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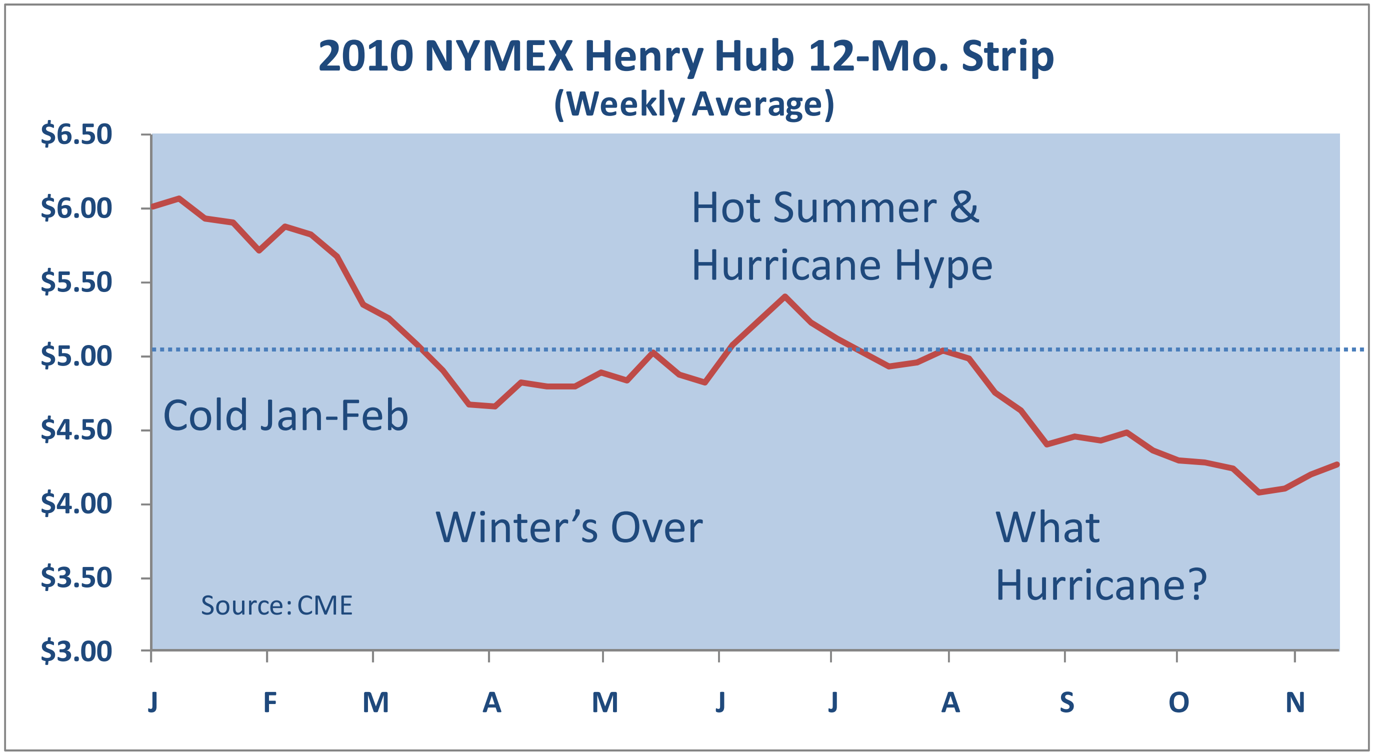
Observations & Musings on the Short and Long Term U.S. Gas Market

