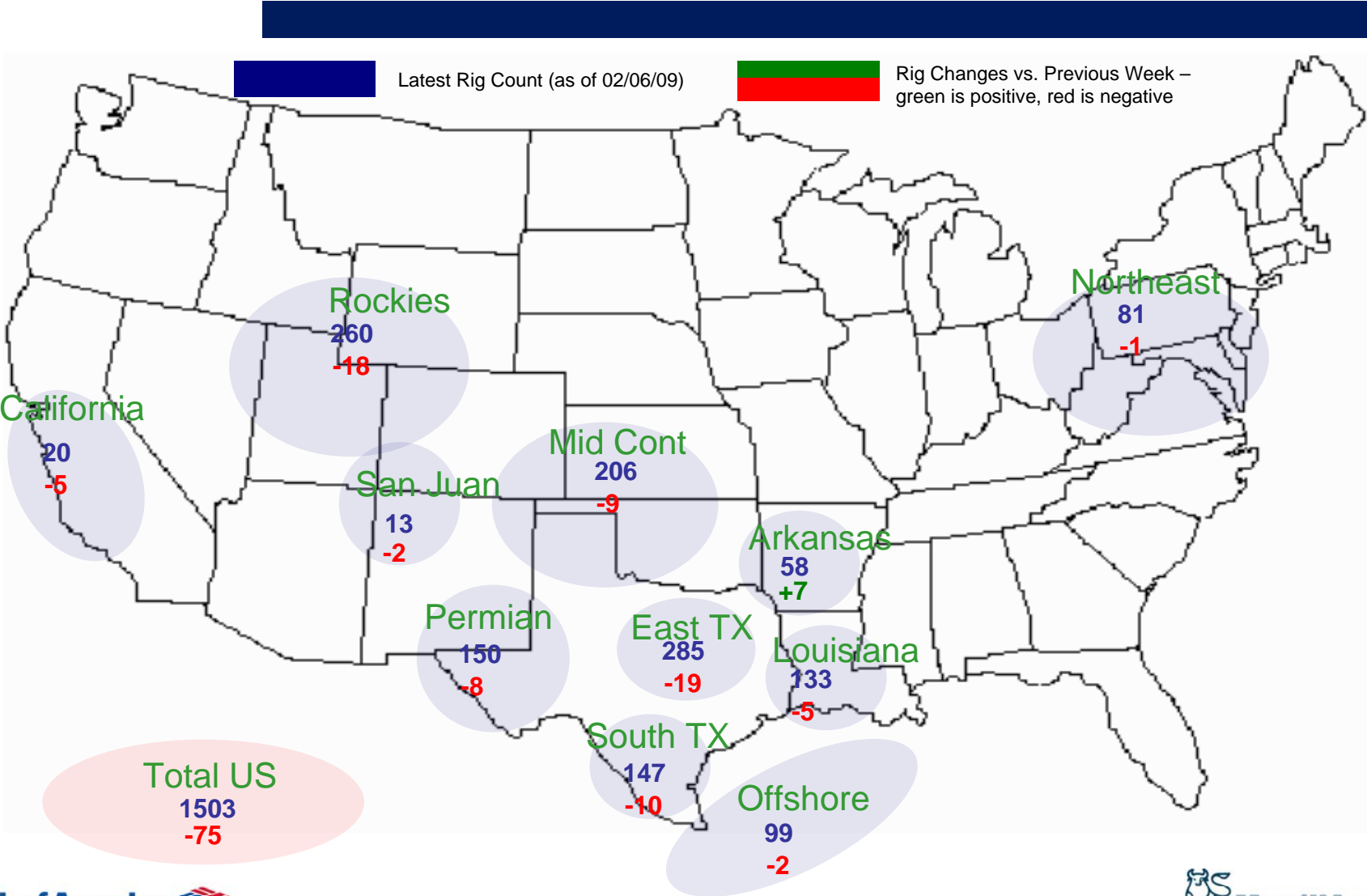
Production Economics



***Economic wellhead prices (>10% IRR) will go lower as prices go down and demand for services goes down - prices assumed as of Jan 2009

Price Points Used: California = Calif Southern Border, Mid Cont / Arkansas = ANR Pipe, Rockies = Northwest Rocky Mtn Mthly Index, Gulf Coast / Barnett / Haynesville = Houston Ship Channel, Permian = West Texas Waha, San Juan = El Paso San Juan Mthly Index, Marcellus = Dominion

