

BENTEK North American Market Overview & Outlook

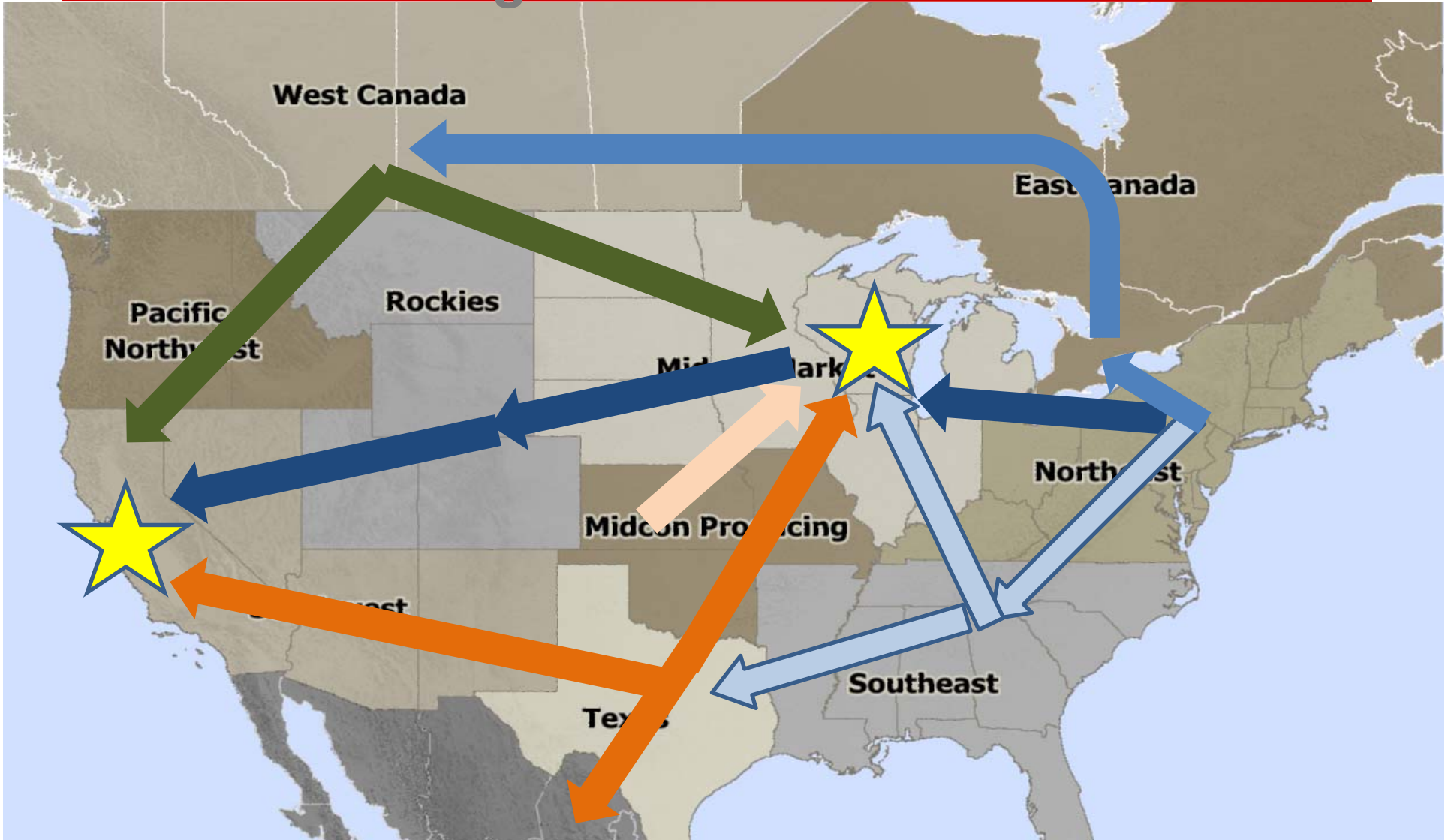
***To Illinois State University
Institute for Regulatory Policy Studies
Springfield, IL
October 30, 2012***

Agenda

- ❖ **Drilling Efficiencies and Oil & NGL Production Will Sustain Annual Growth of Gas Volumes**
- ❖ **Demand Is Responding to Low Prices**
- ❖ **Prices Will Be Low and Stable as Supply Continues to Overwhelm Demand**
- ❖ **Changes in Intra-Regional Flow Dynamics Will Impact Local Prices, Particularly Out West**

