



The North American Natural Gas Market

IPAA/TIPRO Luncheon
April 4, 2007

North American Natural Gas Market

- **Structural Changes in Natural Gas Market**
- **Winter Weather**
- **Price Outlook**

Structural Changes in Natural Gas Market Last 7 Years

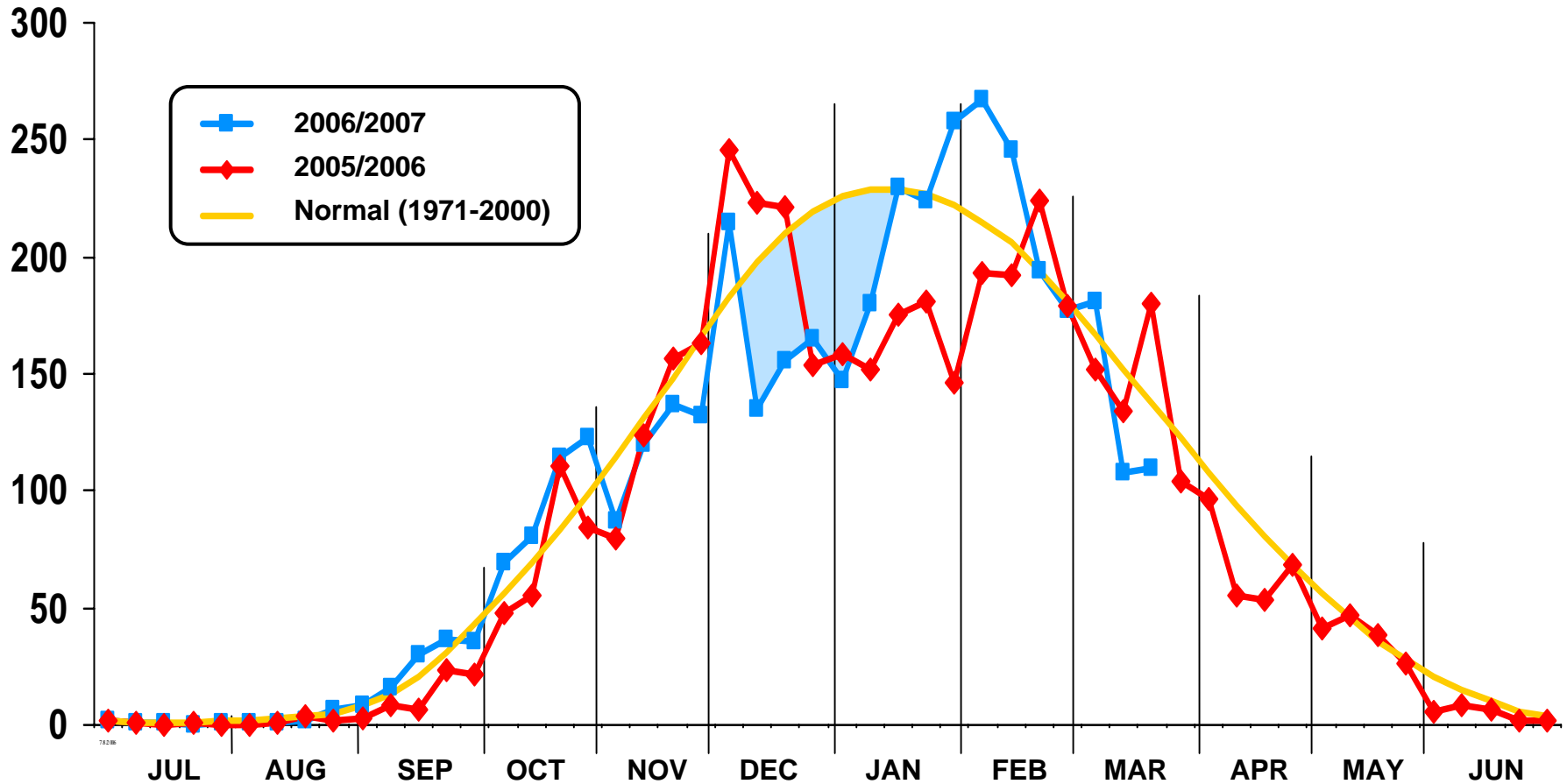
- **Residential and Commercial Space Heating Demand Have Significantly Increased**
- **Electricity Sector Demand for Natural Gas Has Exploded**
- **Industrial Demand Has Declined Dramatically**
- **Fuel Switching Capability Has Declined**

Natural Gas Markets

Results of Structural Changes

- **Gas Prices are More Sensitive to Weather Than in the Past**
- **Gas Price Volatility is Higher**

U.S. Heating Degree Days*



Note: The HDD's Shown Above are for Weeks Ending at Midnight Saturday Whereas DOE's Storage Weeks End at 9am Friday

* Gas Home Heating Customer Weighted from NOAA

2007 North American Natural Gas Supply Growth Estimates

	<u>YOY</u>
U.S.	+1.4%
Canada	(2.5%)

U.S.

- Gulf of Mexico Supply (Adjusted for Hurricane Shut-in) Still Falling Hard
- Onshore Resource Plays Offsetting Offshore Decline

Canada

- Shows the Effect of a Decline in Drilling Activity
 - Production Growth Changes From +1% in 2006 to (2.5%) in 2007

North American Natural Gas Supply Recent Changes

Canadian Imports

- **Estimated Decline 2007 vs. 2006 – 0.7 Bcfd**
 - 8.8 Bcfd to 8.1 Bcfd
- **Supply is Falling**
- **Increased Intra-Alberta Demand**

North American Natural Gas Supply Recent Changes

LNG Imports

- **April - June Likely Higher Than Previously Predicted**
 - **Low European Gas Prices**
 - **Small Net Effect, Only Limited Spot Volumes Can be Diverted – Likely an Incremental 60 Bcf**

- **Full Year Impact**
 - **2006 1.5 Bcfd**
 - **2007E 2.1 - 2.3 Bcfd**

2005 - 2007E Natural Gas Prices Henry Hub (\$/Mcf)

- **2005** **\$8.55**
- **2006** **\$7.26**
- **2007E** **\$8.00 - \$8.50**

North American Natural Gas Conclusions

- **Natural Gas Prices Much More Weather Sensitive Than Just 7 Years Ago**
- **In Spite of Hot First Half of Winter, Natural Gas Prices Should Slowly Strengthen Throughout 2007 and Remain Strong in 2008**
- **North American Gas Drilling Activity Should Remain Reasonably Robust 2007 - 2008**



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