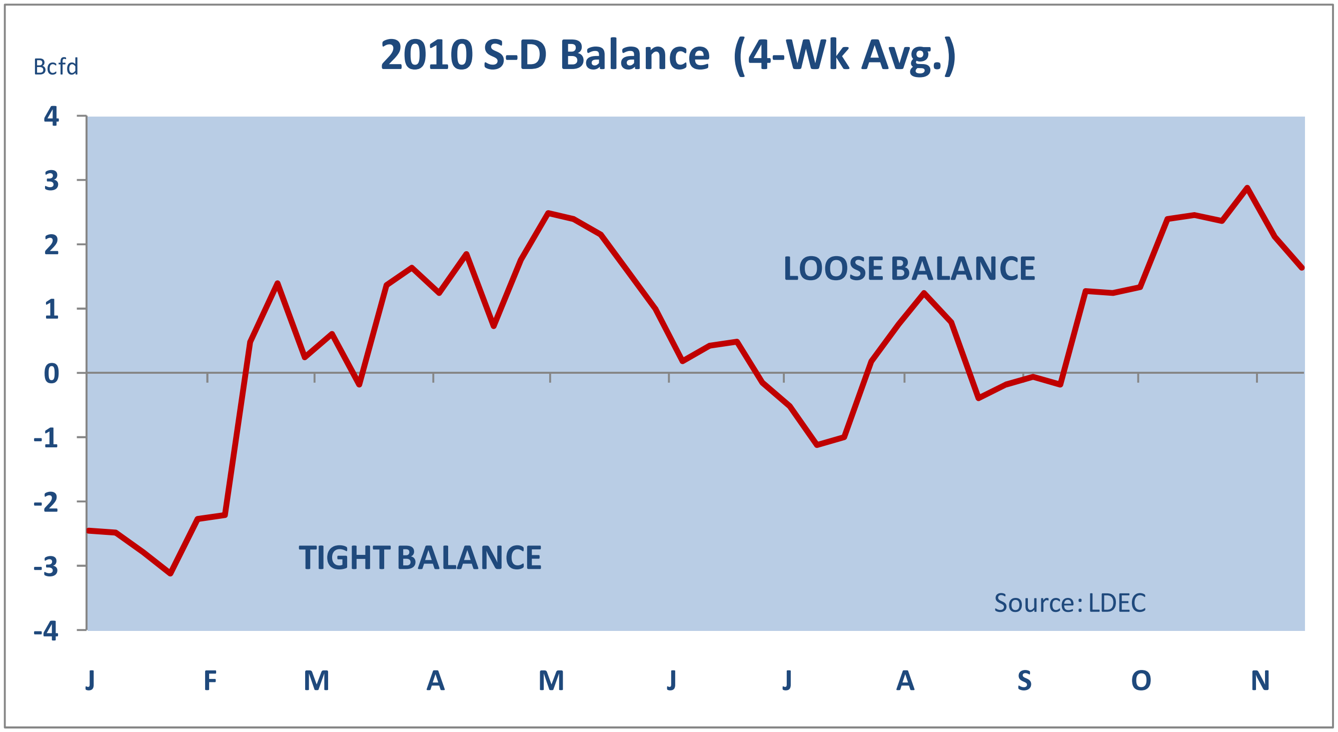
CEE 2010 Annual Meeting

December 1, 2010

- The 2010 U.S. Gas Market
  - Tight or Loose?
- Structural or Temporal Imbalance?
  - Demand 2010
  - Supply 2010
  - Storage 2010
- Some Longer Term Questions
  - Is Shale or Imports the swing supply?
  - How important are liquid credits in shale drilling economics?
  - How elastic is power sector gas demand?
  - Is Shale Gas the new J-I-T energy supply?



Did 2010 gas prices follow the typical story line? Or is the market more sophisticated?



Weather-adjusted balance shows cycles throughout the year. Is this due to a bad model, demand volatility or supply management?