Weekly Rig Counts

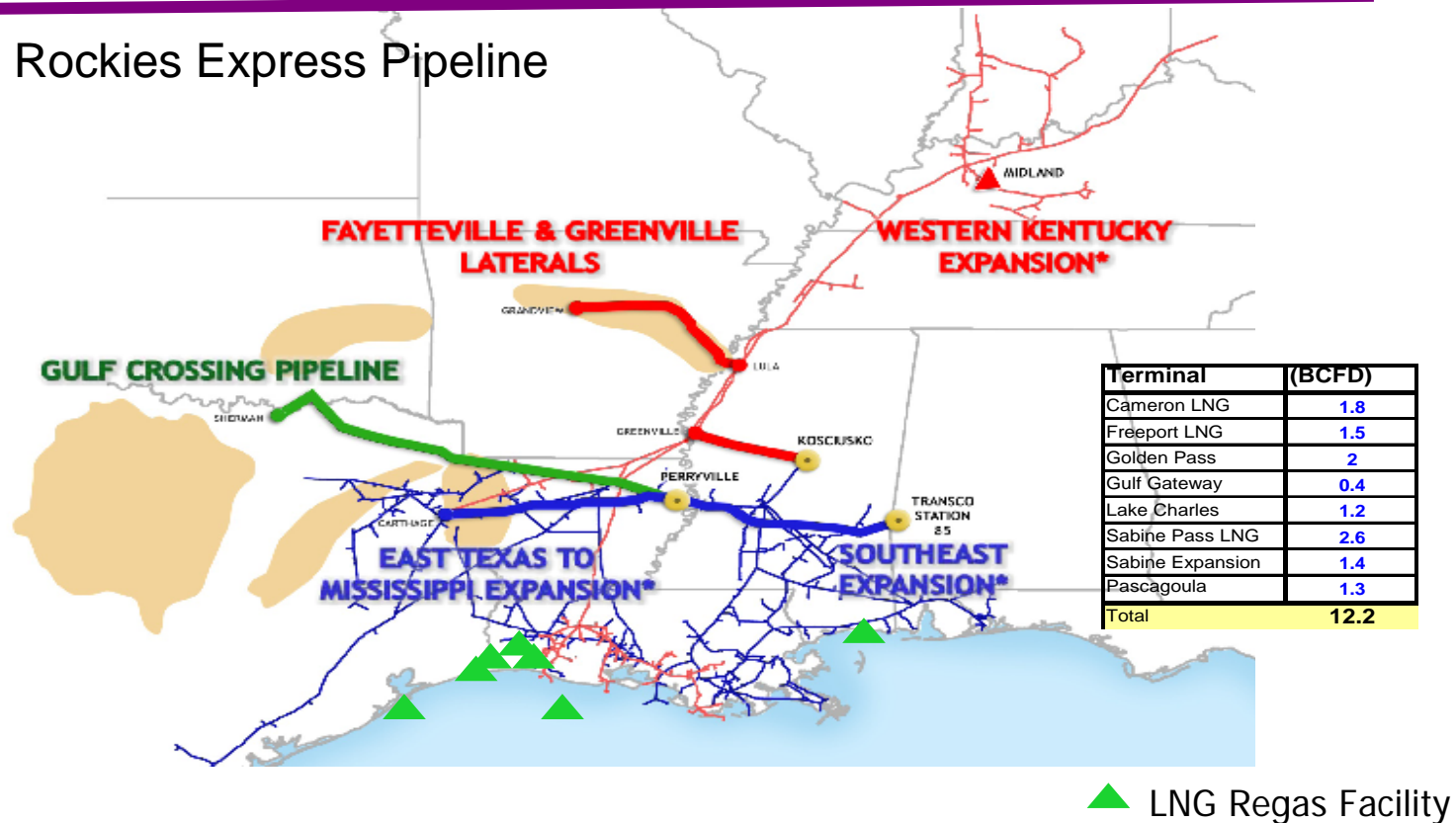


Shale Drilling Inventories

Shale Location	Acres ¹	Spacing	% Utilization	Potential Wells	Wells
Barnett (TX)	2.9 mm	80 acres	50%	18,300	8,000
Fayetteville (AR)	2.0 mm	80 acres	50%	12,500	1,000
Woodford (OK)	0.7 mm	60 acres	50%	5,500	600
Haynesville (N. LA & E. TX)	3.1 mm	80 acres	50%	19,500	50
Marcellus (Eastern)	5 mm	160 acres	50%	15,600	500
Canada - BC	1.4 mm	80 acres	50%	8,600	10
Total of 6 Shales	13.7 mm			80,000	10,160