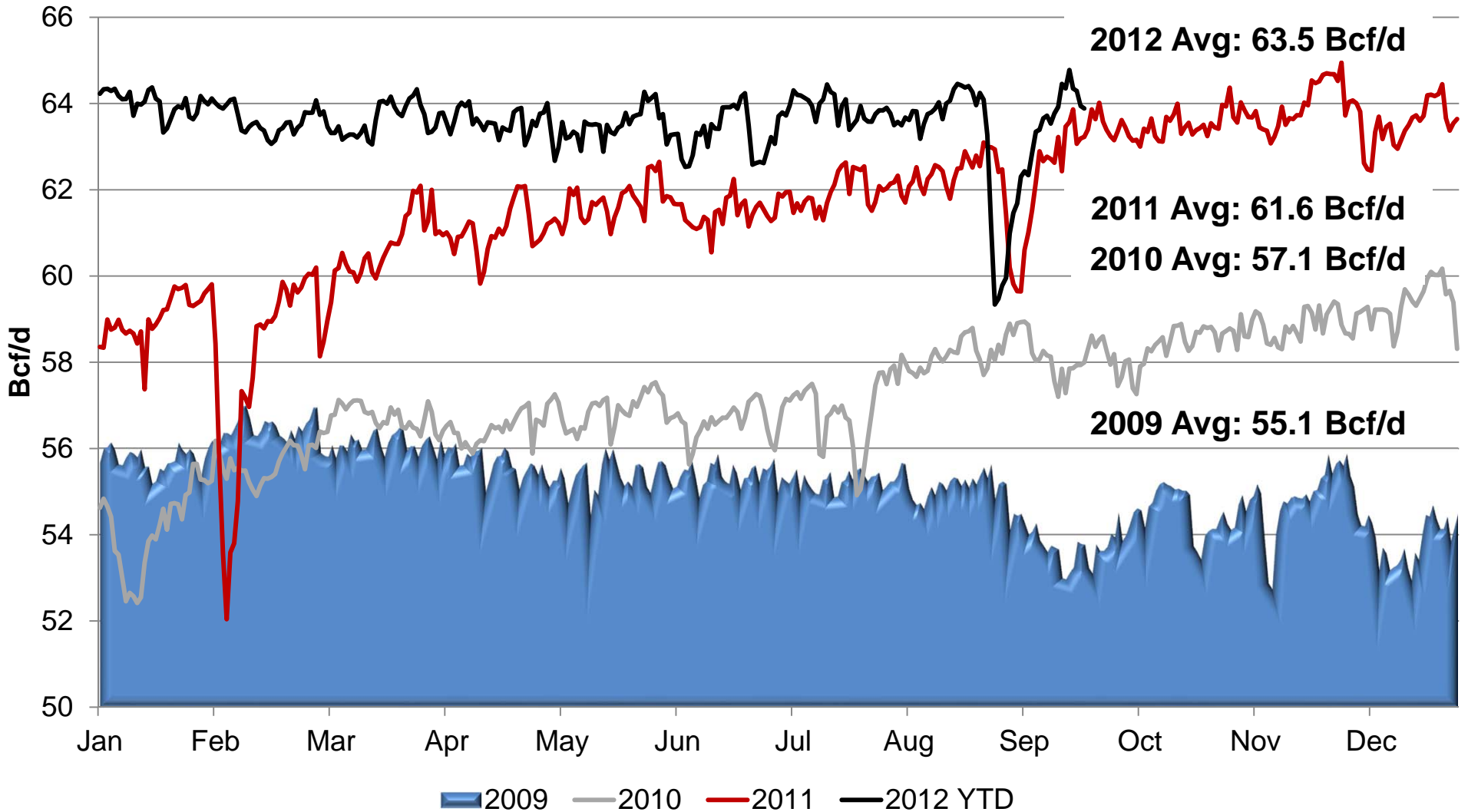


Massive Displacement Forcing Gas Into New Markets

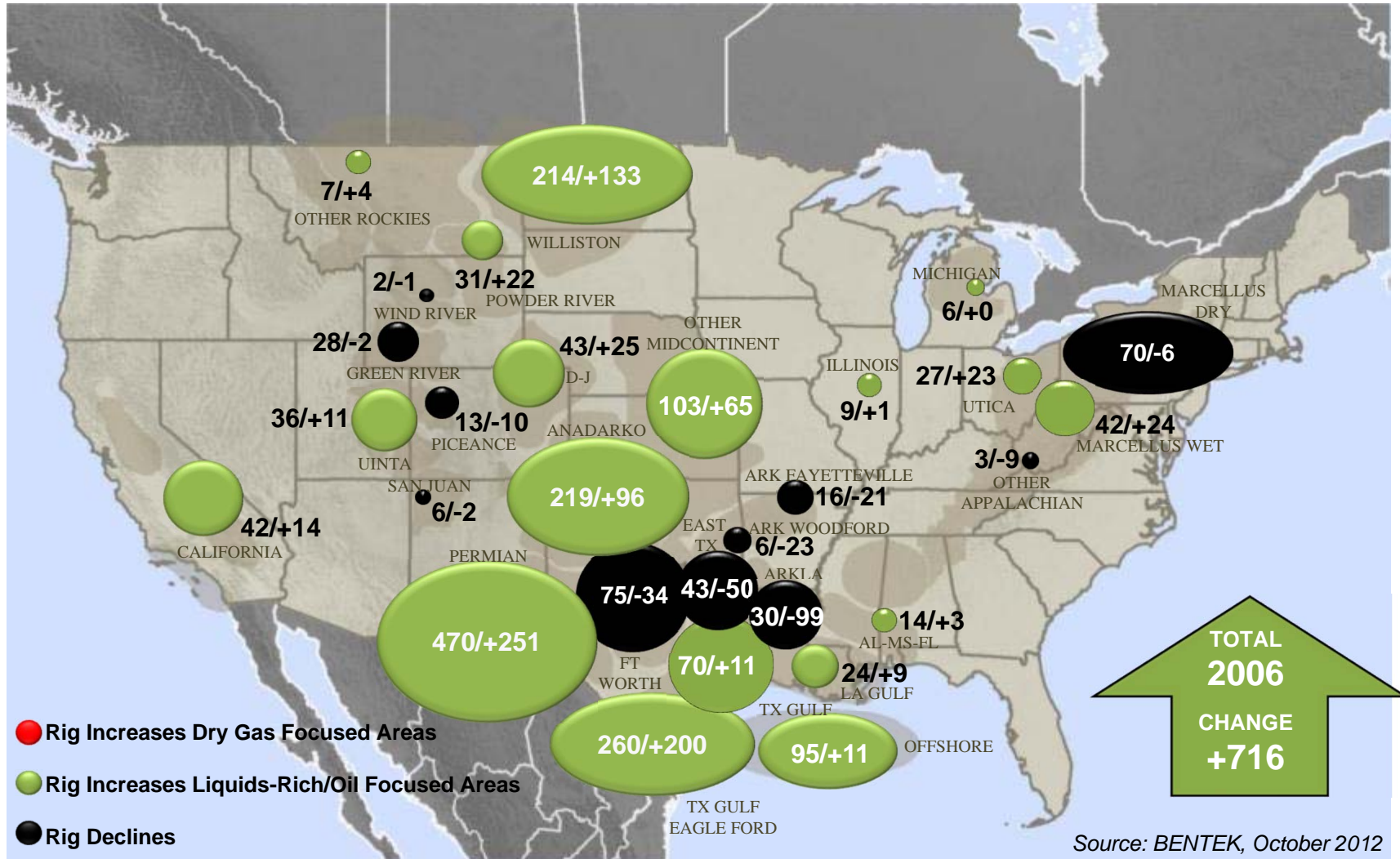


Supply

U.S. Production Slows But Sustains YOY Growth

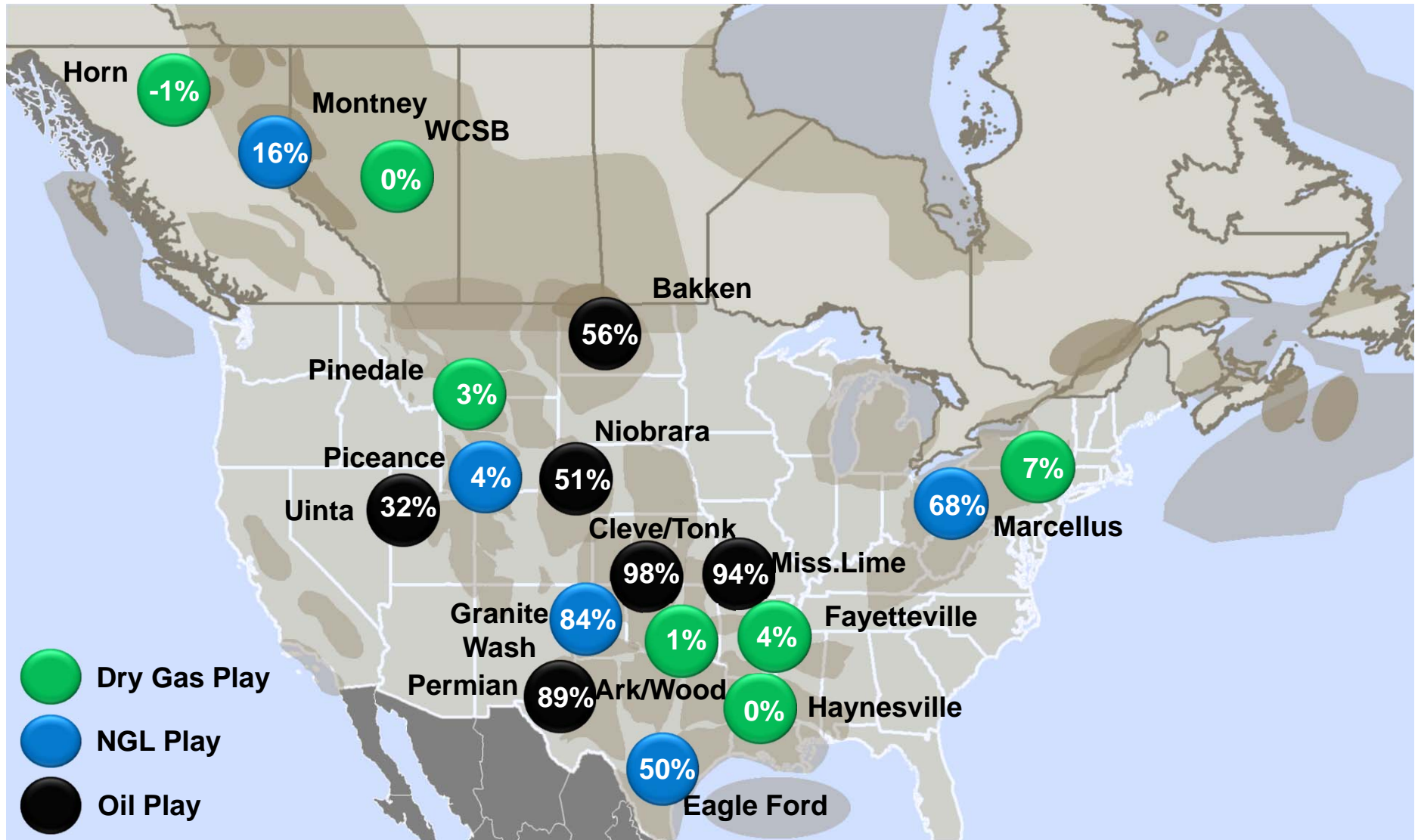


Massive Shift of Rigs to Oil & Liquids Plays

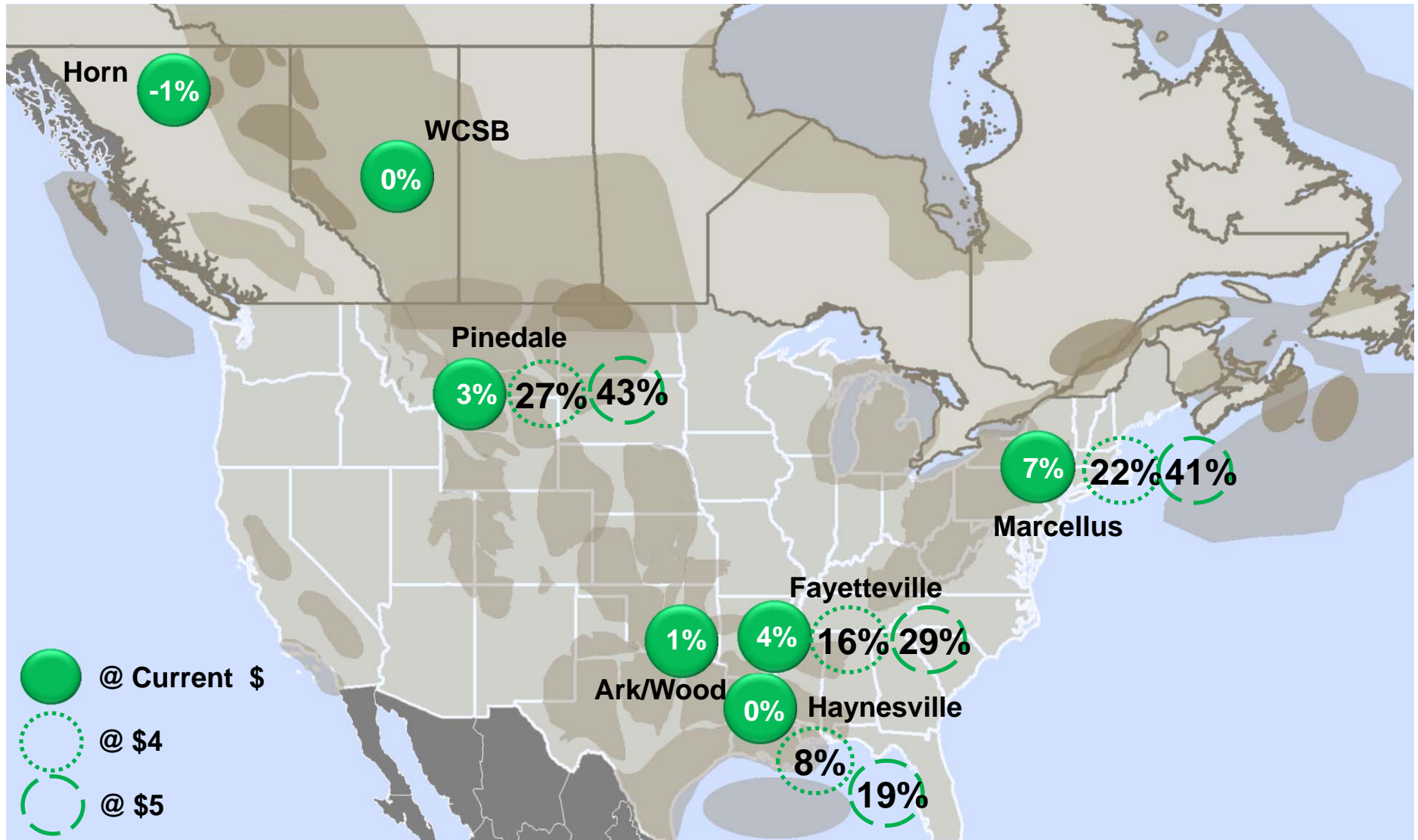


Active rig count: October 5, 2012 / Change in rig count from Jan. 1, 2010

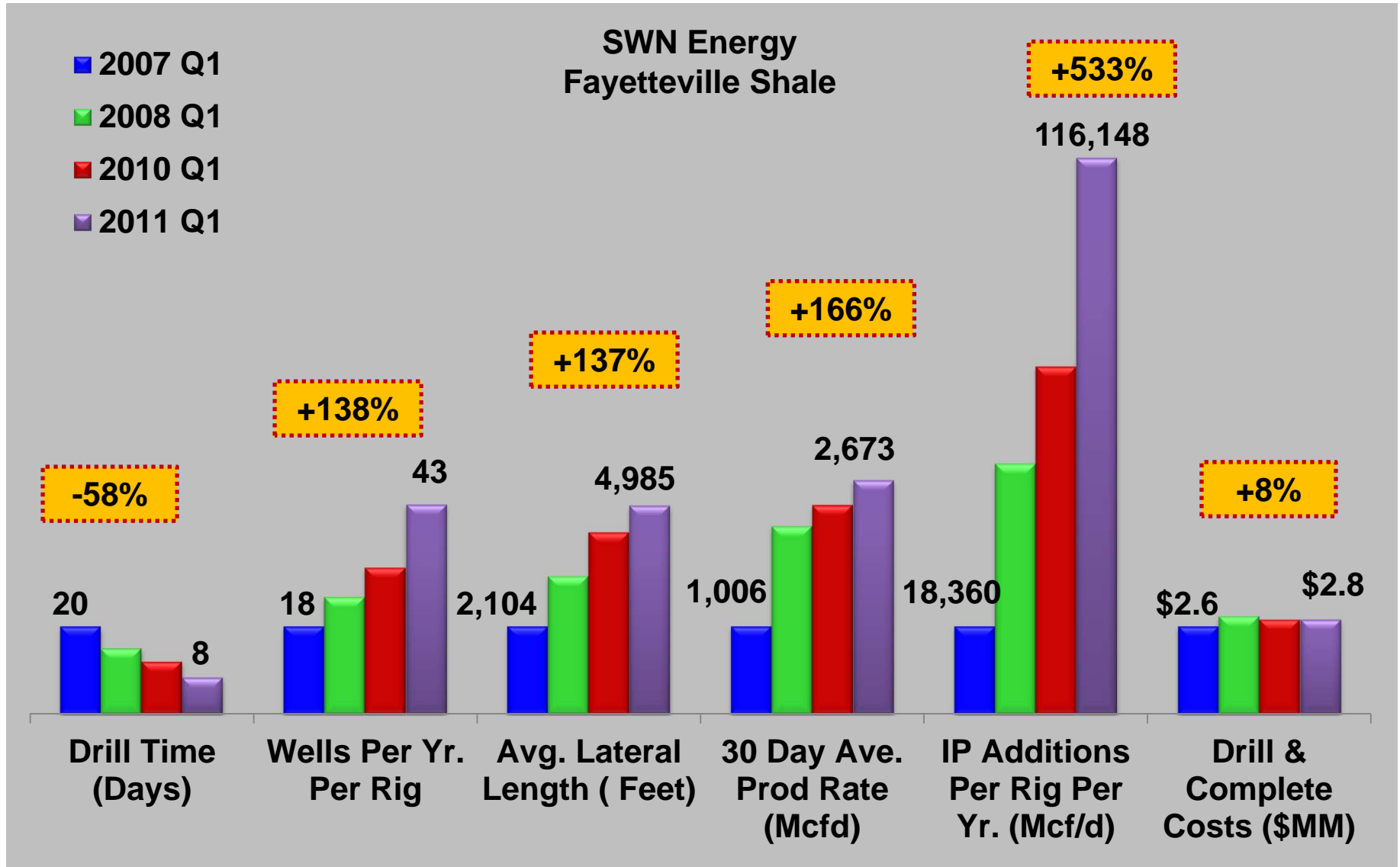
IRRs Shift Production to Oil/NGL-Rich Plays



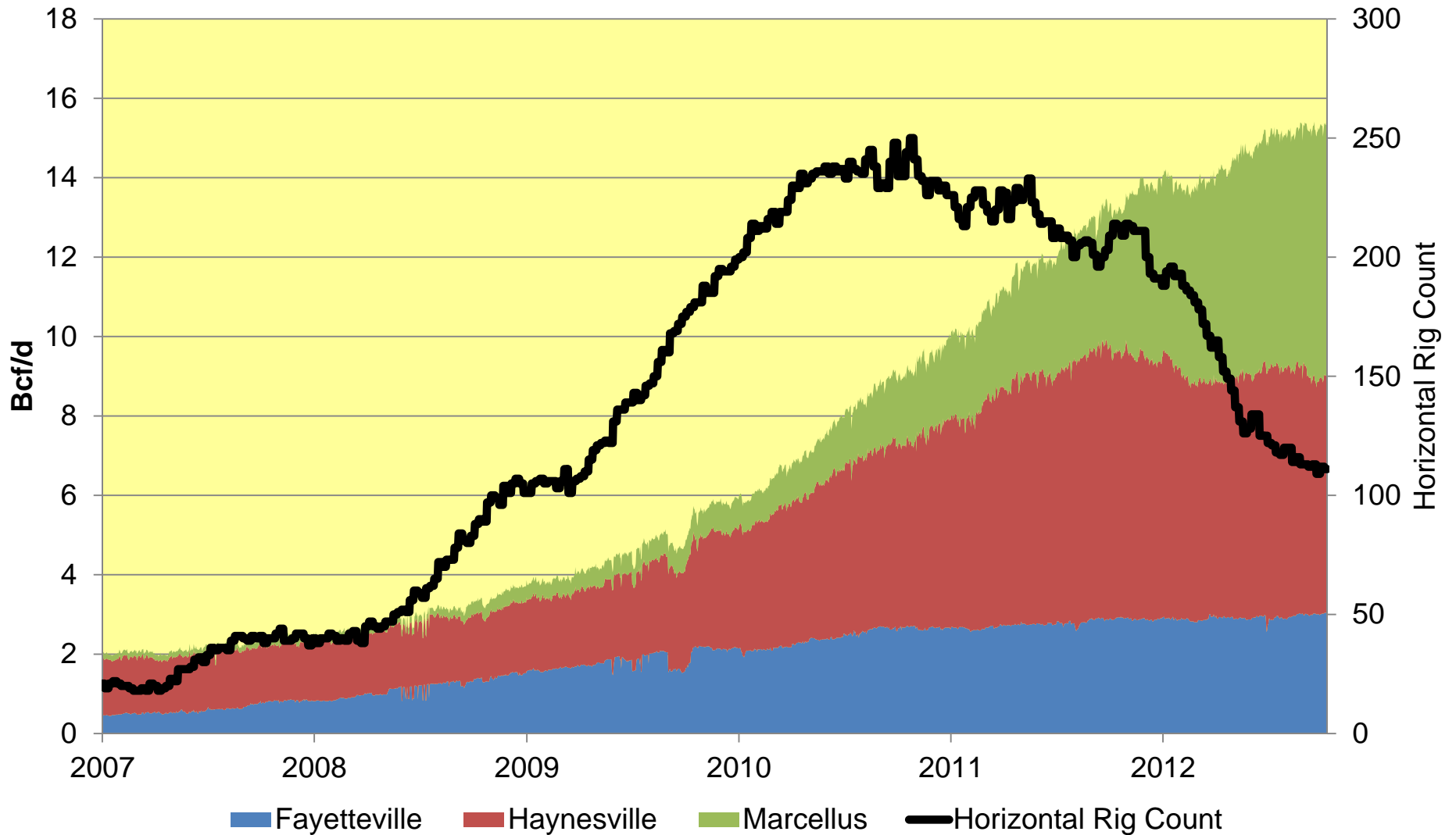
Numerous Plays Become Attractive Again at \$4 Gas



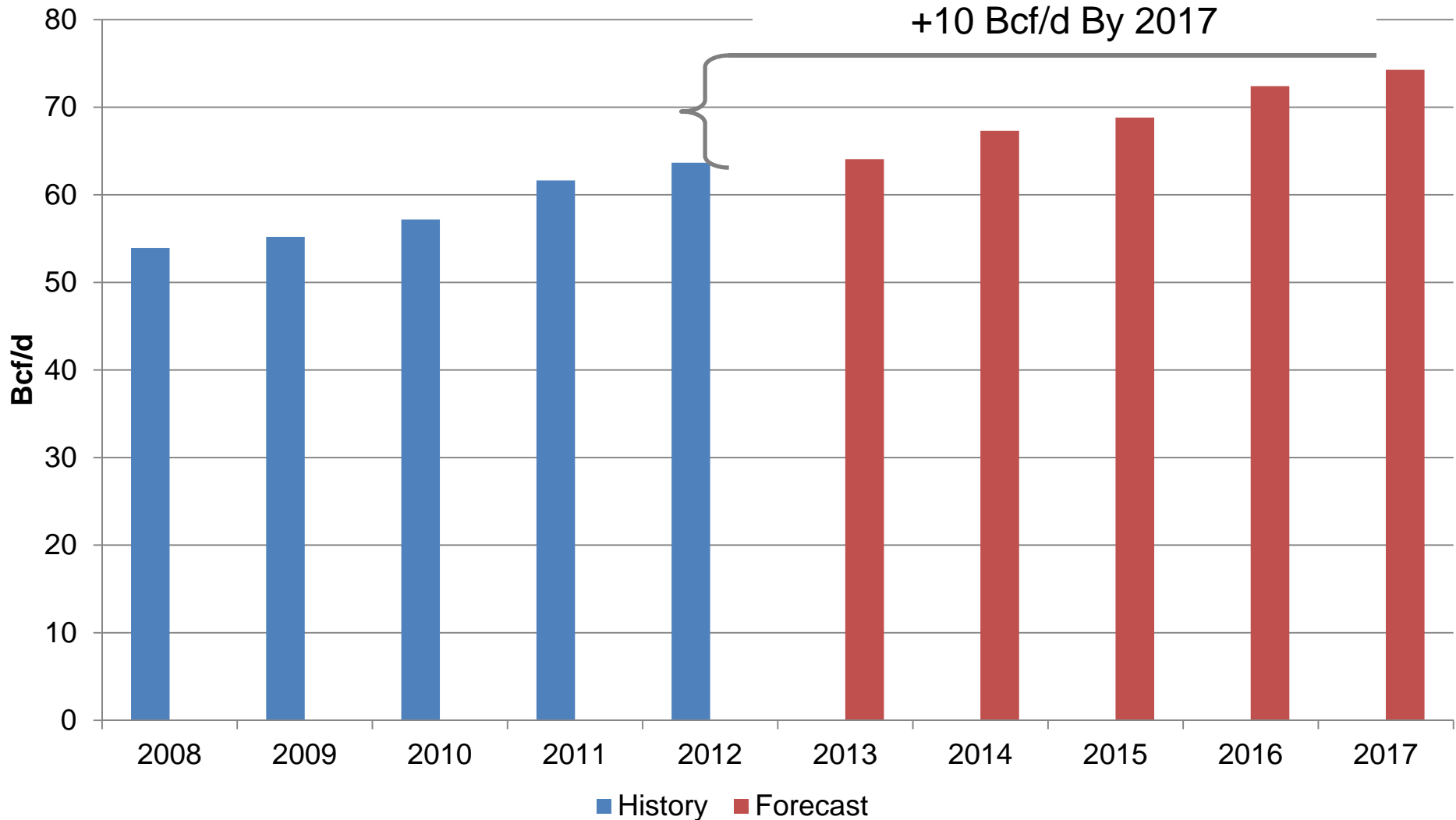
Technology Gains Drive Gas Production



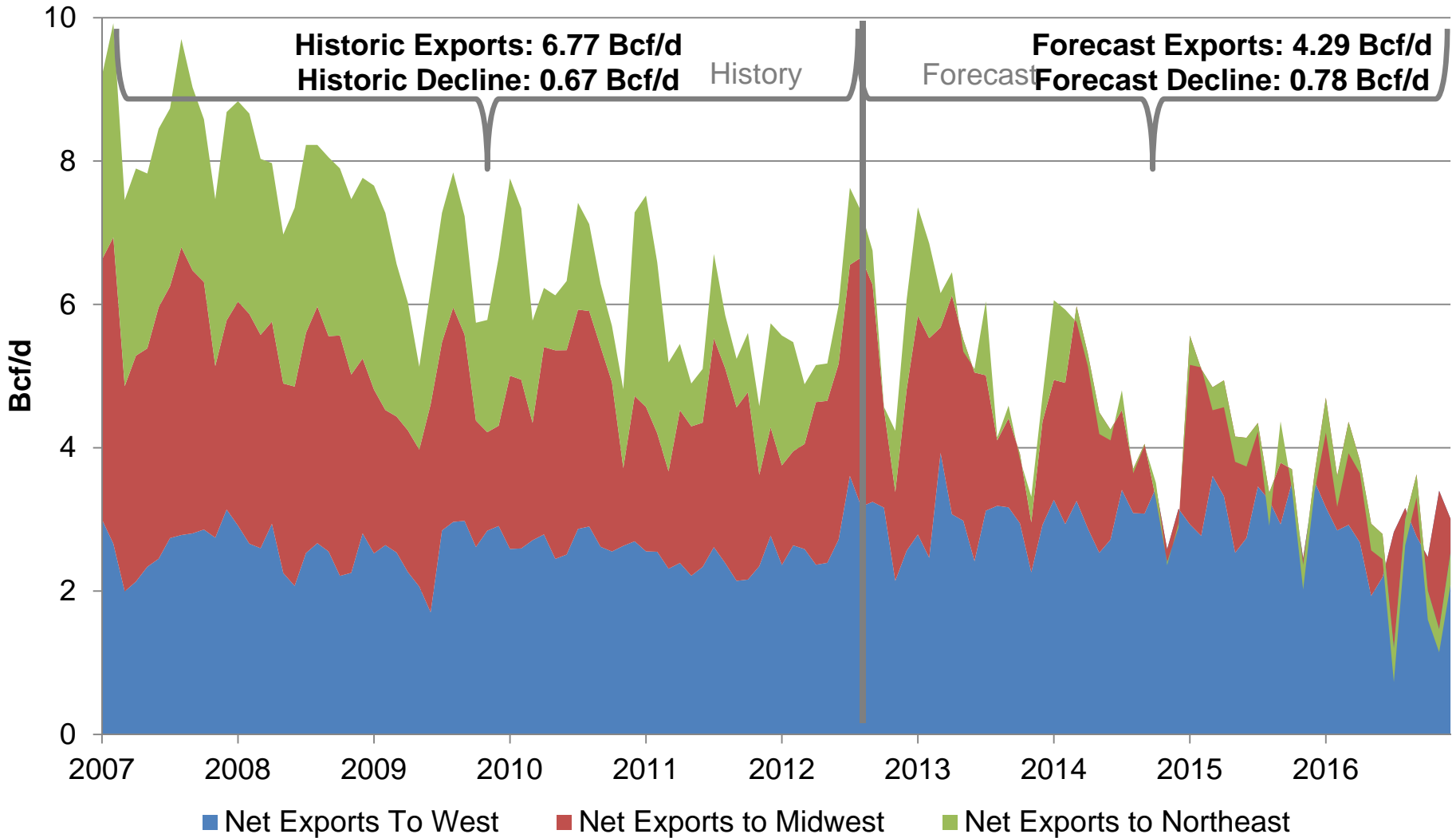
Shale Rig Counts Peaked in 2010 Yet Production Has Grown 8 Bcf/d Since 2010