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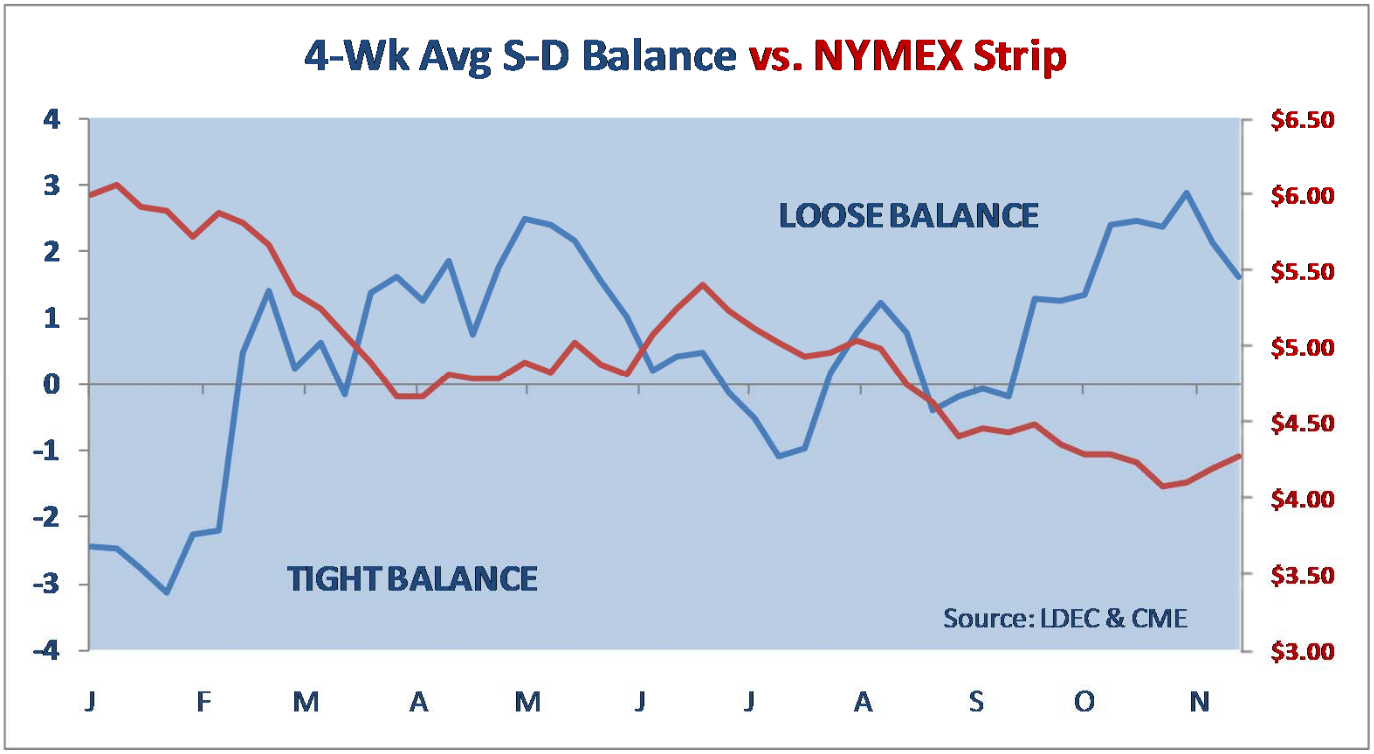

2010 gas prices appear to correlate with periods of tight and loose balances. Are we heading into a tighter period?

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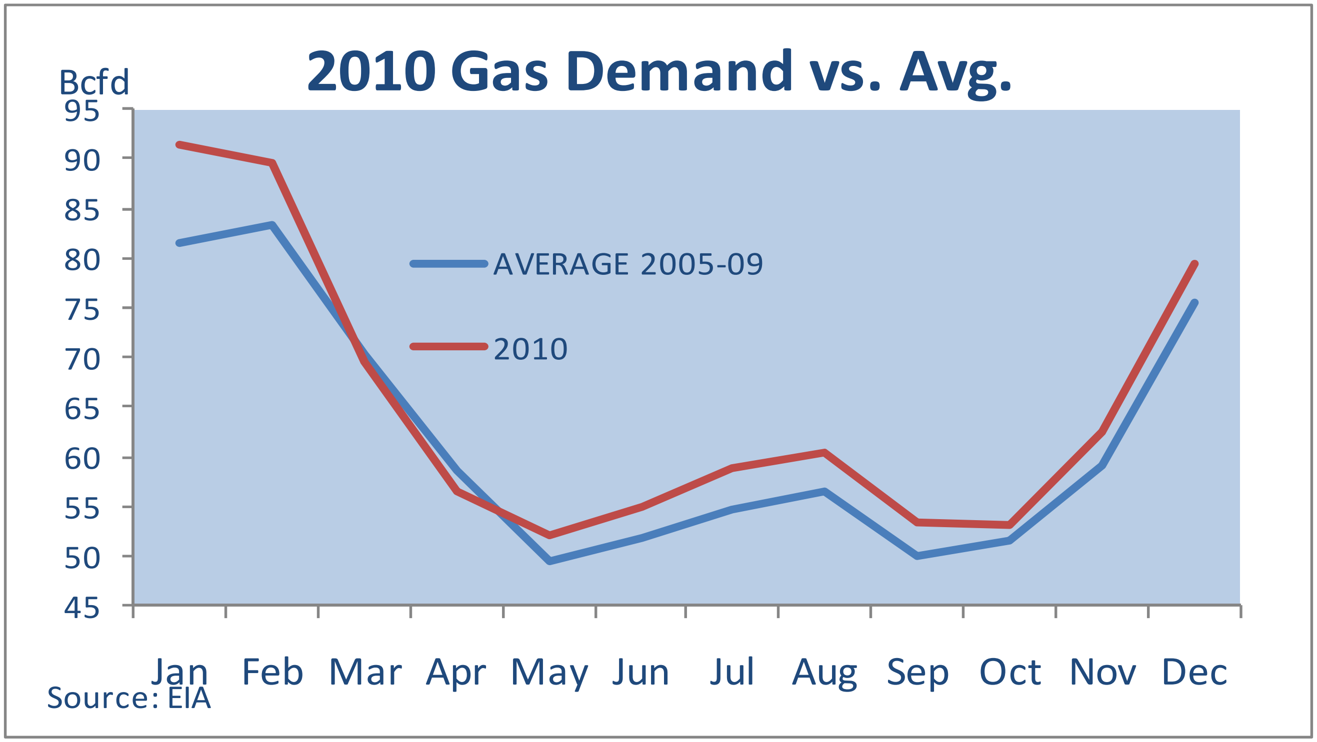