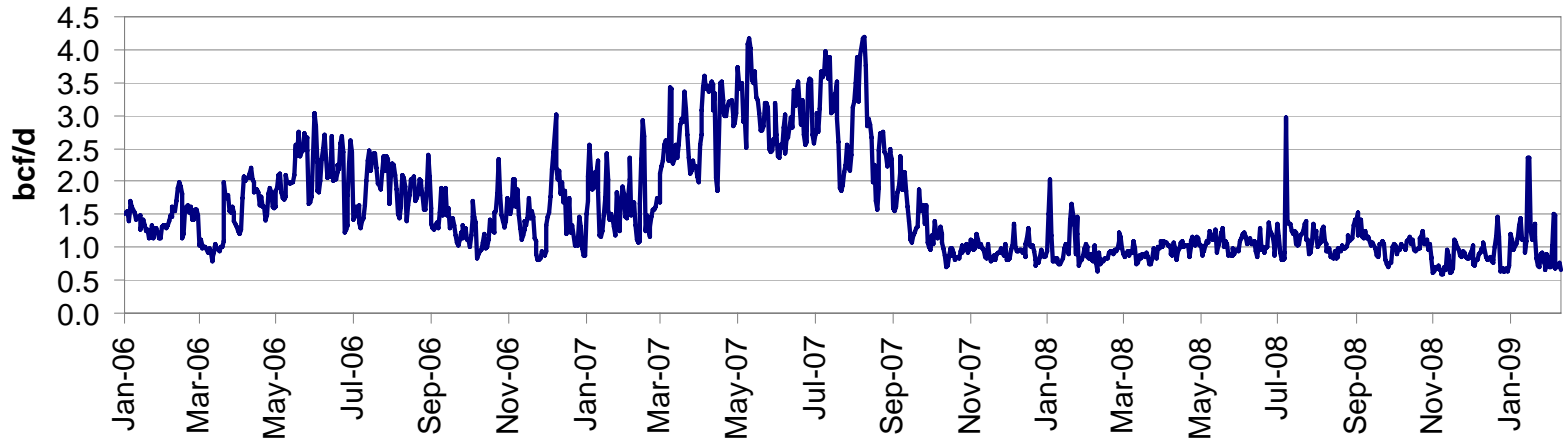
Shale Gas and LNG Competing for Limited Capacity

Rockies Express Pipeline

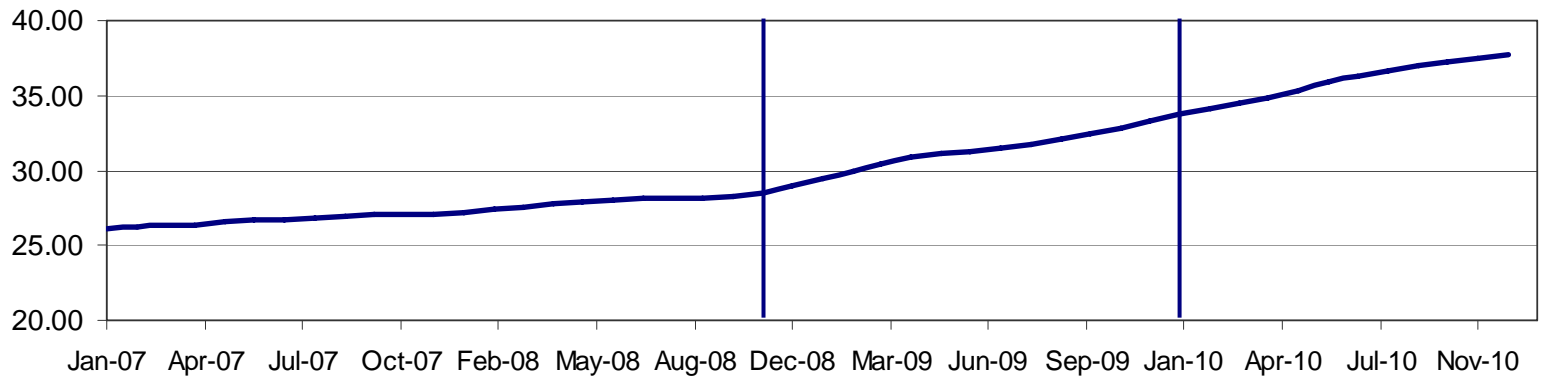


LNG Imports to USA

Regasification Send Outs (bcf/d)