Associated Gas, Efficiencies, Stronger Prices Will Sustain Production Growth

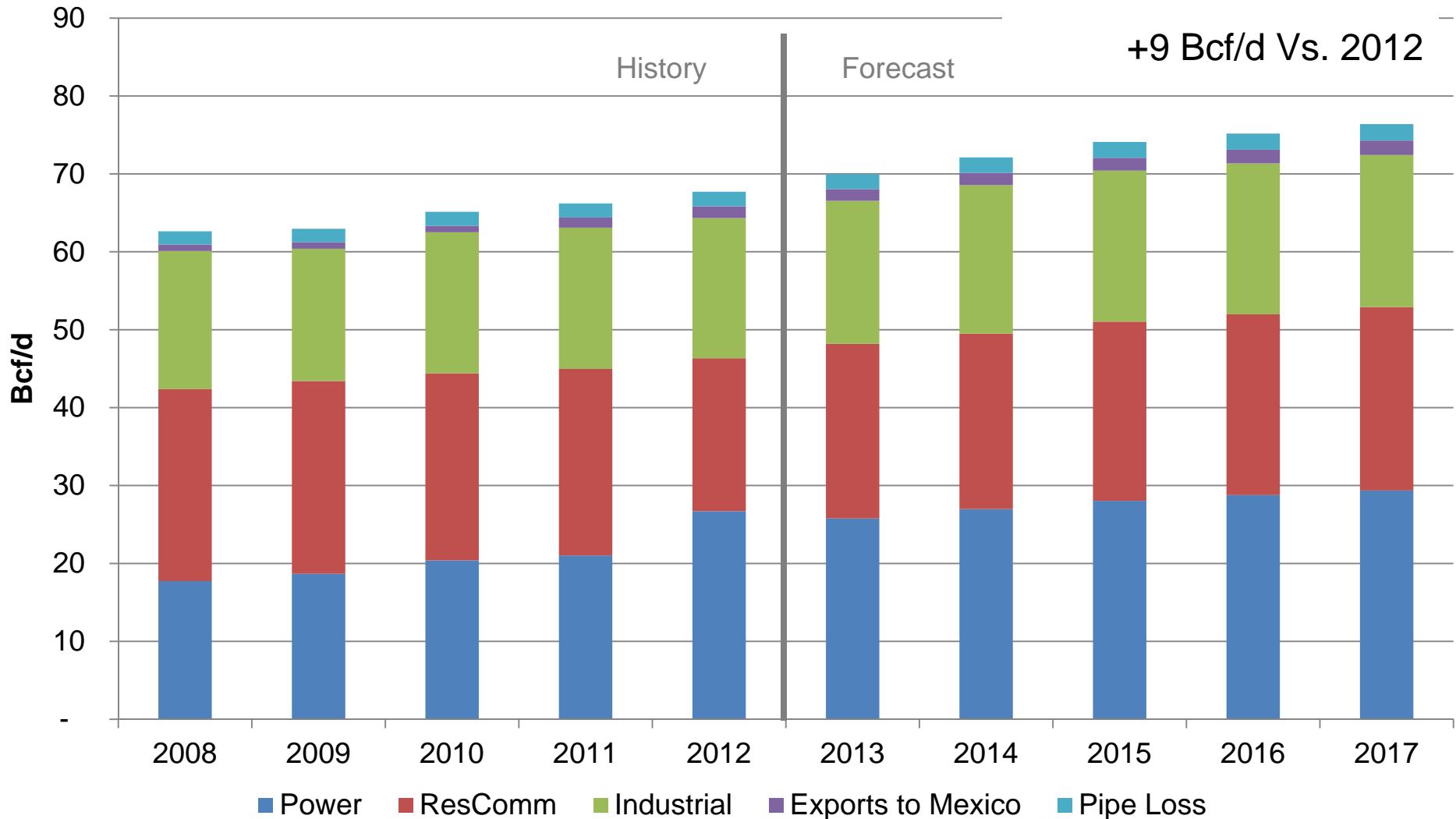


U.S. Substantially Less Reliant on Canadian Gas

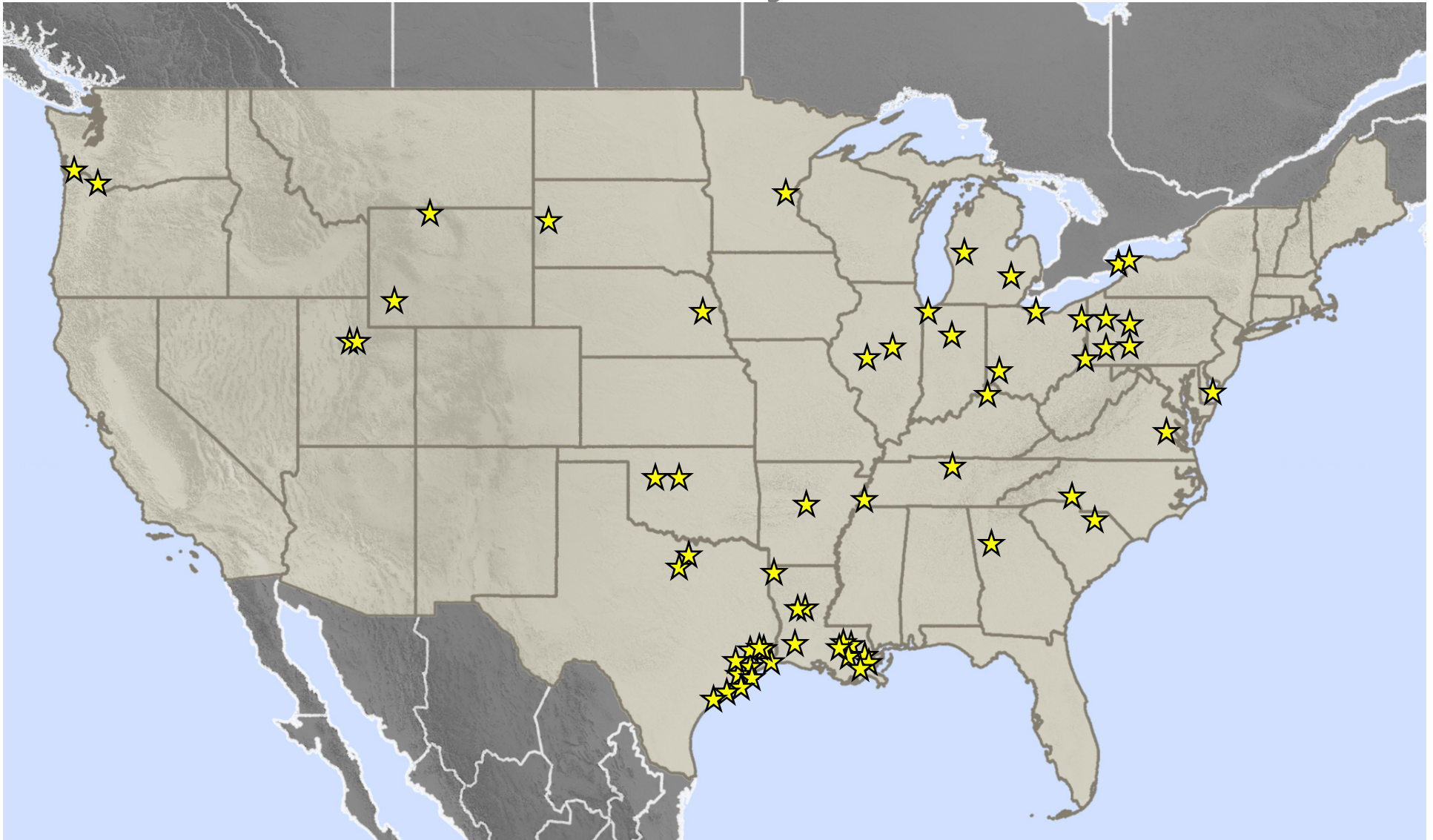


Demand

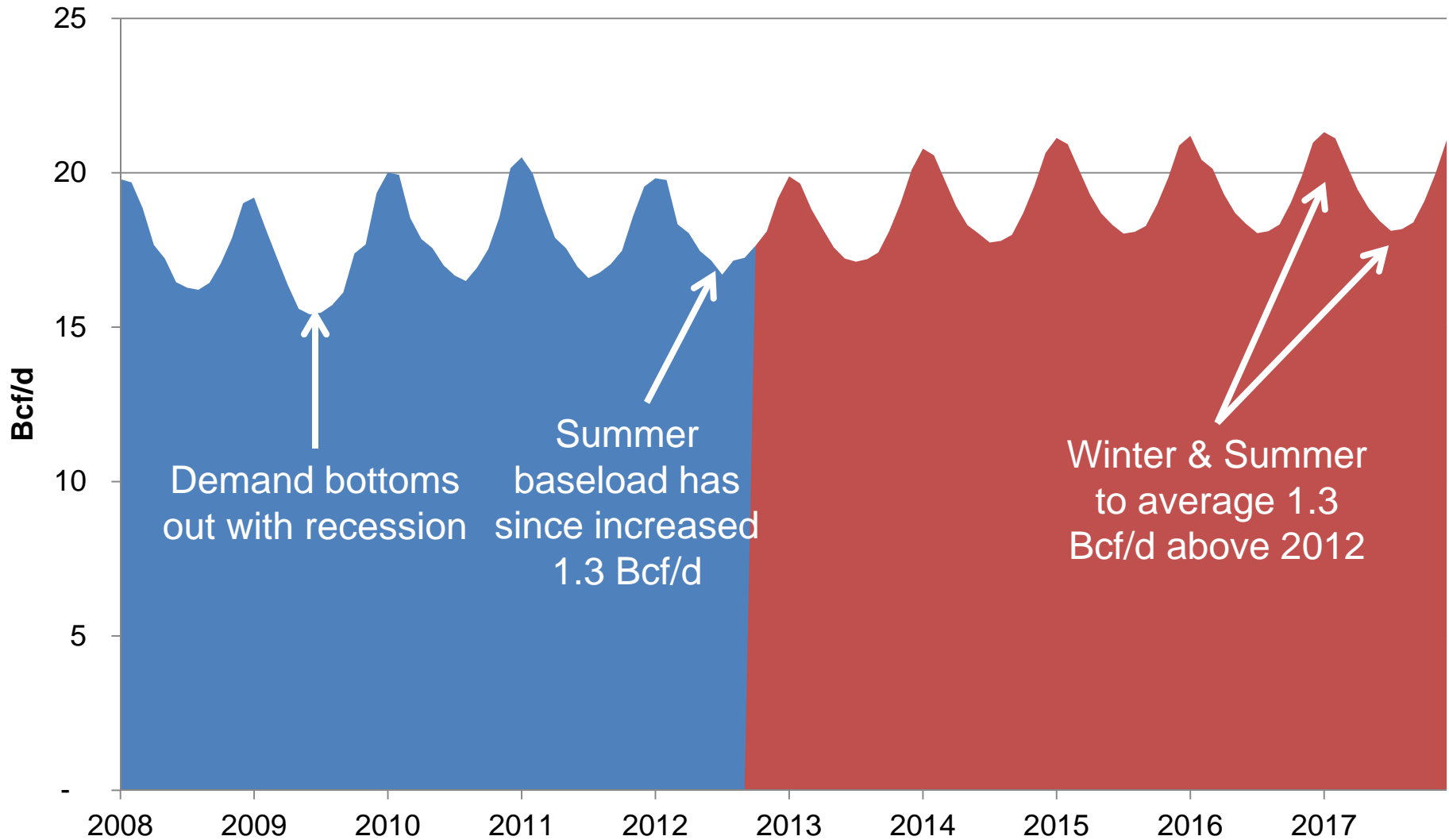
Power, Industrial, Mexican Exports Spur Demand Growth



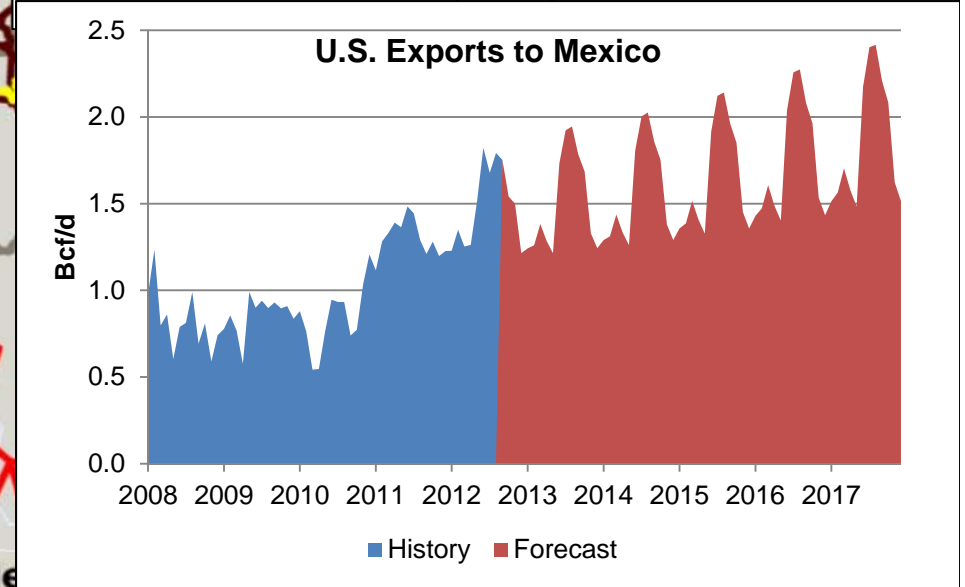
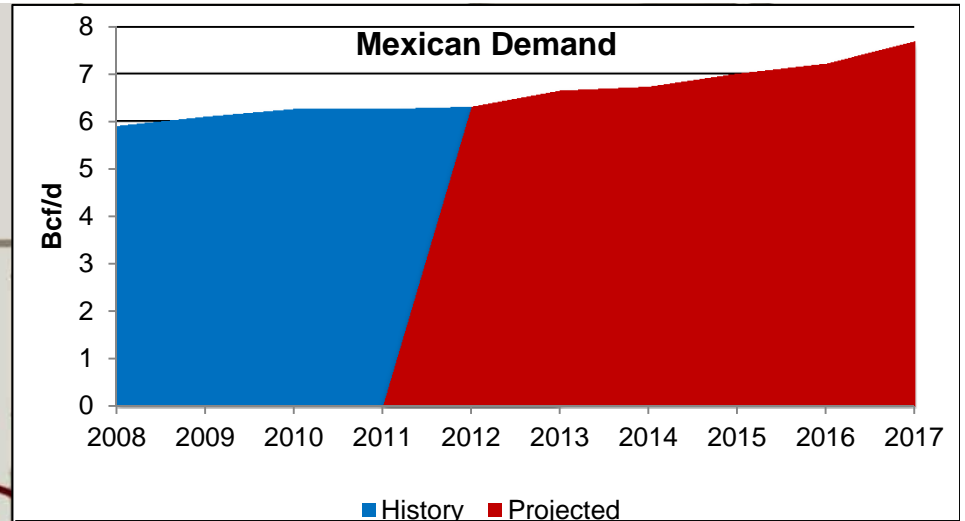
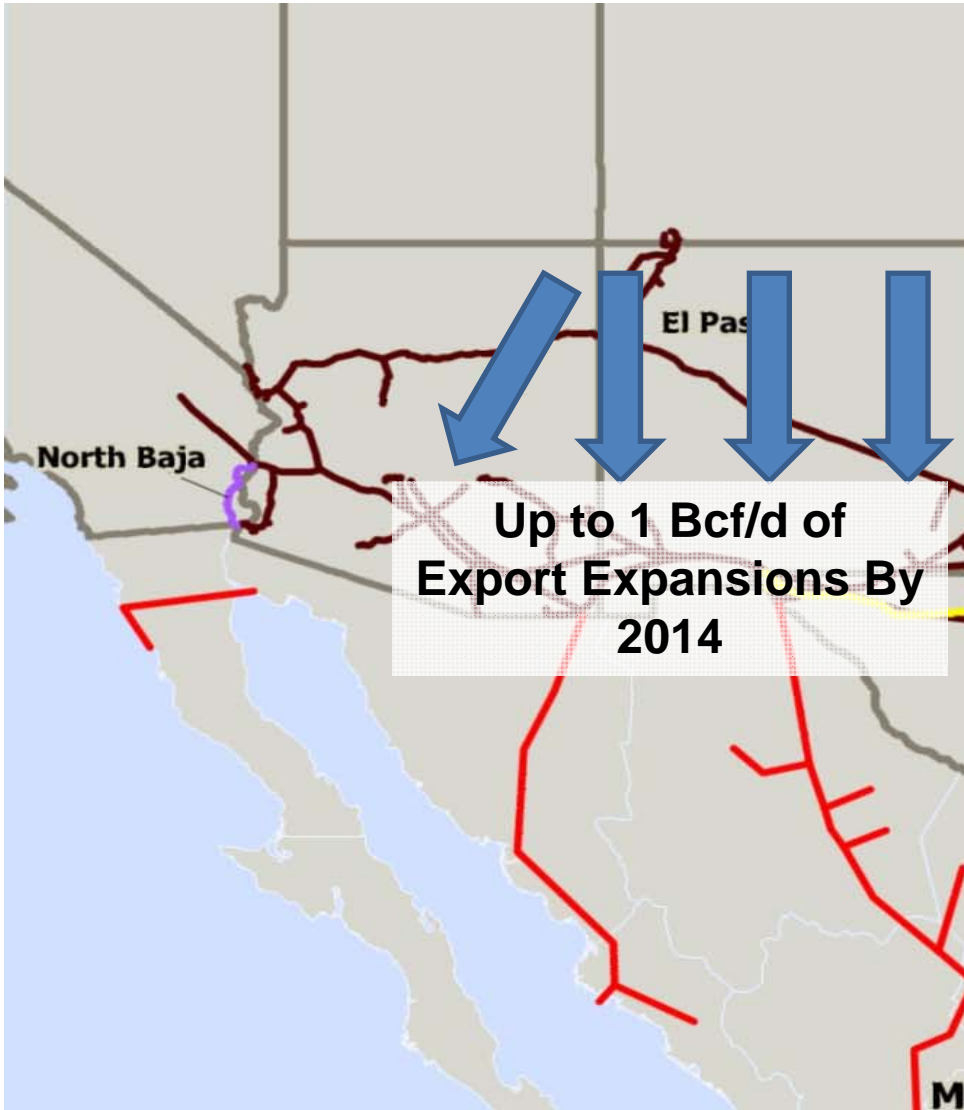
Over 70 Industrial Demand Expansions Planned By 2017