2010 gas demand is averaging about 3.2 Bcfd above average.
Will gas demand continue to show an increasing trend?

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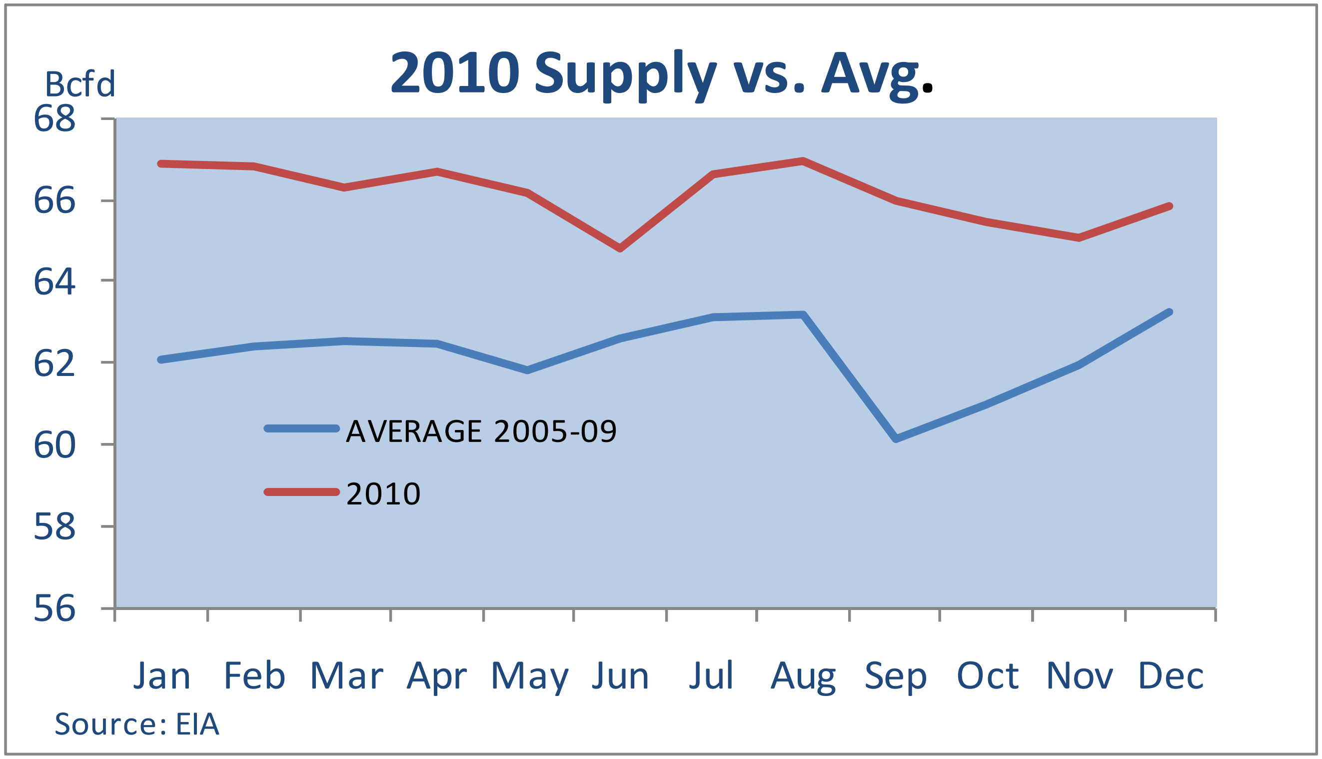
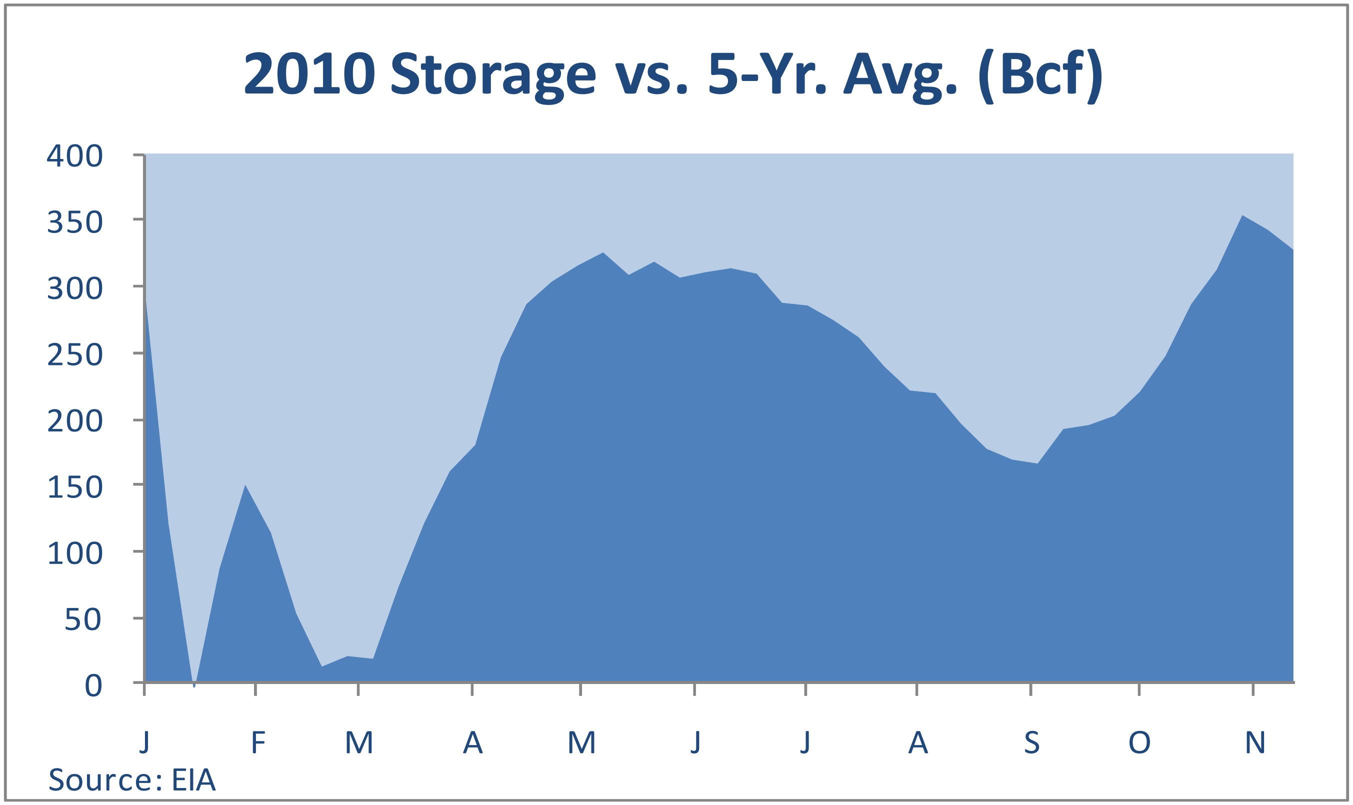


2010 gas supply is running about 3.9 Bcfd above average. Can supply continue to outstrip demand?