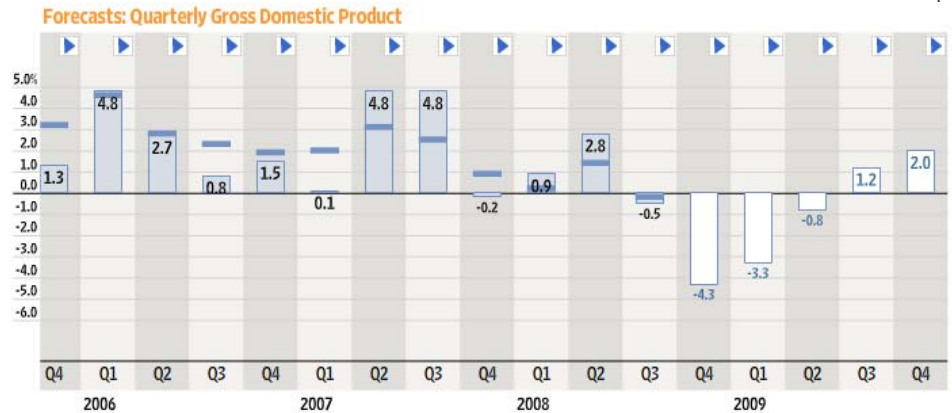
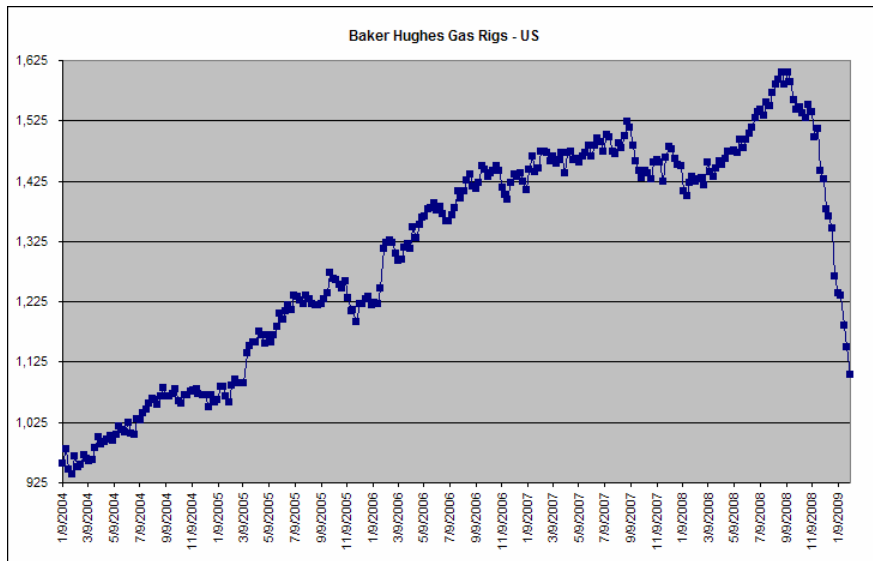


Global Liquefaction (bcf/d)