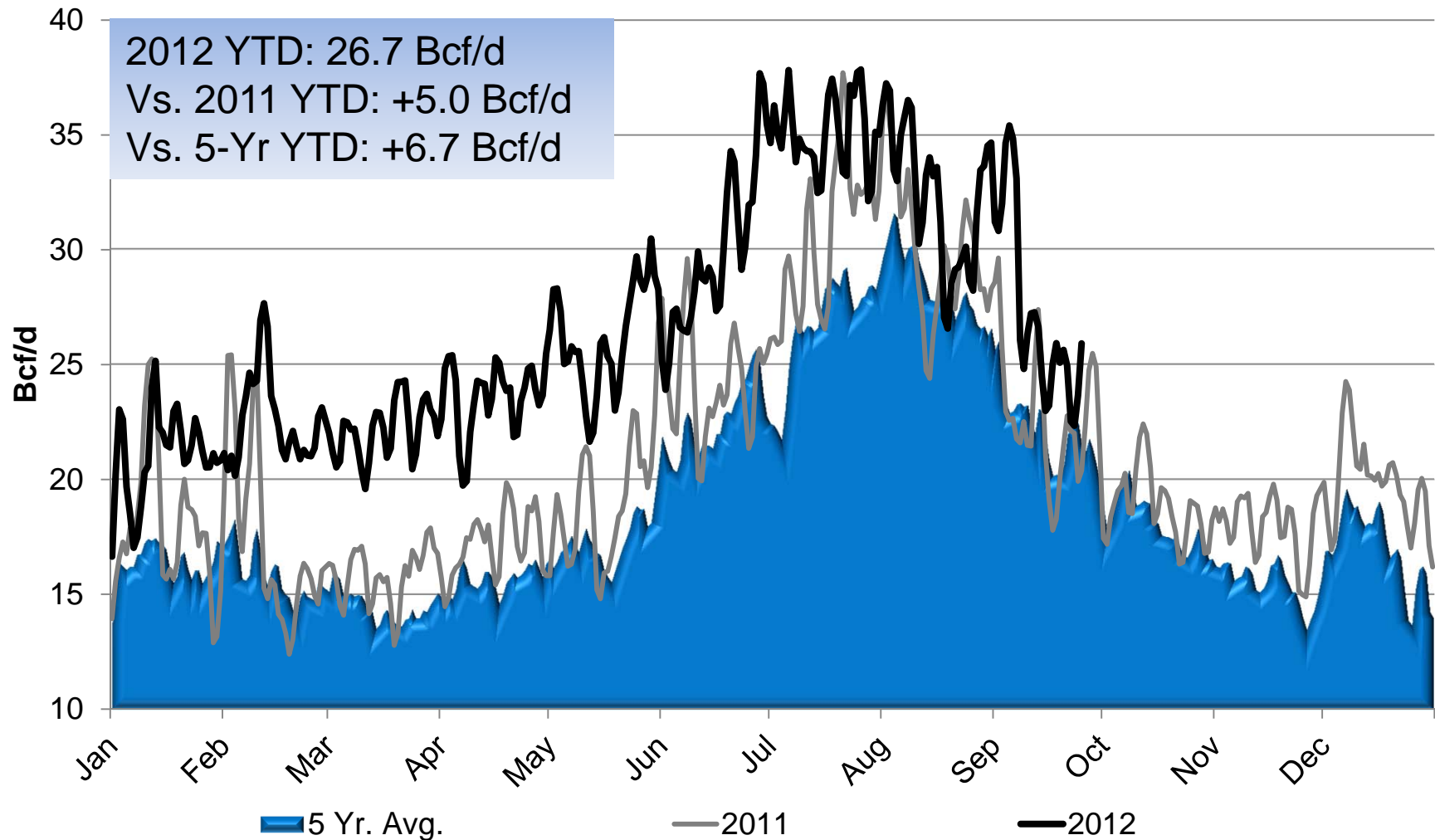
Industrial Demand Forecast to Add 0.3 Bcf/d/year



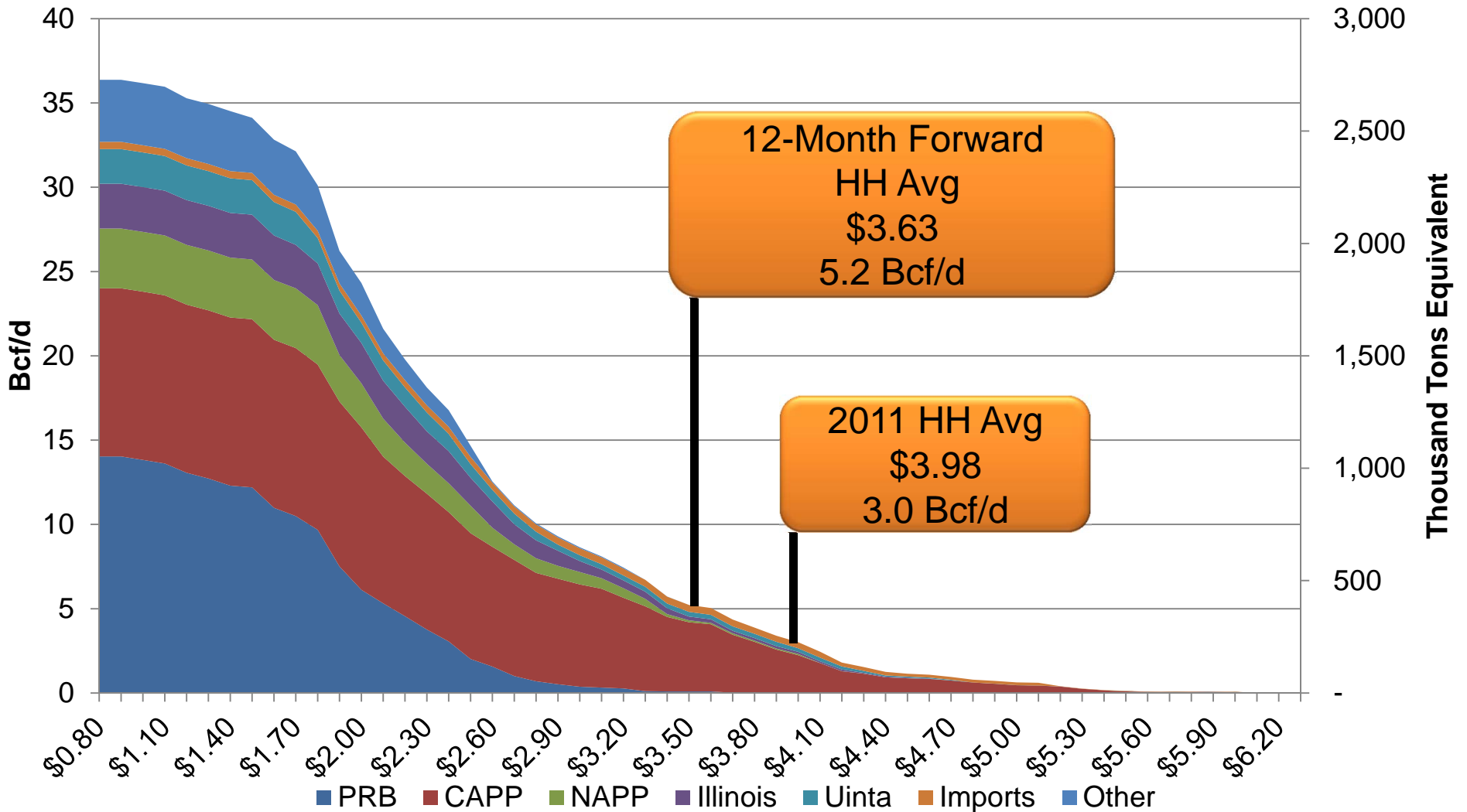
Mexican Exports to Continue Rising



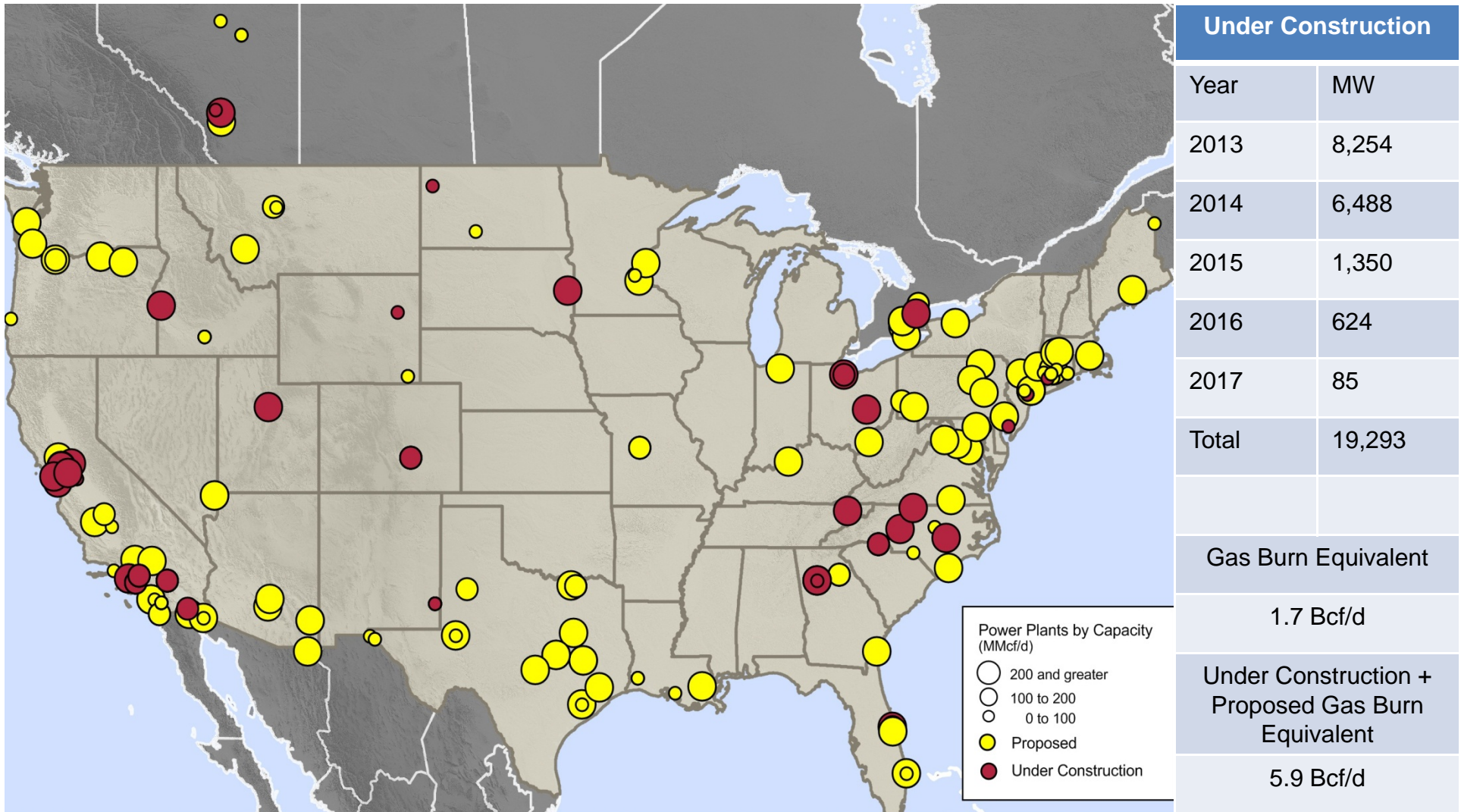
YOY Gas Demand from Power Up 5 Bcf/d (23%)