Surplus of 0.7 Bcfd translates into an extra 250 Bcf of storage. But a typical hurricane season will shut-in 166 Bcf.

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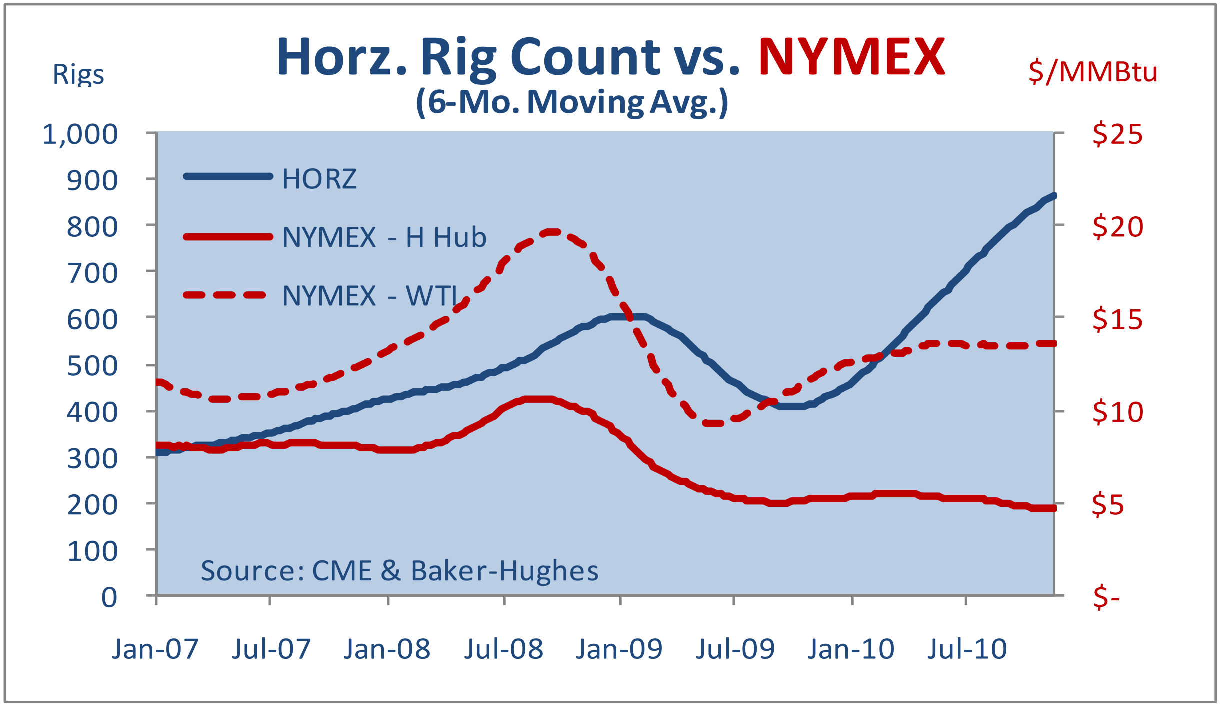
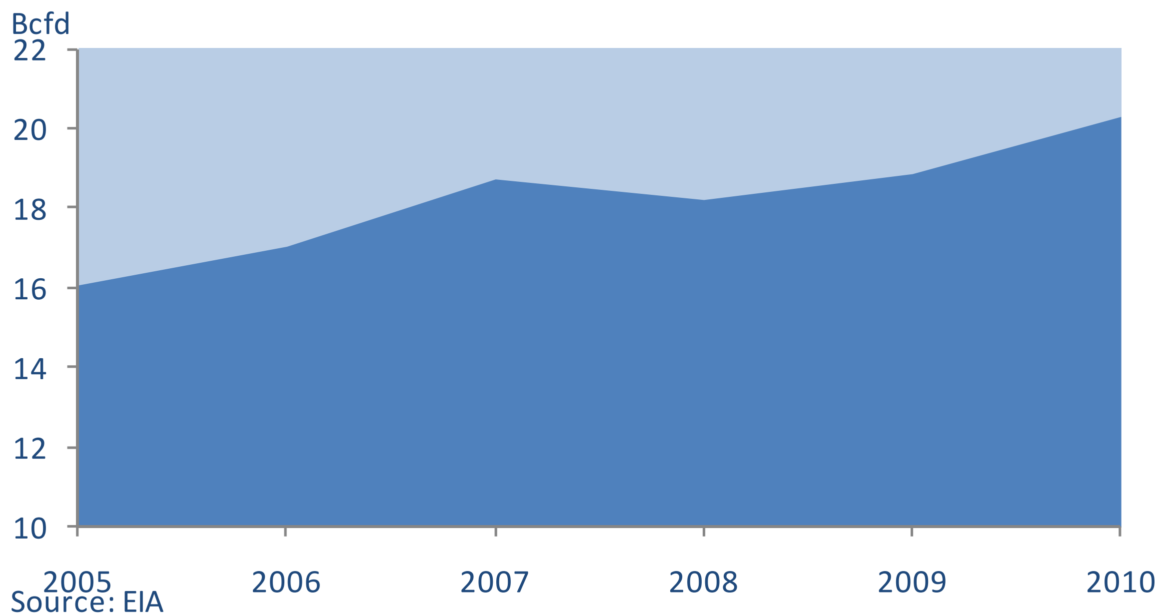
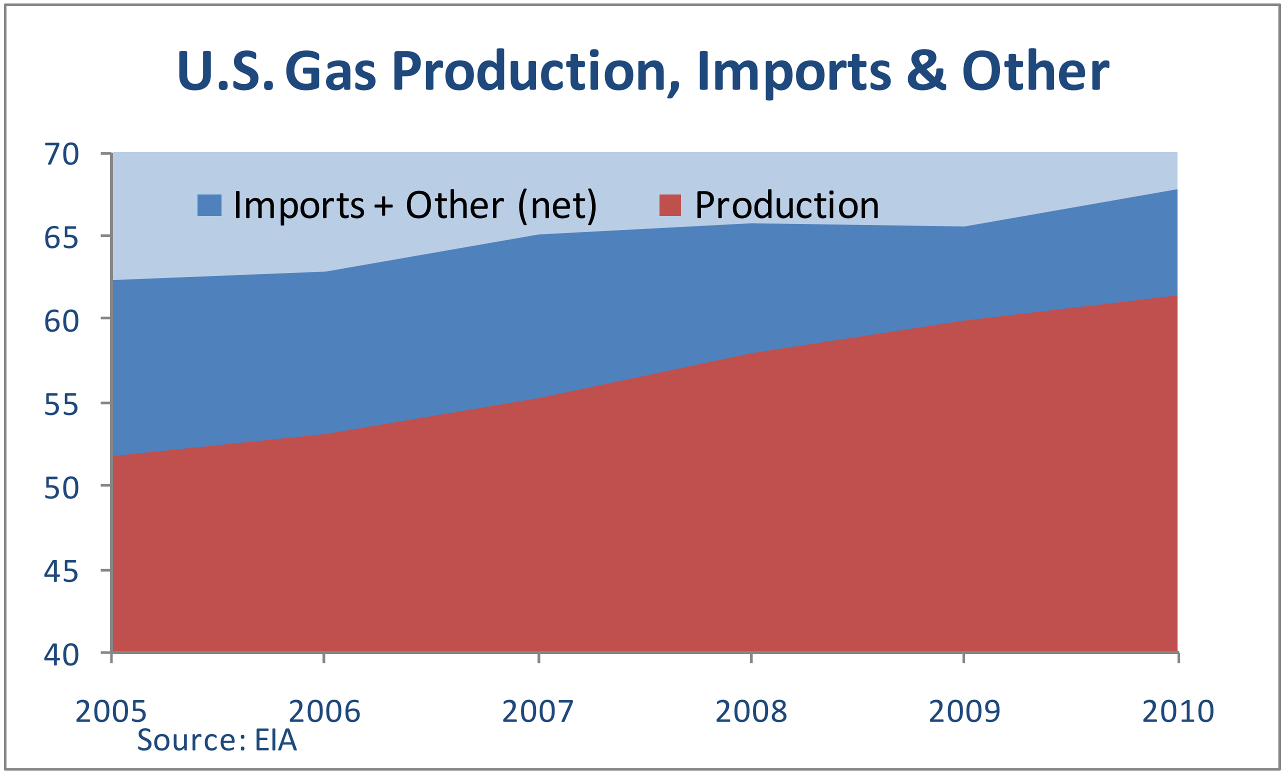


