CAN WE HAVE A BRIGHT NATURAL GAS FUTURE WITH NEAR-TERM UNCERTAINTY?

Presented by:

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GAS PRICE FLY UP ($/MMBtu)

Source: NYMEX Natural Gas Settle, First Month
CURRENT DEMAND SITUATION

- Mild Or “Normal” Winter Weather In January, February, And March And Slowdown In Economic Activity Moderated Demand In Early 2001
- Growing Gas Demand For Power Generation Still Driver Of Market, But Growing Interest In Coal
- Economic Weakness Will Help Industry Adjust In Near Term
- Clear Evidence Of Growing Summer Demand Spike Will Compete With Storage Injections For Supply And Hold-Up Prices
- Potential Demand Spike Looms In 2002
MONTHLY GAS DEMAND
(5-Year Average, Bcf/d)

- 1982-1987
- 1995-2000
DELIVERED GAS
(5-Year Average, Bcf/d)
# NEW MERCHANT CAPACITY IMPACT ON DEMAND: BASE CASE ASSUMPTION

<table>
<thead>
<tr>
<th>Year</th>
<th>MW*</th>
<th>Incremental Consumption (Bcf)**</th>
<th>Cumulative Consumption (Bcf)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>20,604</td>
<td>437</td>
<td>437</td>
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<tr>
<td>2001</td>
<td>22,309</td>
<td>474</td>
<td>911</td>
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<tr>
<td>2002</td>
<td>21,372</td>
<td>454</td>
<td>1,365</td>
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<tr>
<td>2003</td>
<td>24,120</td>
<td>512</td>
<td>1,877</td>
</tr>
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* Includes only facilities that are under construction and have regulatory approval.
**Assumes heat rate of 8,000 Btu/kWh, 40% utilization factor, and 22% offset of existing gas demand.
GROWING SUMMER MINI-PEAK (Bcf/d)
NEWLY ANNOUNCED COAL-FIRED POWERPLANTS (MW)
CURRENT SUPPLY SITUATION

- Production Situation Improving Gradually, Expect More Rapid Improvement In 2001
  - Visible Production Increase In Fourth Quarter Of 2000
- Lower-48 Takes Still Running At Over 98 Percent Of Deliverability In 2000
- Storage Situation Has Improved Rapidly
  - Milder Weather In Early 2001
  - Slowdown In Economic Activity
- However, Injections Will Have To Run At Close To Historically High Levels This Summer For Storage To Complete Recover
BAKER HUGHES RIG COUNT: 1997-2001

Secondary Dip
HISTORICAL GAS PRODUCTION BY WATER DEPTH IN GULF OF MEXICO (Tcf)
LOWER-48 DRY GAS PRODUCTION (Bcf/d)

1983-1986

1997-2000
U.S. WORKING GAS STORAGE TRENDS--2000 VERSUS 1995-99 AVERAGE (Bcf)

Source: A.G.A.
U.S. WORKING GAS STORAGE TRENDS--BASE CASE SCENARIO (Bcf)

Source: A.G.A.
COMPARISON STORAGE INJECTIONS AND WITHDRAWALS (Bcf/d)
GROWTH IN NET IMPORTS (Bcf)
NET LNG IMPORTS (Bcf)

Year: 91 92 93 94 95 96 97 98 99 '00 '01 '02 '03 '04 '05
GAS SUPPLY BY COMPONENT (Bcf/d)
SUMMER PEAK DEMAND VERSUS DELIVERABLE GAS (Bcf/d)
SUMMER PEAK DEMAND VERSUS DELIVERABLE GAS (Bcf/d)

- 2002 + Injections
- Potential Shortfall
- Gas Available To Market (L-48+Imports+Other)

- 2002
- 2001
- 2000

Month:
- A
- M
- J
- J
- A
- S
- O
- N
WELLHEAD GAS PRICE TRENDS: BASE CASE ($/MMBtu)

Source: NYMEX Natural Gas Settle, First Month And GRI
WELLHEAD GAS PRICE SCENARIOS ($/MMBtu)

- **Base Case:** $6.35
- **High:** $7.50
- **Avg:** $4.25
- **Low:** $4.95

Source: NYMEX Natural Gas Settle, First Month And GRI
CONCLUSIONS

- Demand Growth For Power Generation Being Moderated By High Prices. But, New Coal Won’t Have Impact Until Post-2002. Pretty Much Gas Only For Now
- Wellhead Deliverability Is Improving Only Gradually, Expect More Substantial Improvement Post 2003
- Storage Is Recovering More Rapidly Than Previously Anticipated
- High Level Of Storage Injections And Growing Summer Peak Will Push Up Gas Prices Creating Second Seasonal Spike
- Little Hope For Price Relief Prior To 2004