Gas Prices Capable of Capturing Market Share

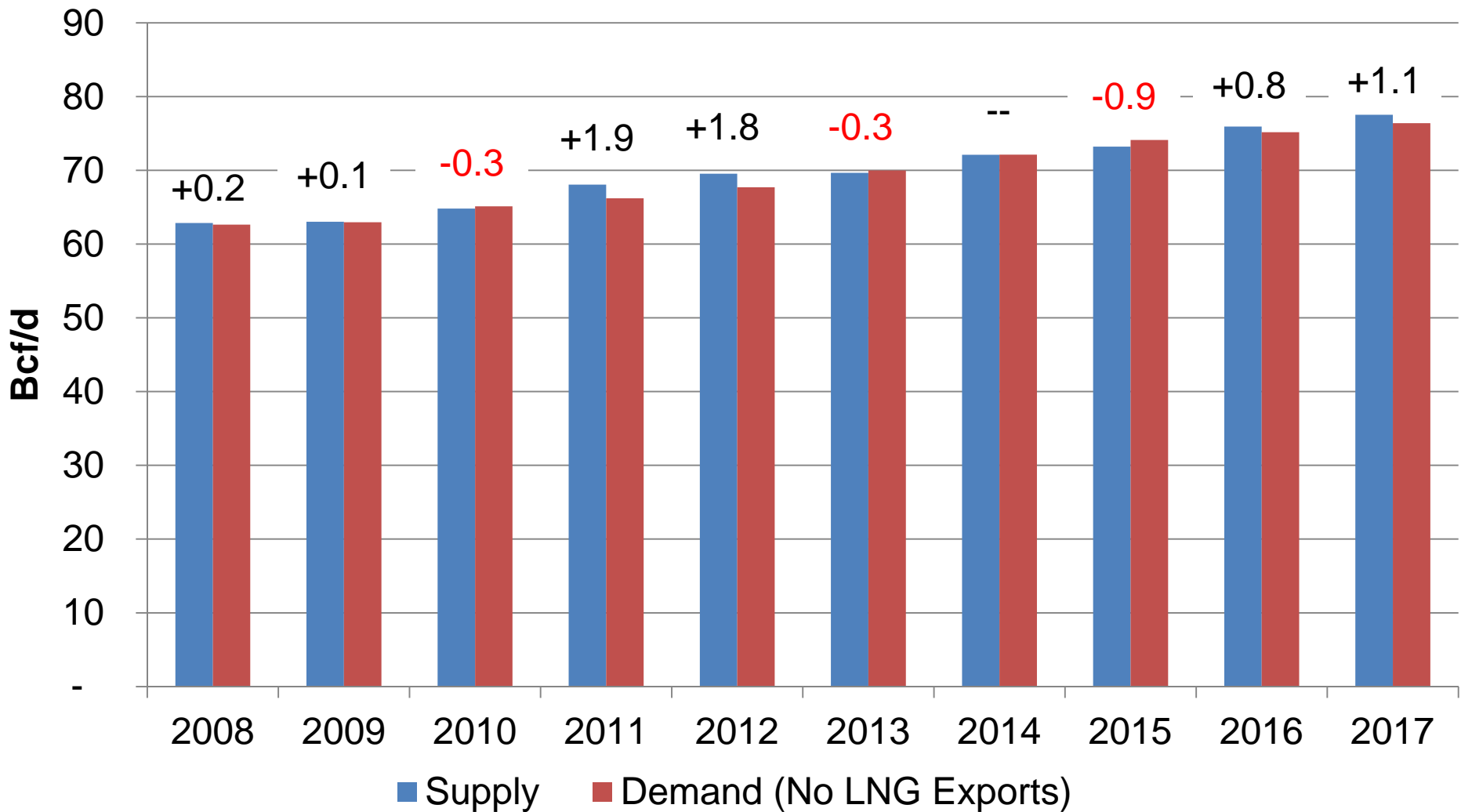


New Gas-Fired Generation Will Boost Demand

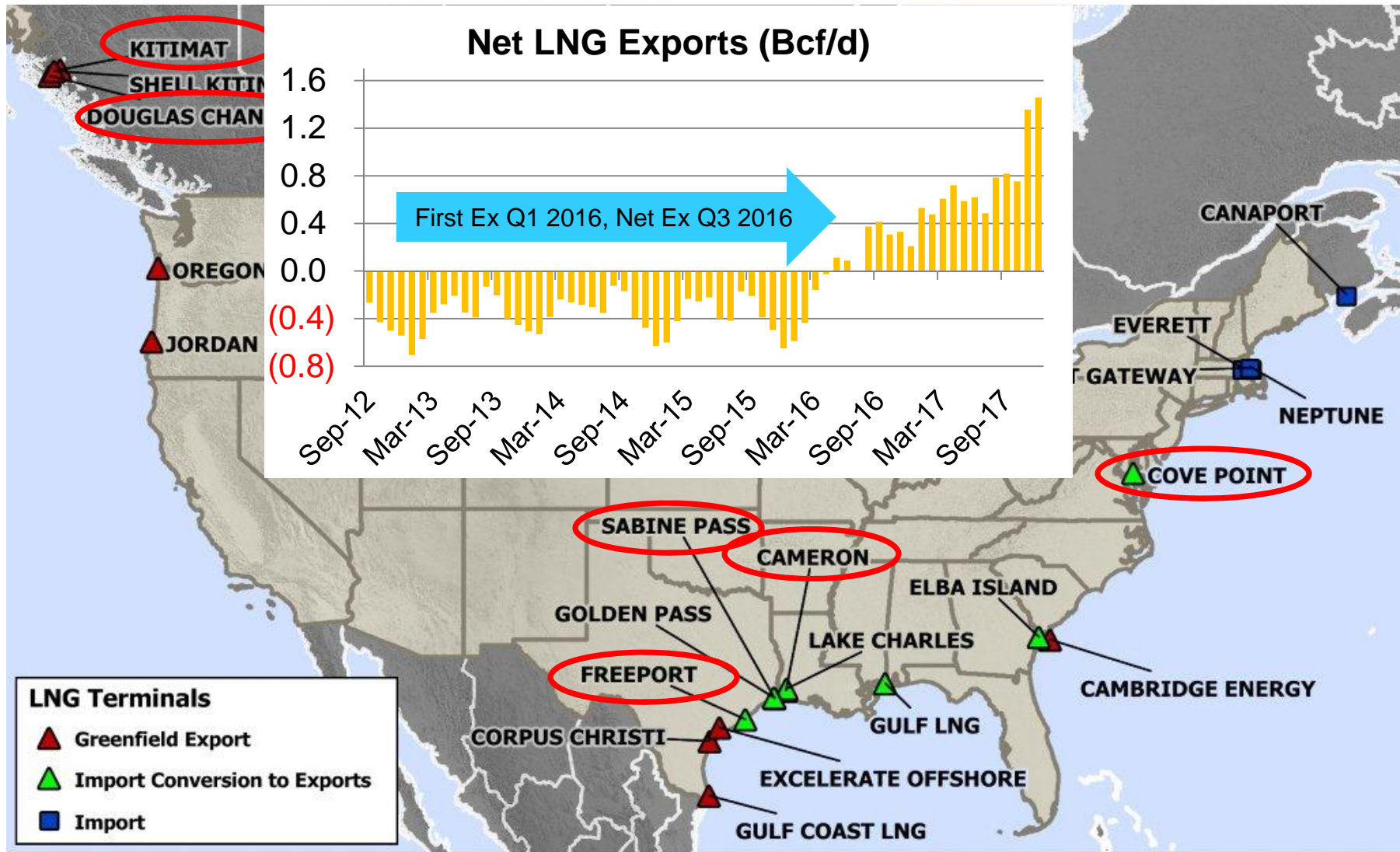


www.BENTEKENERGY.com Gas Burn Equivalent assumes all plants are combined-cycle running at 50% utilization with heat rates of 7.5.
 Source: Platts & BENTEK Generation Data

Tightening Balance May Support Near-Term Prices; Long-Term Supply Surplus Grows

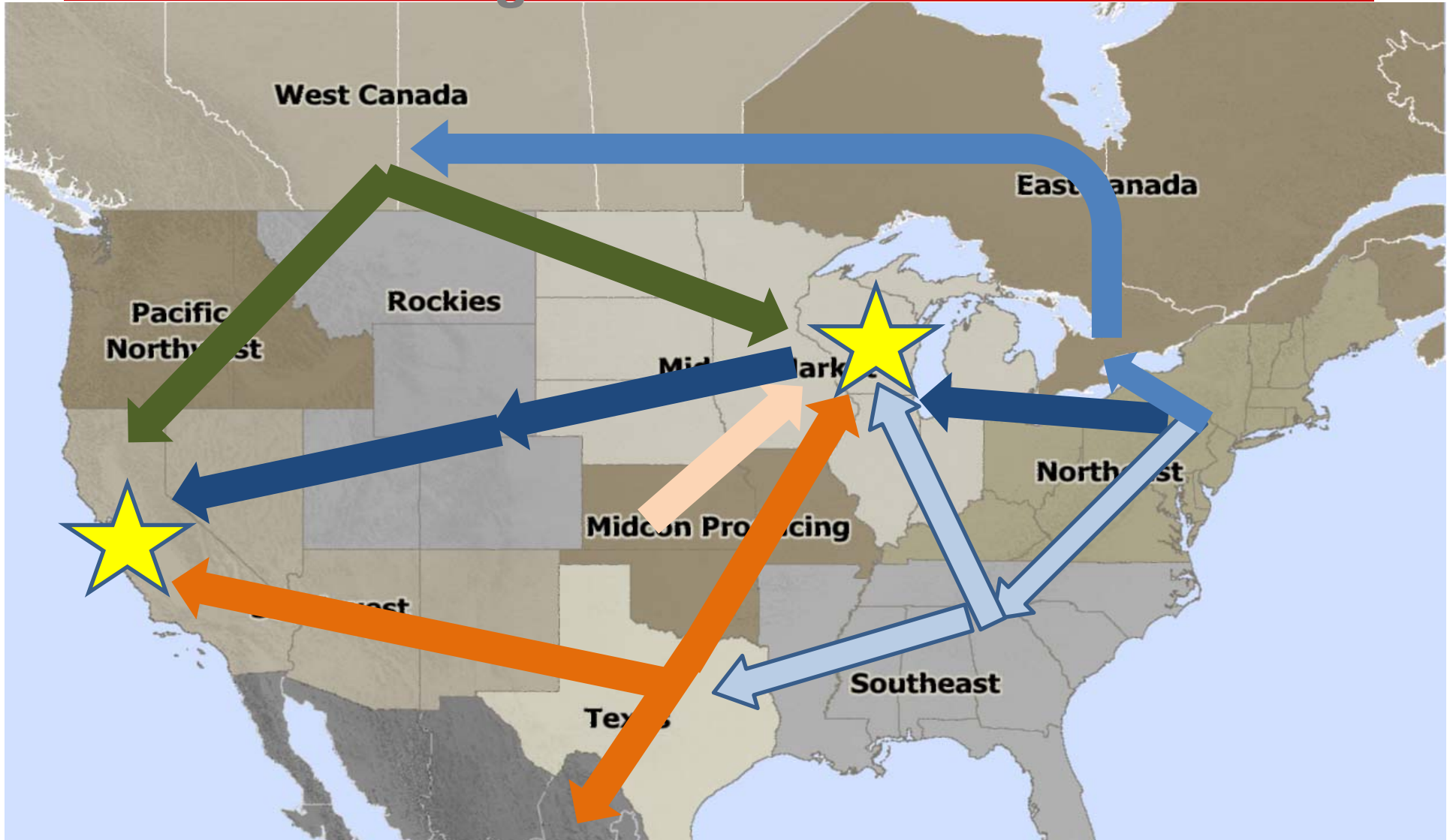


N.America Becomes Net LNG Exporter By 2016

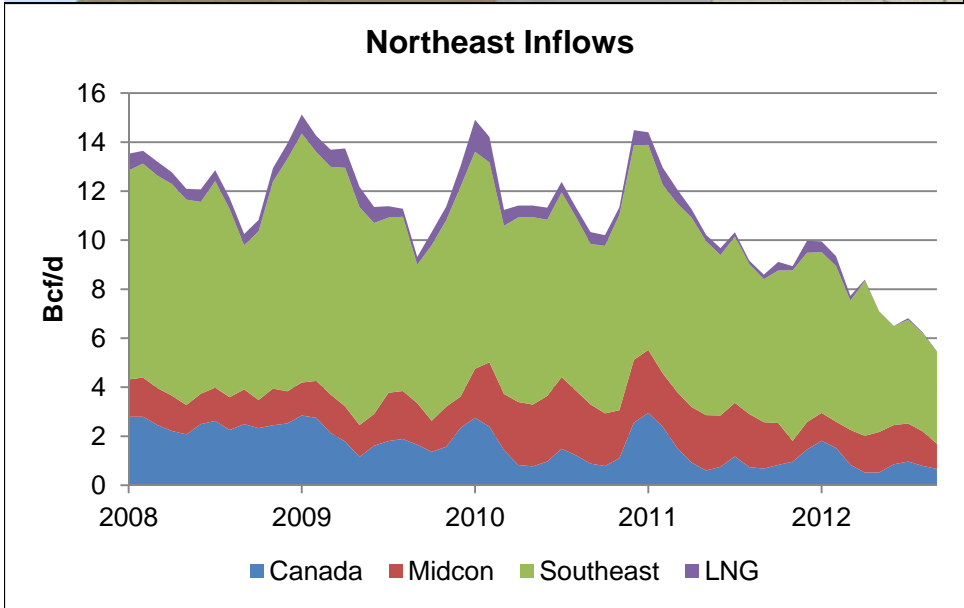
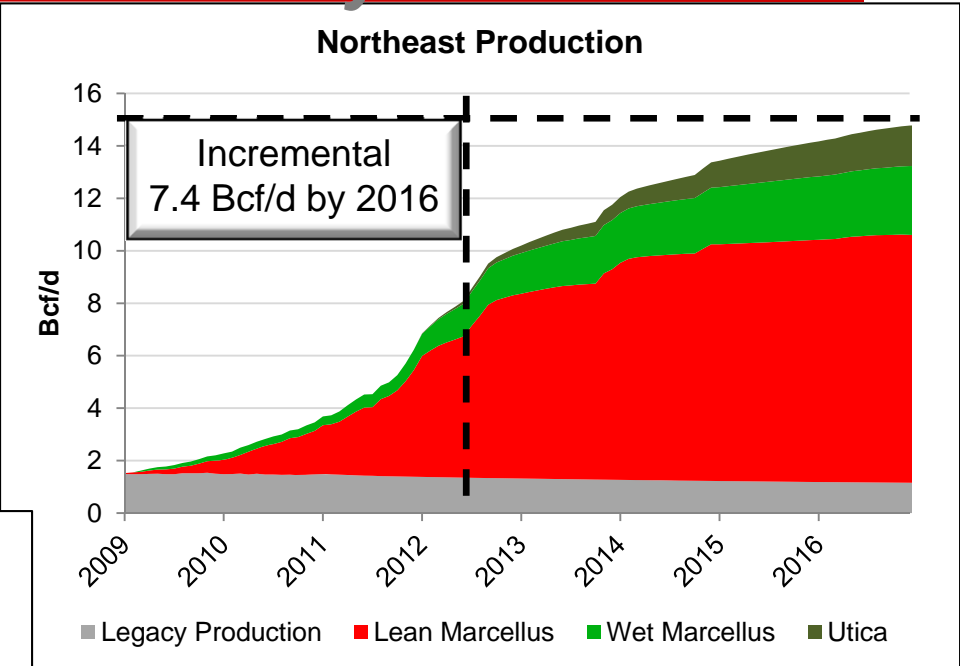


Regional Dynamics

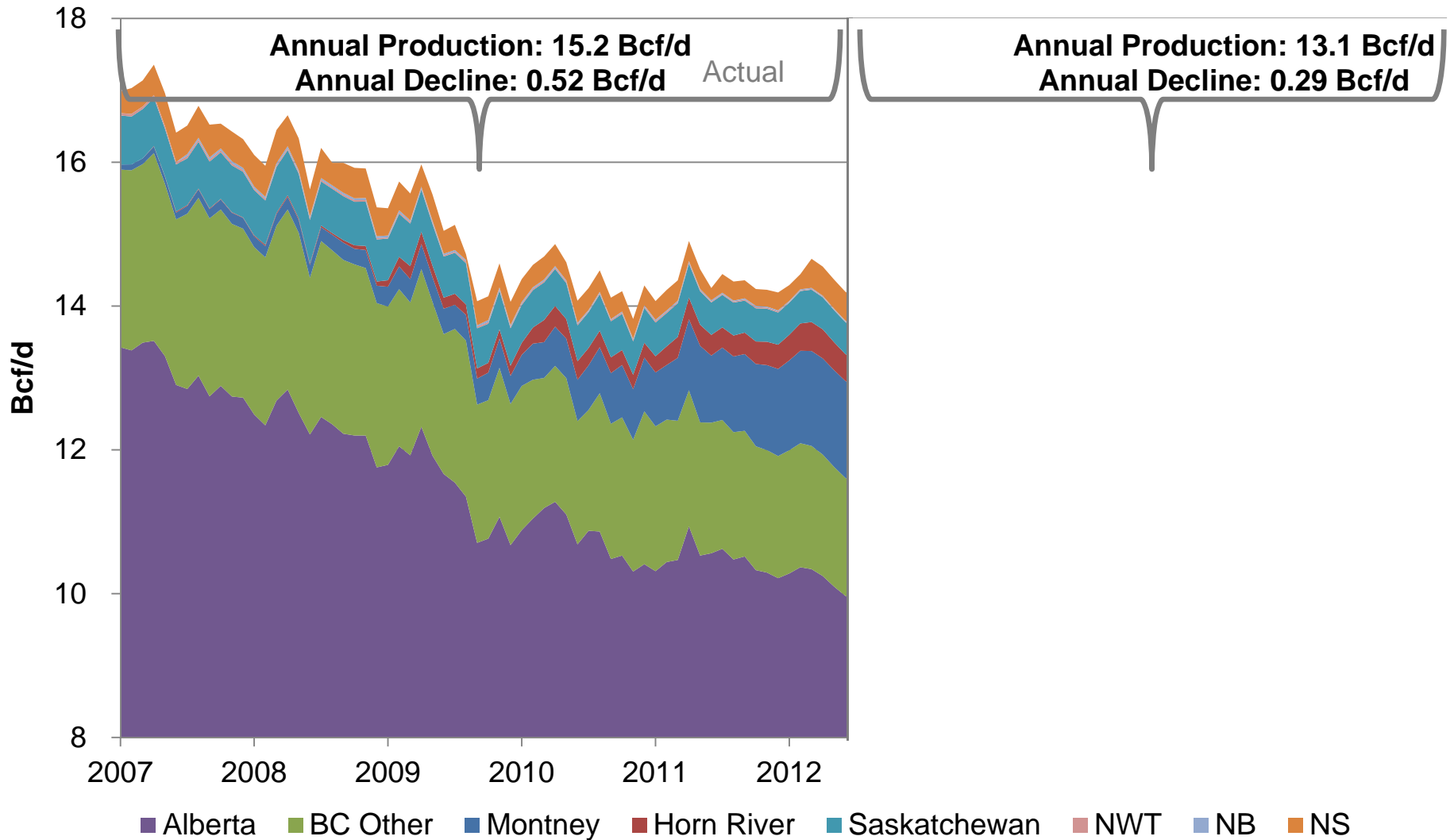
Massive Displacement Forcing Gas Into New Markets



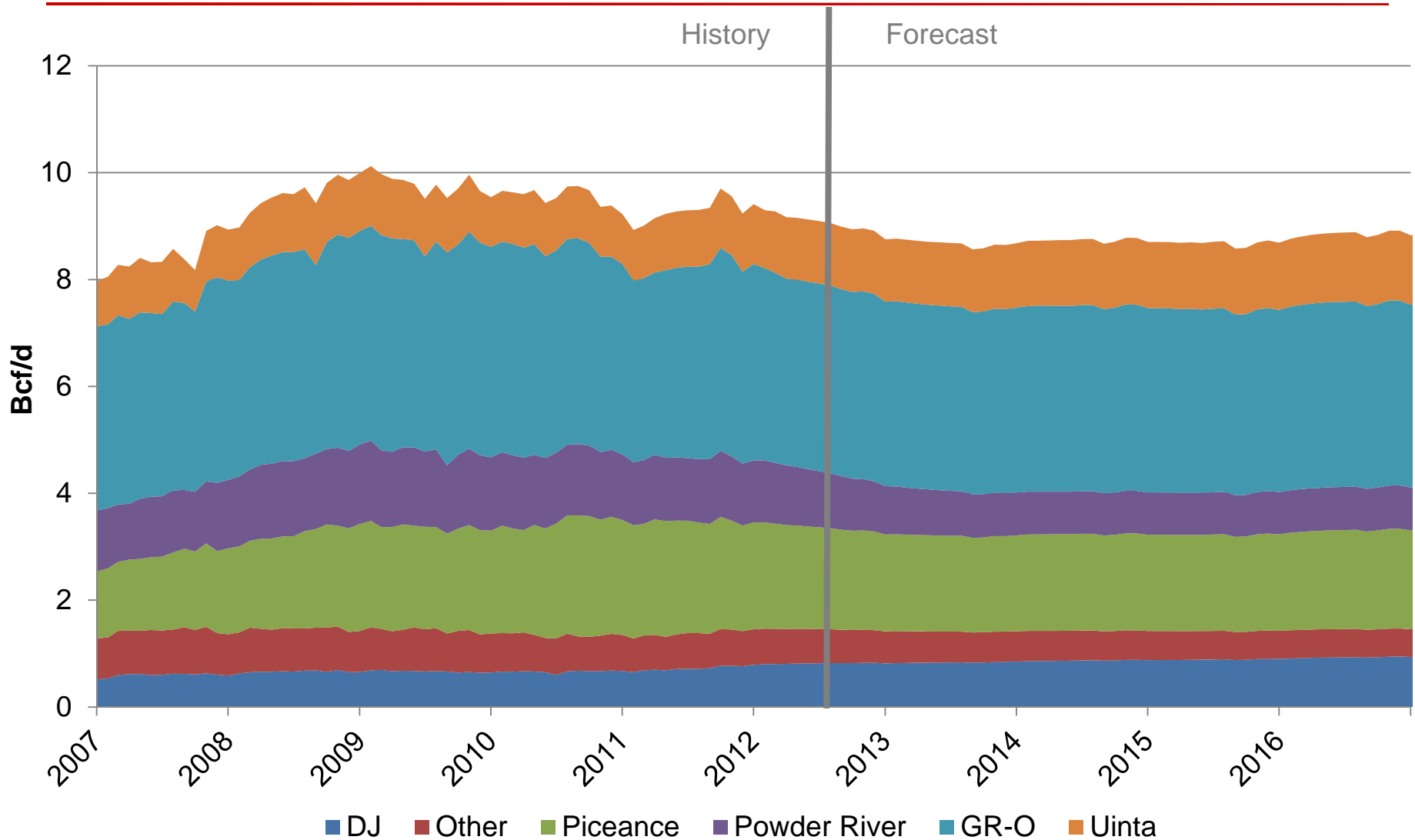
Marcellus to Remain Cheapest Gas Due to Production Growth and Takeaway Constraints