Gas shale drilling appears to be driven by both gas and oil prices. Do current gas and oil prices provide appropriate returns for shale drilling to grow?

U.S. Gas Use for Electric Generation



Between 2005 and 2010 there was a 4 Bcfd rise in gas use for electric generation. Any constraints in the future?



Growth of shale gas production has been somewhat offset by lower imports. Are imports the balancing item in the S-D equation?

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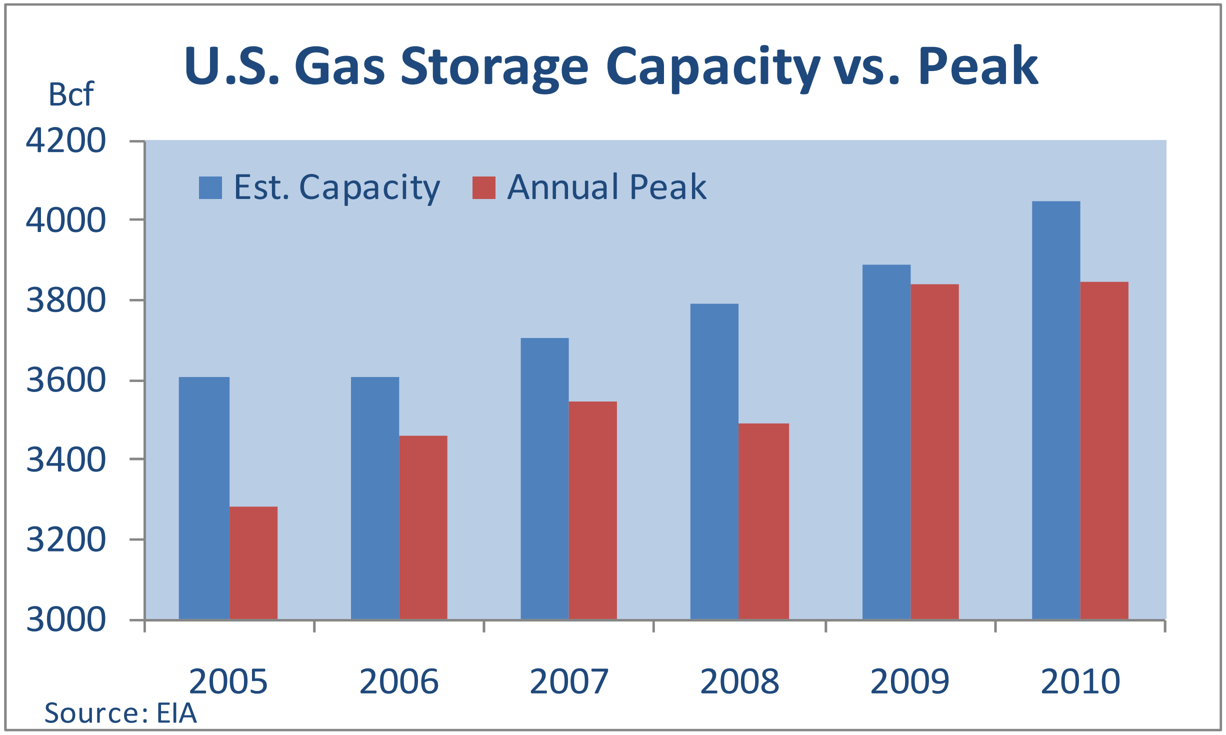

New storage projects in 2010 put less pressure on than the market during the fall of 2009. Will storage continue to rise or will J-I-T gas production negate this need?