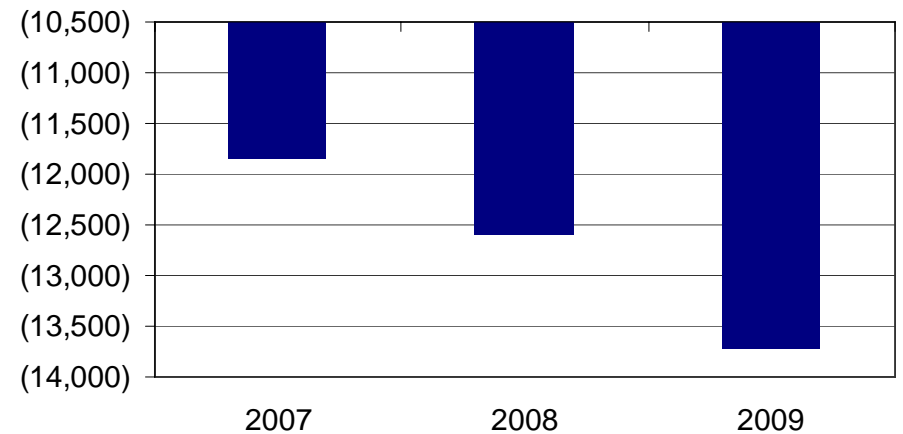


Near-Term Drivers to Higher Natural Gas Prices

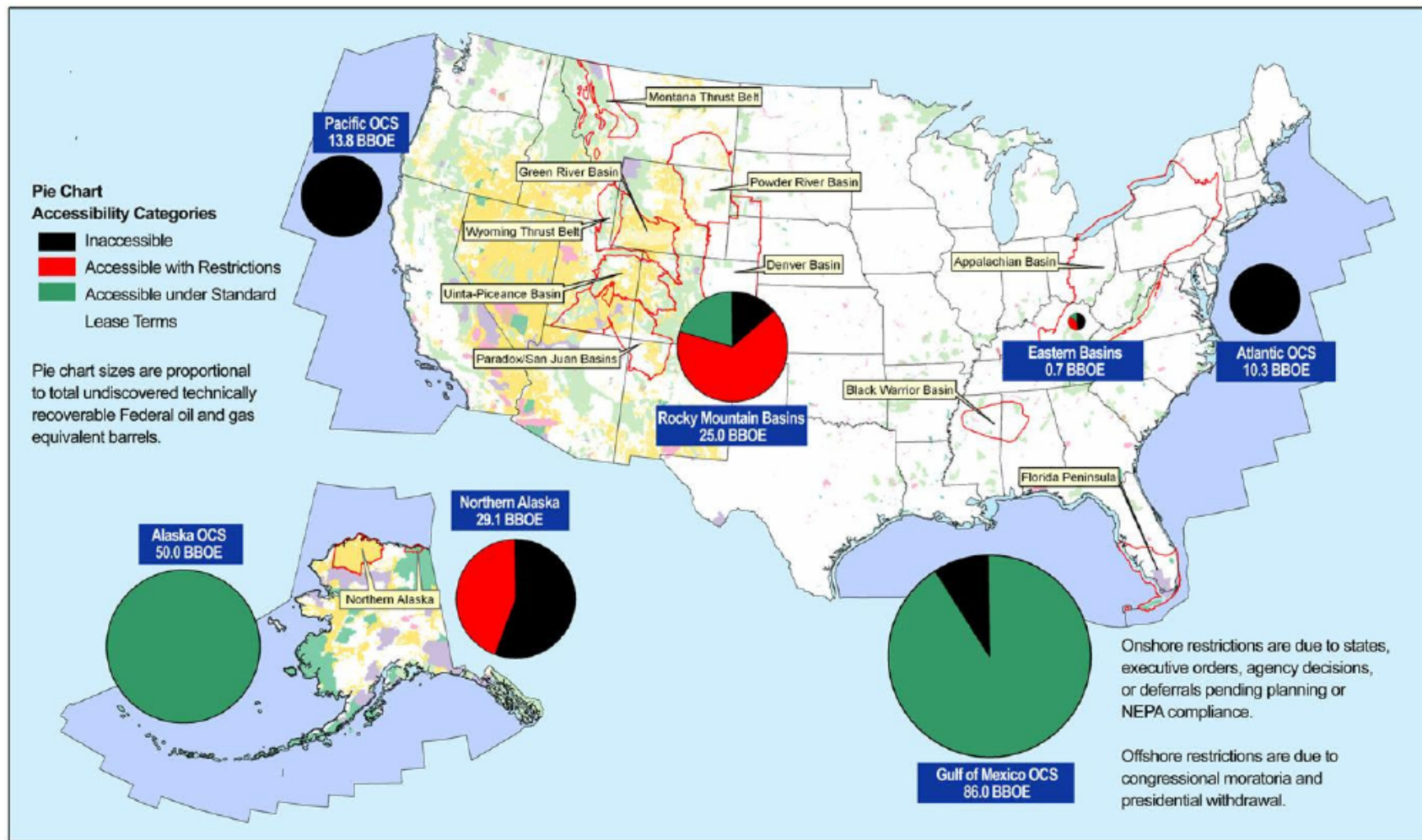
- Projected economic growth by the second half of 2009
- Declines in drilling will quickly reduce absolute production down



Base 1st Year Decline (mmcf/d)



Drilling Restrictions on Federal Lands



Summary

- Shale play potential will ensure sufficient US gas supply for several years but stable price signals are needed
- Rigs are not likely to be laid down quick enough to prevent an over-supply of gas in 2009
- Gas price likely to be banded in the \$5-\$8/mcf range for the foreseeable future
 - Short term excursions to shut-in price levels possible in 2009 and 2010
 - Short term excursions to \$10+ possible if LNG sloshes away from N.A. after production drops by year end 2009