Canadian Production Declines But Exceeds 12 Bcf/d

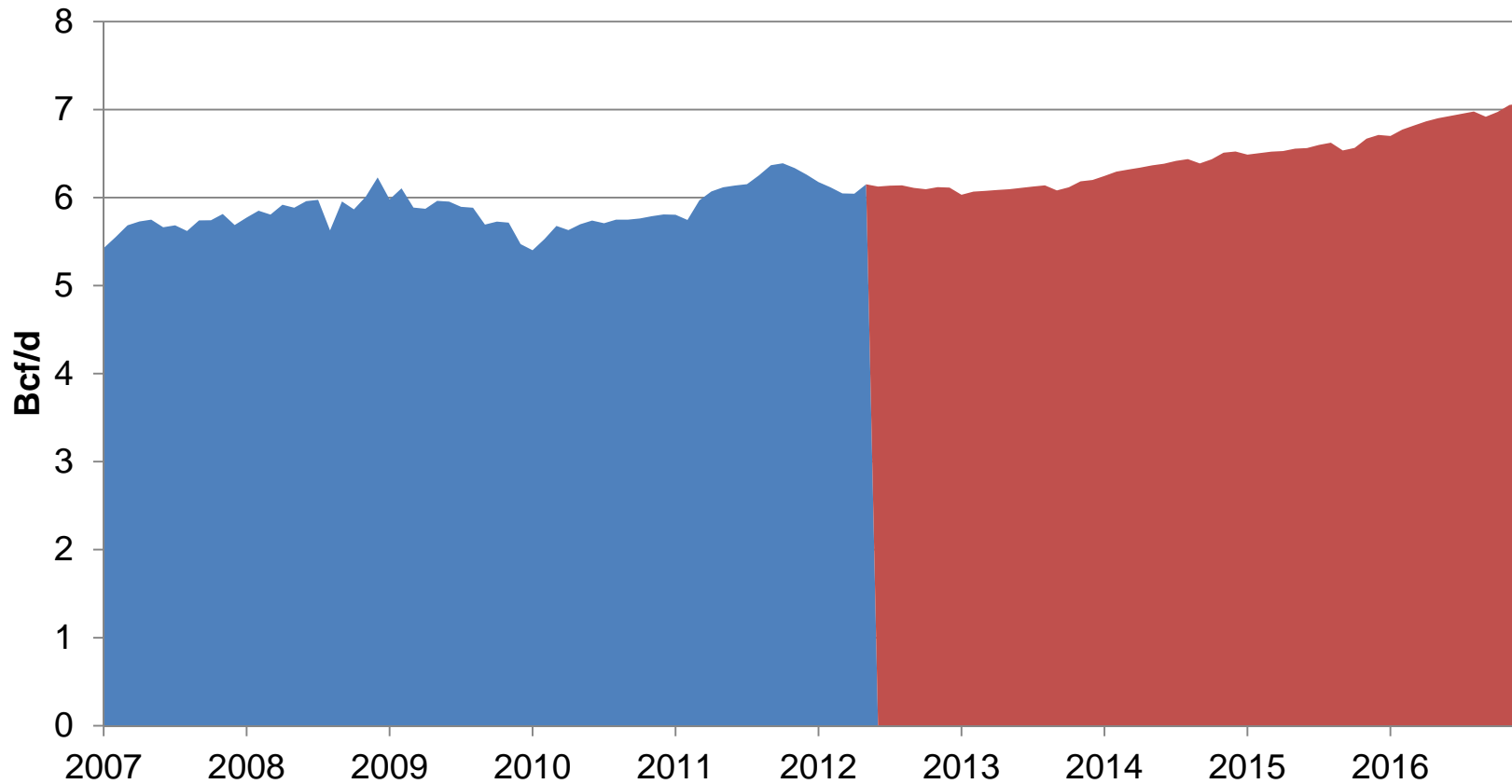


Rockies Production To Stay Flat

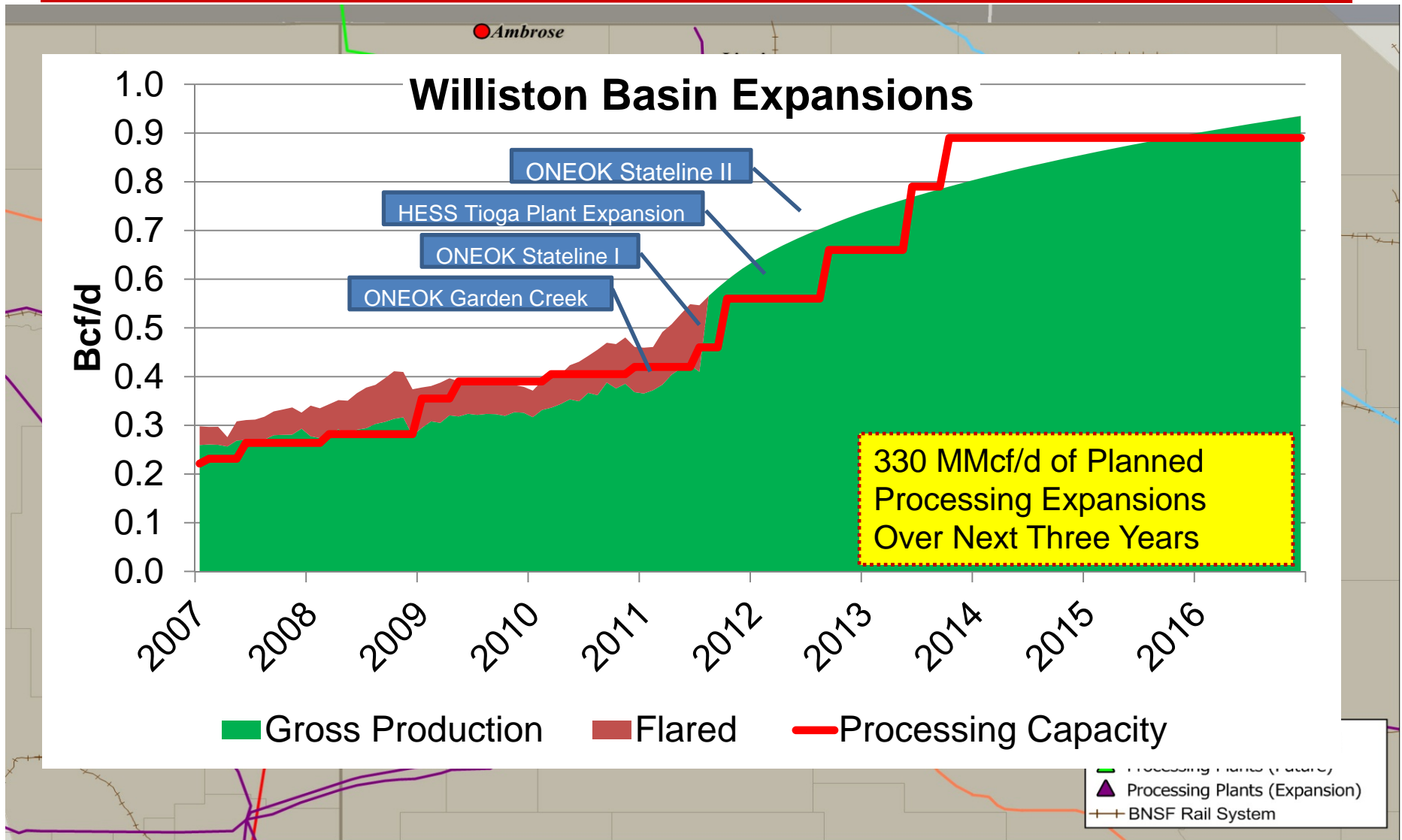


Anadarko Basin Drives MCP Growth

Midcon Producing Production Forecast

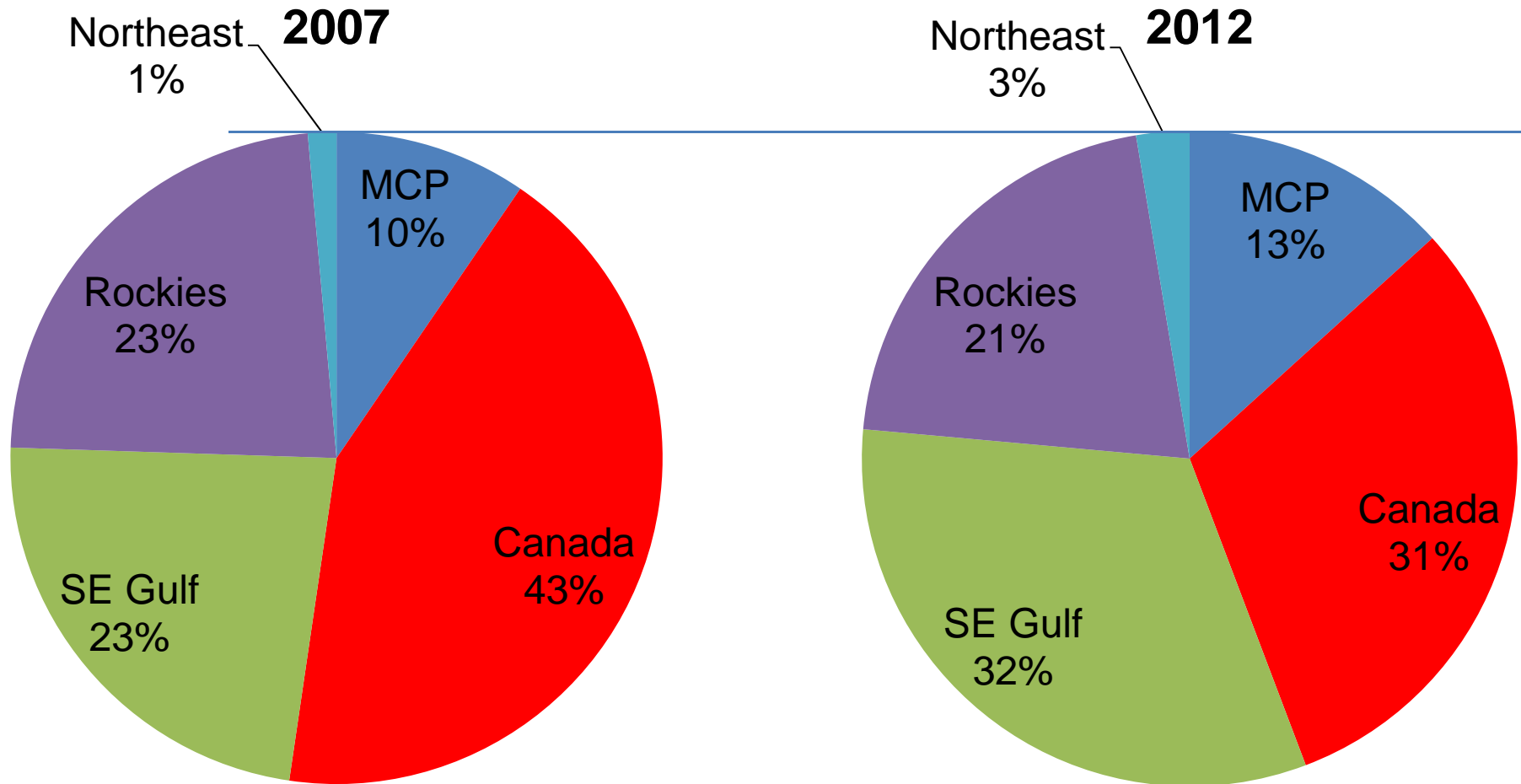


Expansions Will Support Bakken Growth

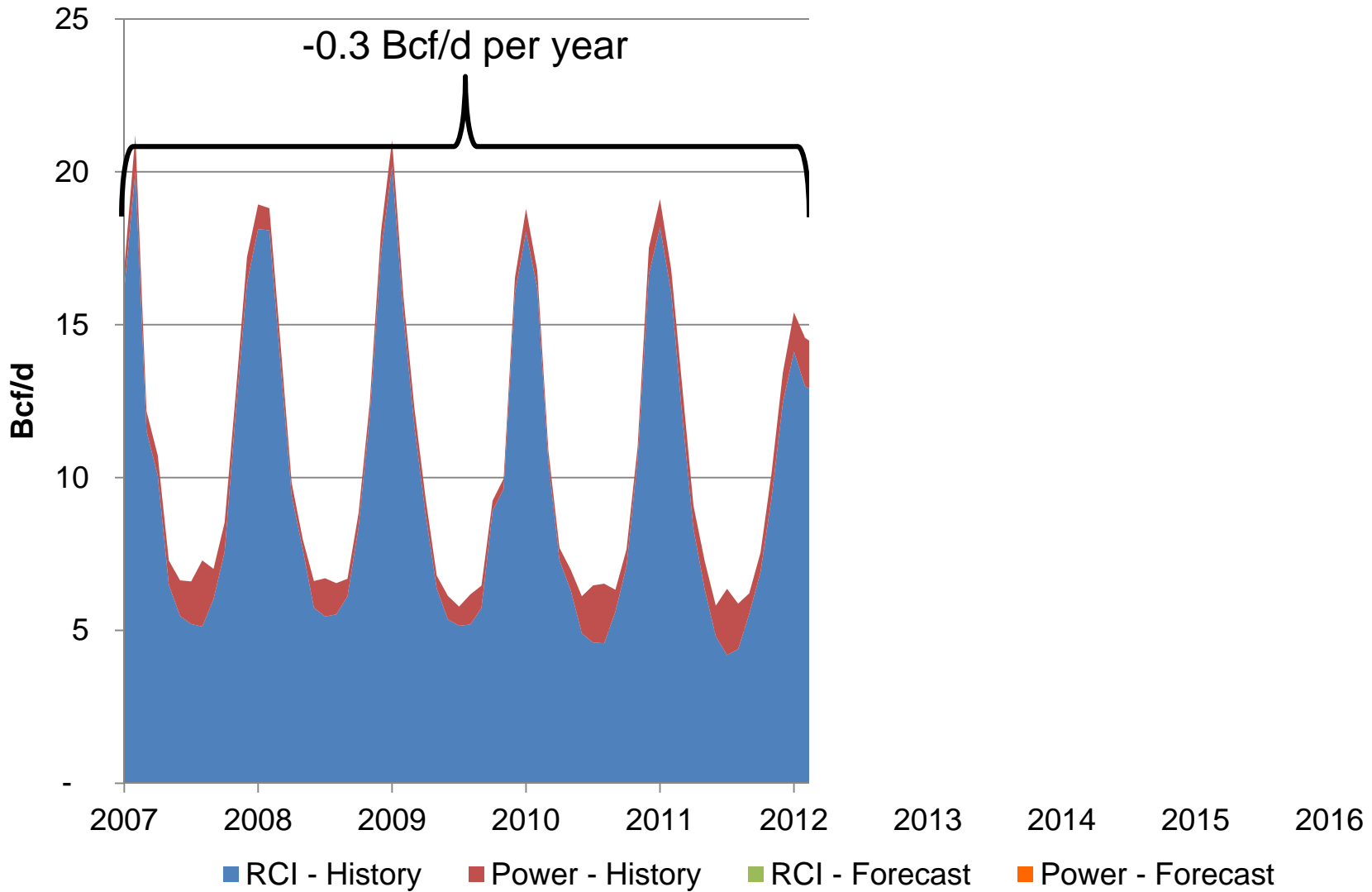


Midcon Sources Gas From Other Areas

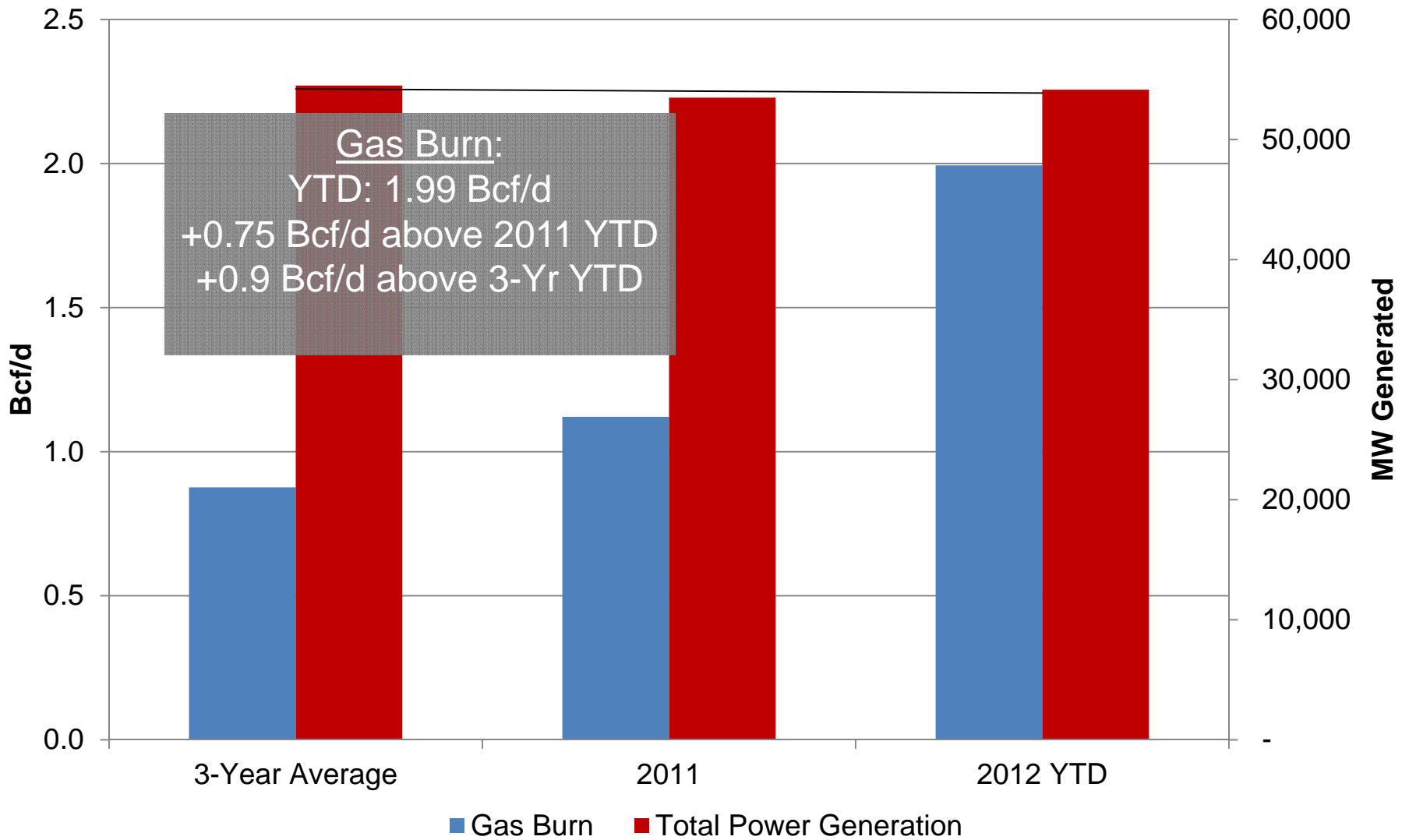
Market Share of Midcon Imports



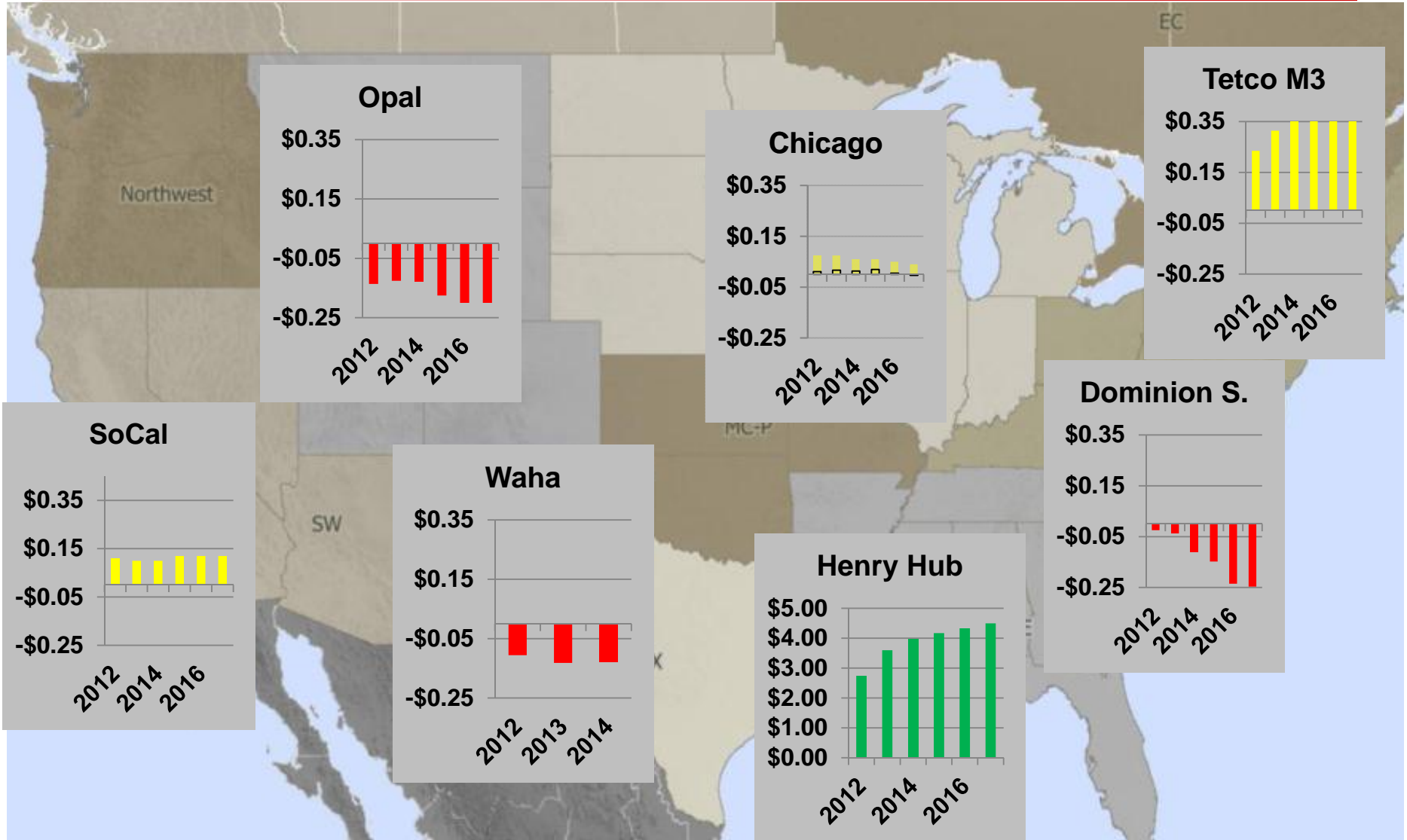
Midcon Demand Stagnant



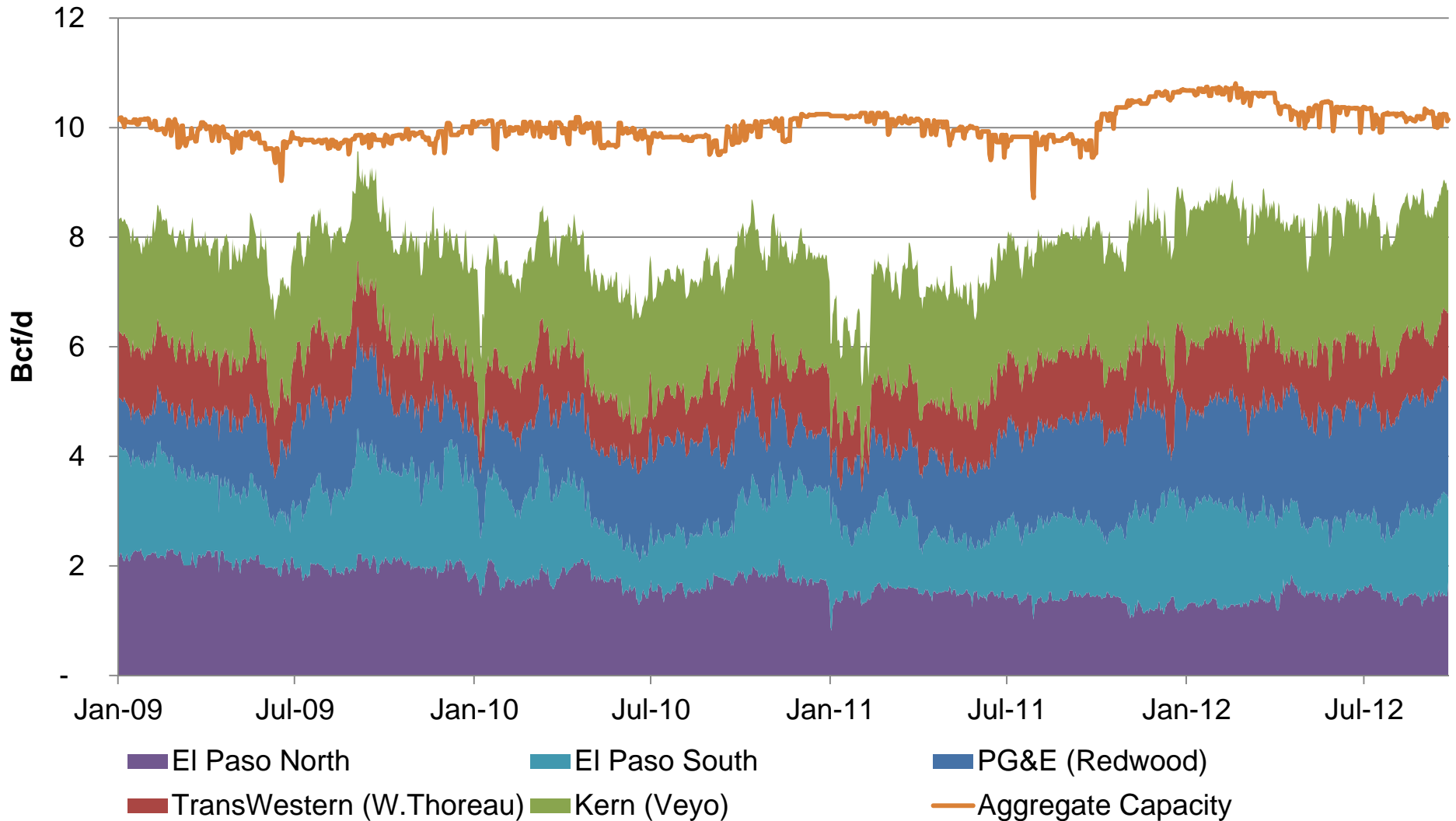
Midcon Market Gas Power Demand Rising



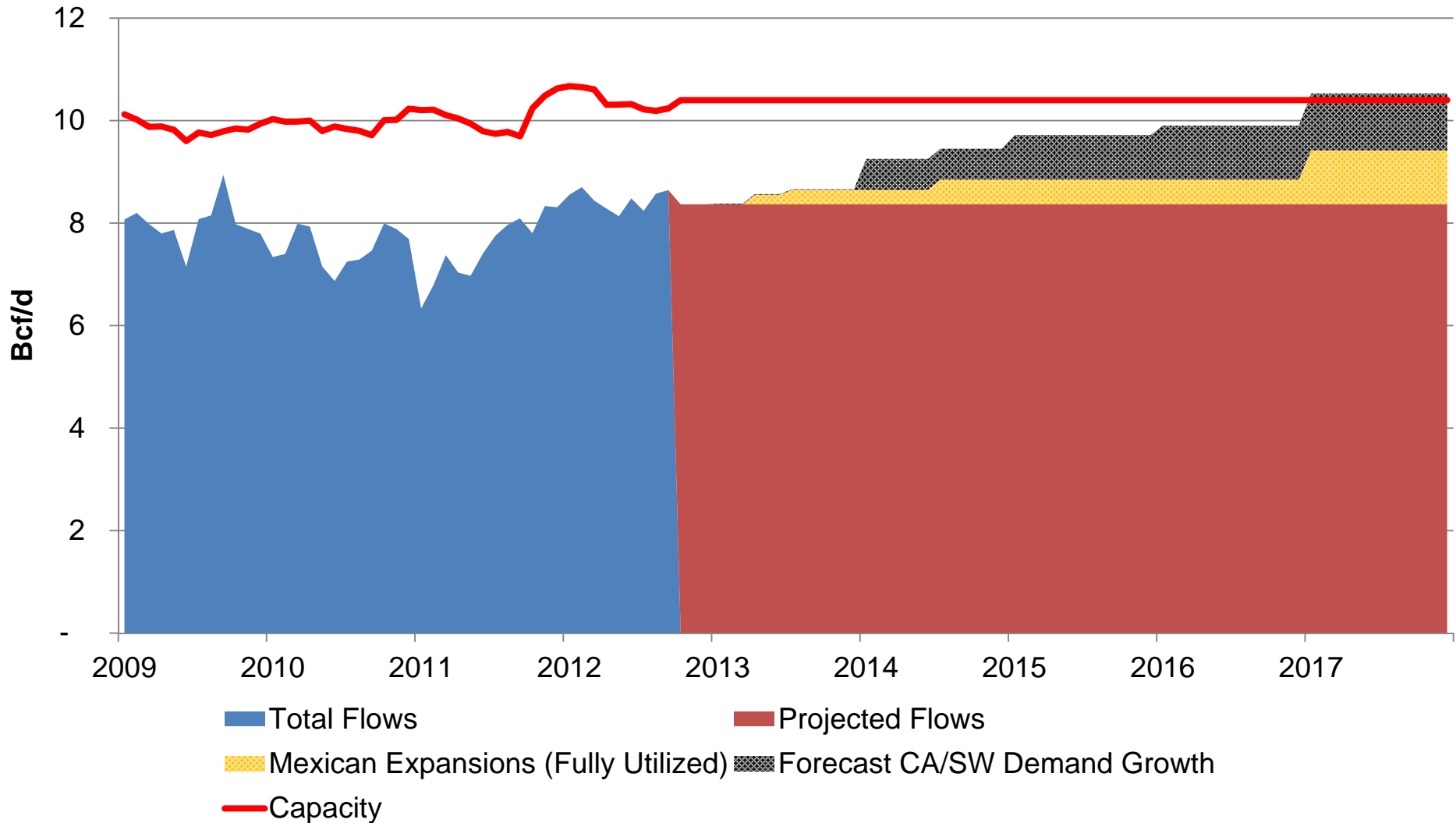
Supply Shifts and Production Growth Will Moderate Prices



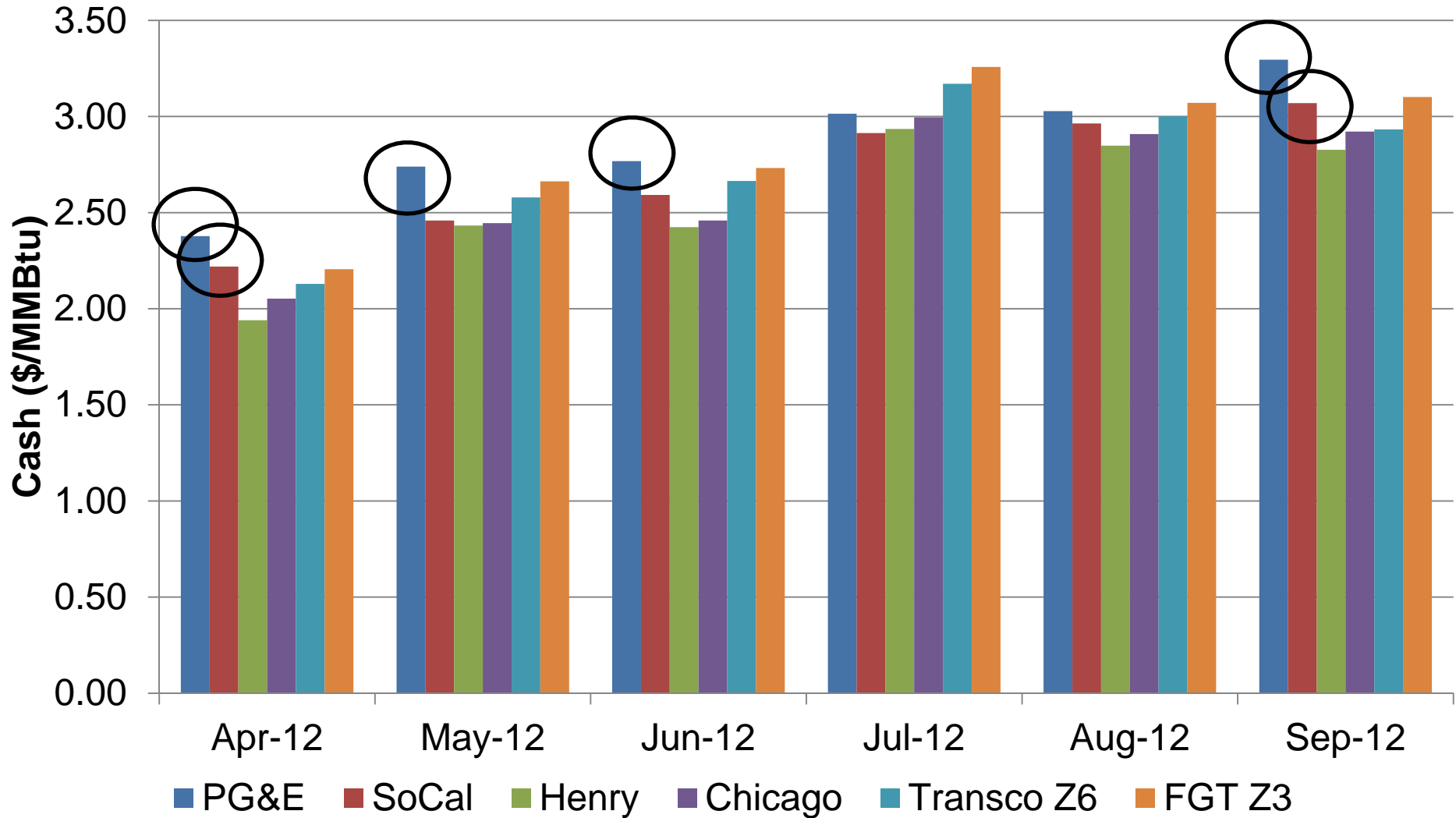
CASW Inbound Pipelines Are At ~80% Capacity



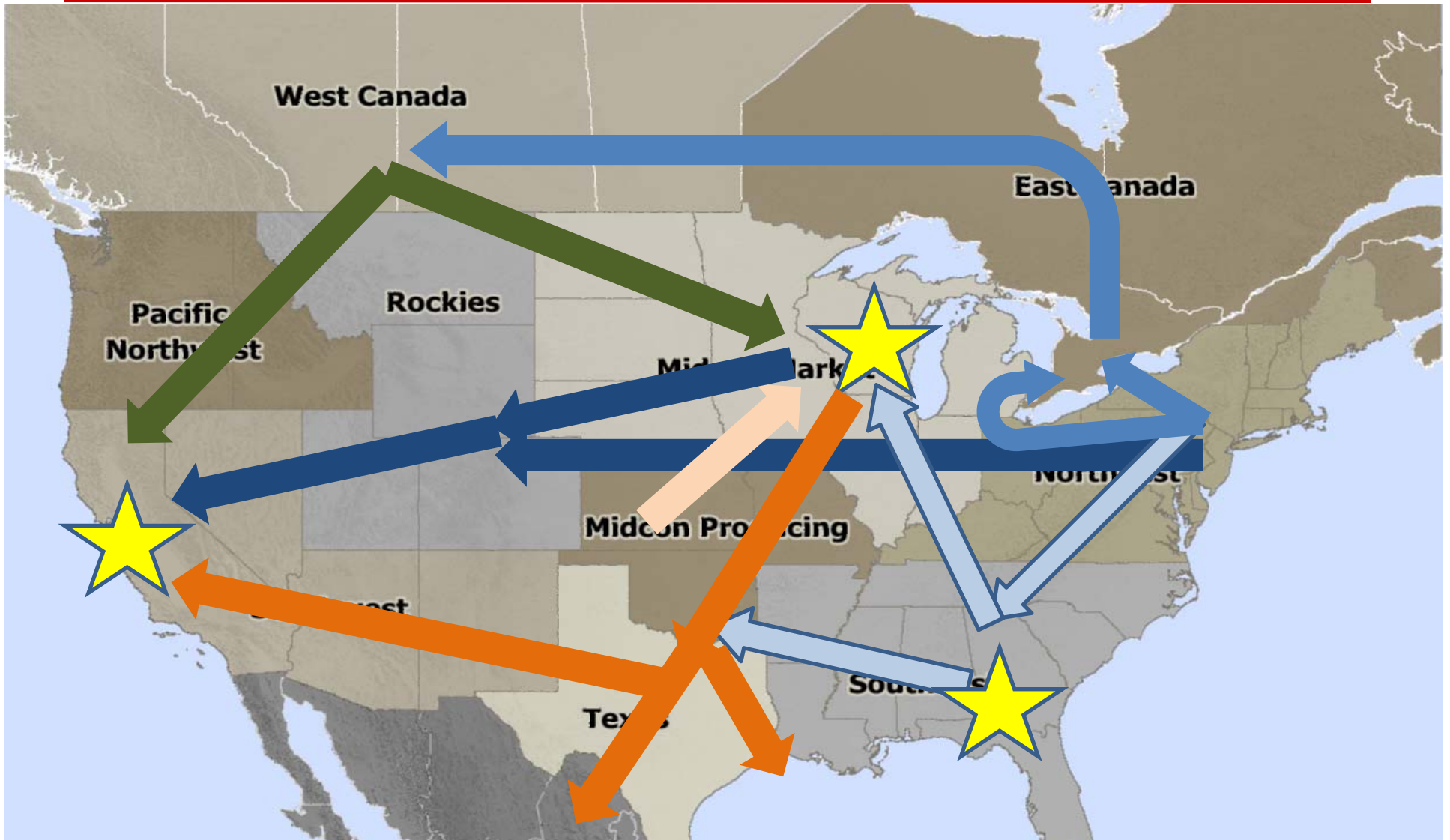
Demand & Export Growth Will Test CASW Capacity



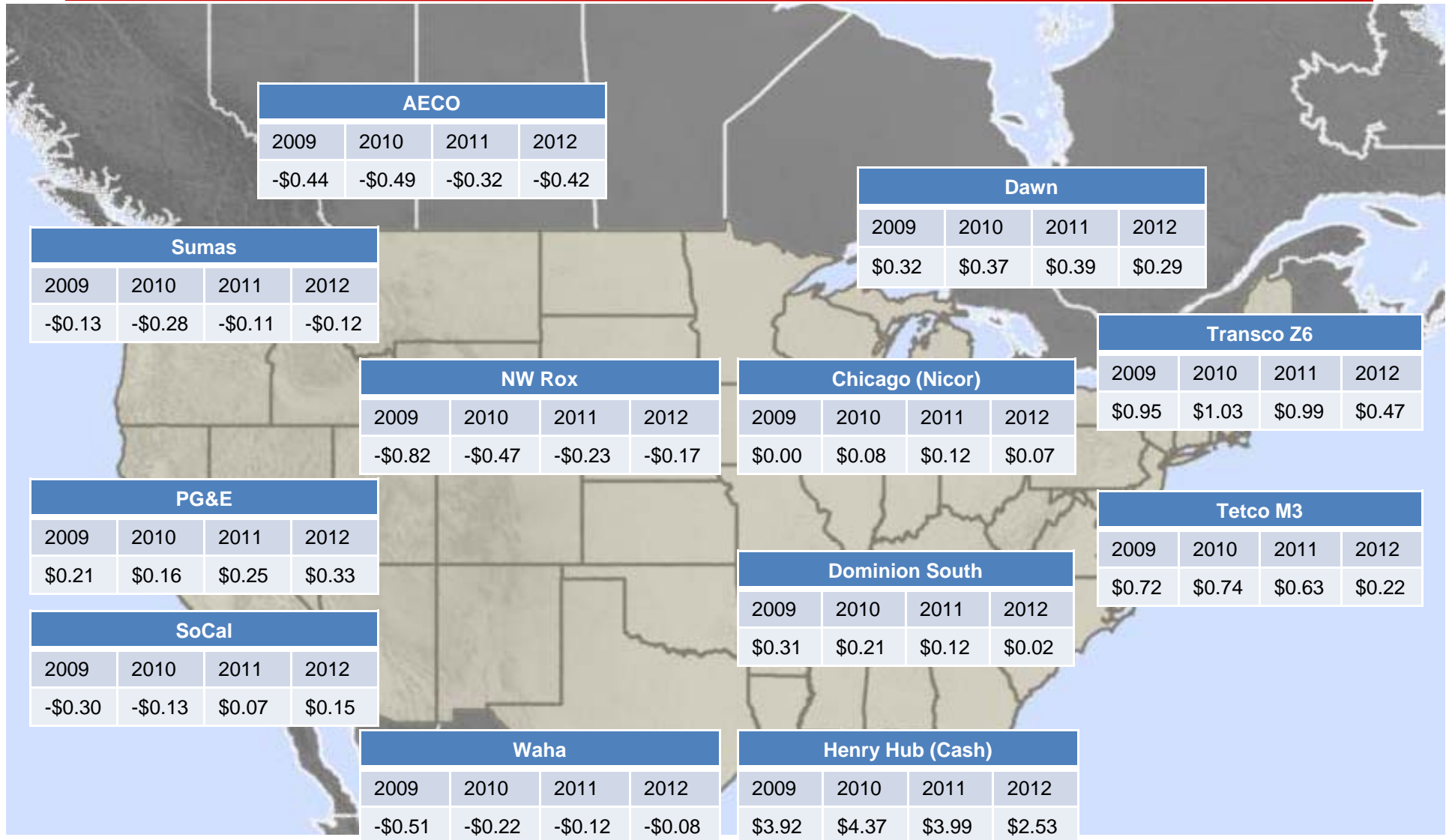
California Features Highest Demand Prices



Another Shift Looms With LNG Exports

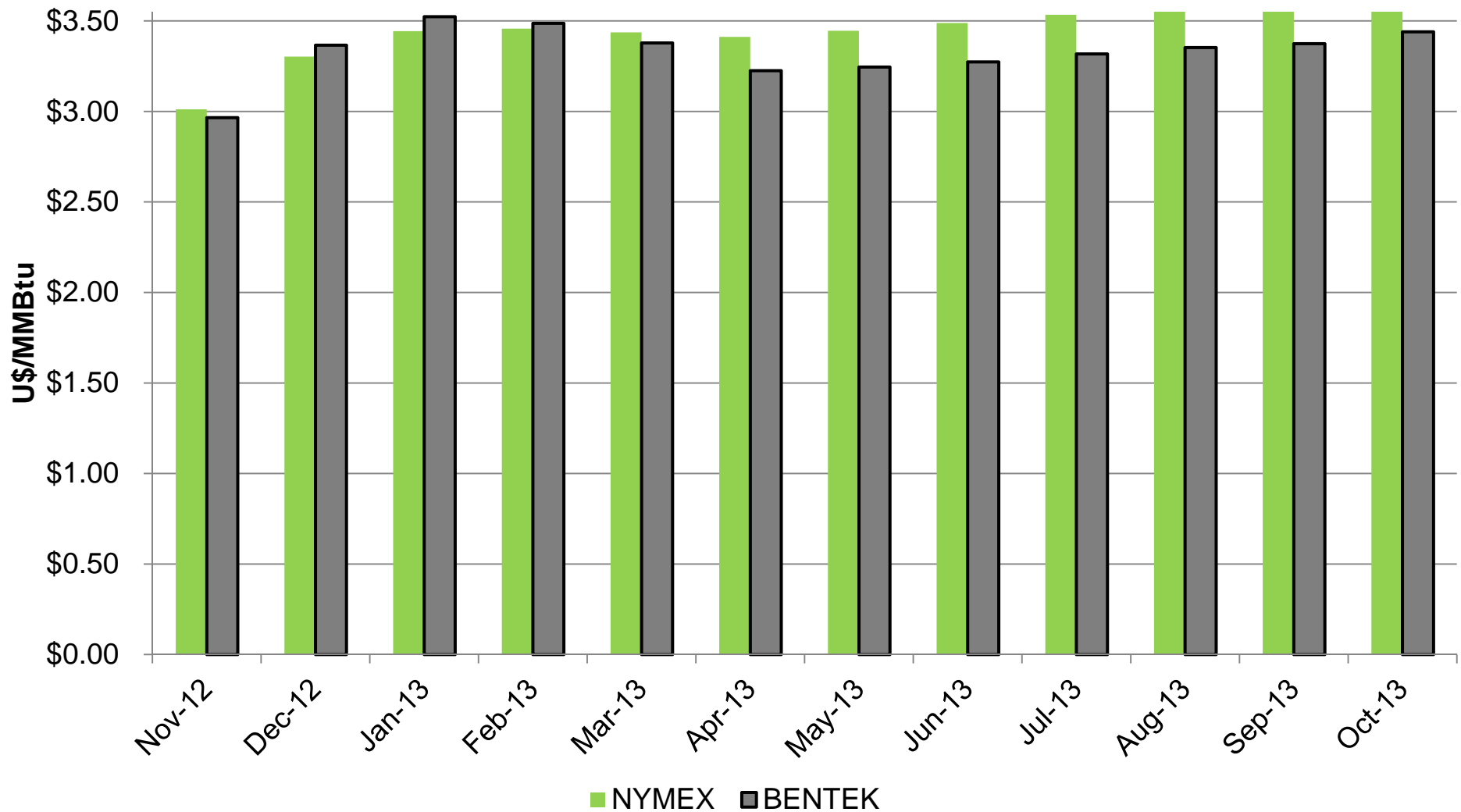


Basis Tightening Continent-Wide

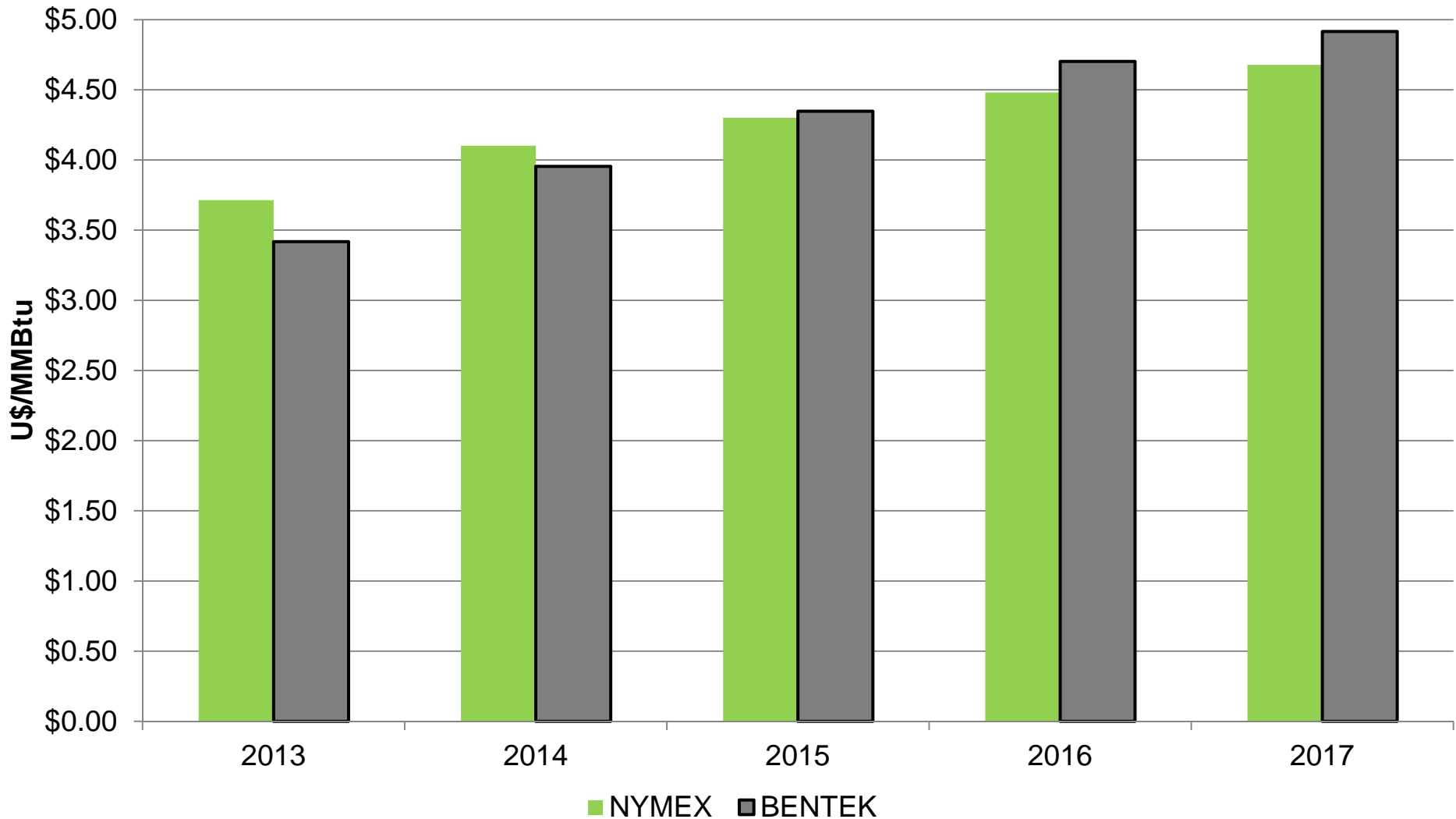


Price Outlook

Prices To Remain Range Bound Between \$3 to \$3.50



Significant Resistance at \$5 Mark



Key Takeaways

- ❖ **Despite Weak Gas Prices Supply Will Remain Abundant**
- ❖ **Structural Demand Growing But Not Pacing Supply**
- ❖ **Basis Will Flatten Until LNG Exports Become Established**
- ❖ **Until Then Gas Will Struggle to Break \$5 Mark**



BENTEK Energy

BENTEK is an energy market analytics company focused on the natural gas market and related energy sectors.



Rick Margolin

Direct: 720.214.3807

rmargolin@bentekenergy.com

AIM: BentekRickM

Or

Contact Any Analyst at 303.988.1320

DISCLAIMER. THIS REPORT IS FURNISHED ON AN "AS IS" BASIS. BENTEK DOES NOT WARRANT THE ACCURACY OR CORRECTNESS OF THE REPORT OR THE INFORMATION CONTAINED THEREIN. BENTEK MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE USE OF ANY INFORMATION CONTAINED IN THIS REPORT IN CONNECTION WITH TRADING OF COMMODITIES, EQUITIES, FUTURES, OPTIONS OR ANY OTHER USE. BENTEK MAKES NO EXPRESS OR IMPLIED WARRANTIES AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

RELEASE AND LIMITATION OF LIABILITY: IN NO EVENT SHALL BENTEK BE LIABLE FOR ANY DIRECT, INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFIT) ARISING OUT OF OR RELATED TO THE ACCURACY OR CORRECTNESS OF THIS REPORT OR THE INFORMATION CONTAINED THEREIN, WHETHER BASED ON WARRANTY, CONTRACT, TORT OR ANY OTHER LEGAL THEORY.