platts

Surviving High Energy Prices
Looking for a Port in the Storm

Thomas J. Woods
Energy Domain Expert, Platts Analytics
Energy 2006
Chicago, Illinois
August 7, 2006

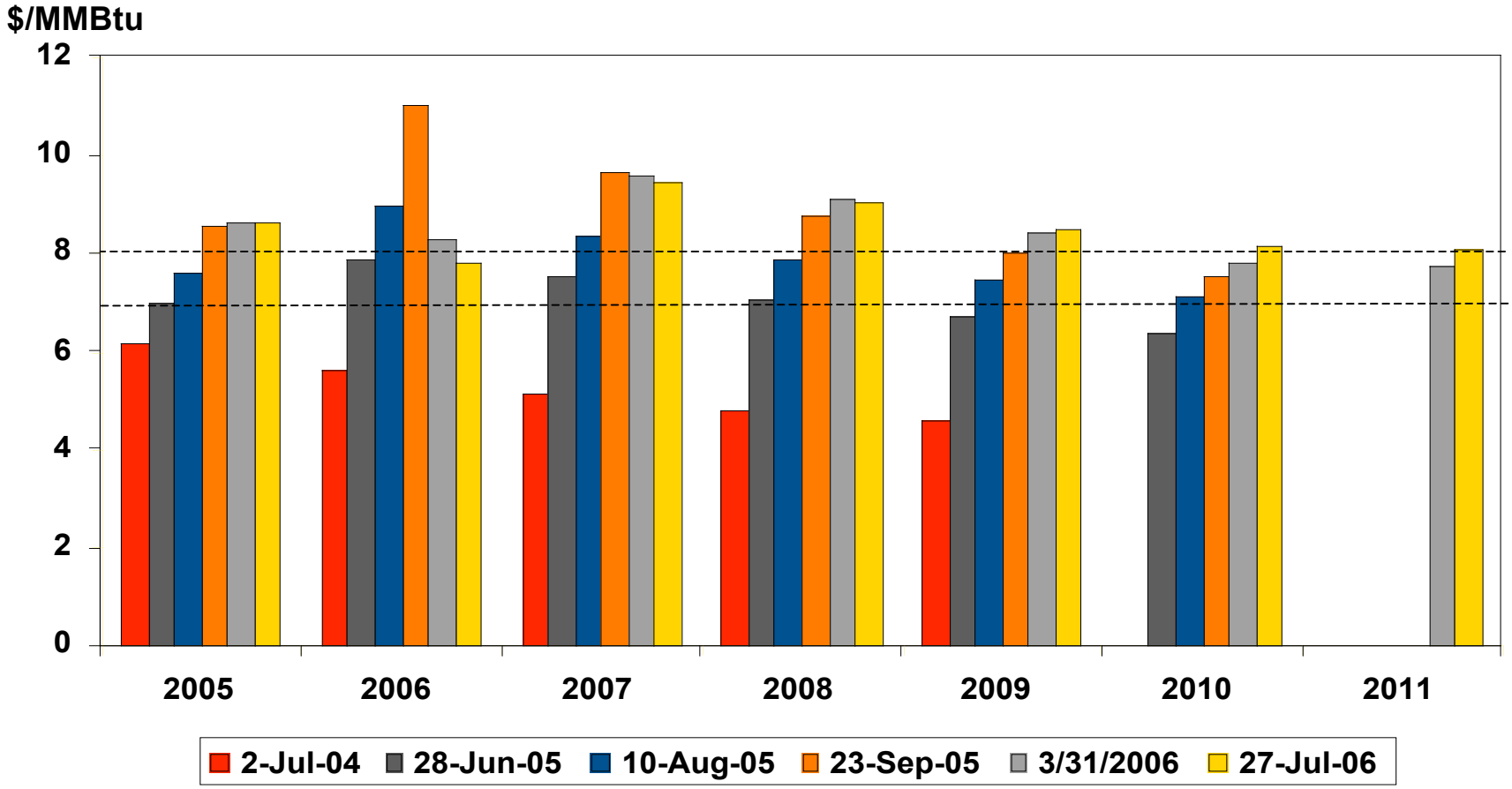
Energy Price Environment

- Oil and Gas prices Currently Diverging
- Sustained, Large Declines in Prices Unlikely **until** Sustained Easing of Supply/Demand Balance **and** Growing Supply **at** Lower Prices
- Higher Prices Needed before Downward Price Pressures from **Currently** "Acceptable" Alternative Energy Sources
- Conservation Reduces Bills, but Unlikely to Reduce Prices
- Bottom Line

Periods of Short-Term Price Relief, but General Upward Movement in Prices, unless…..

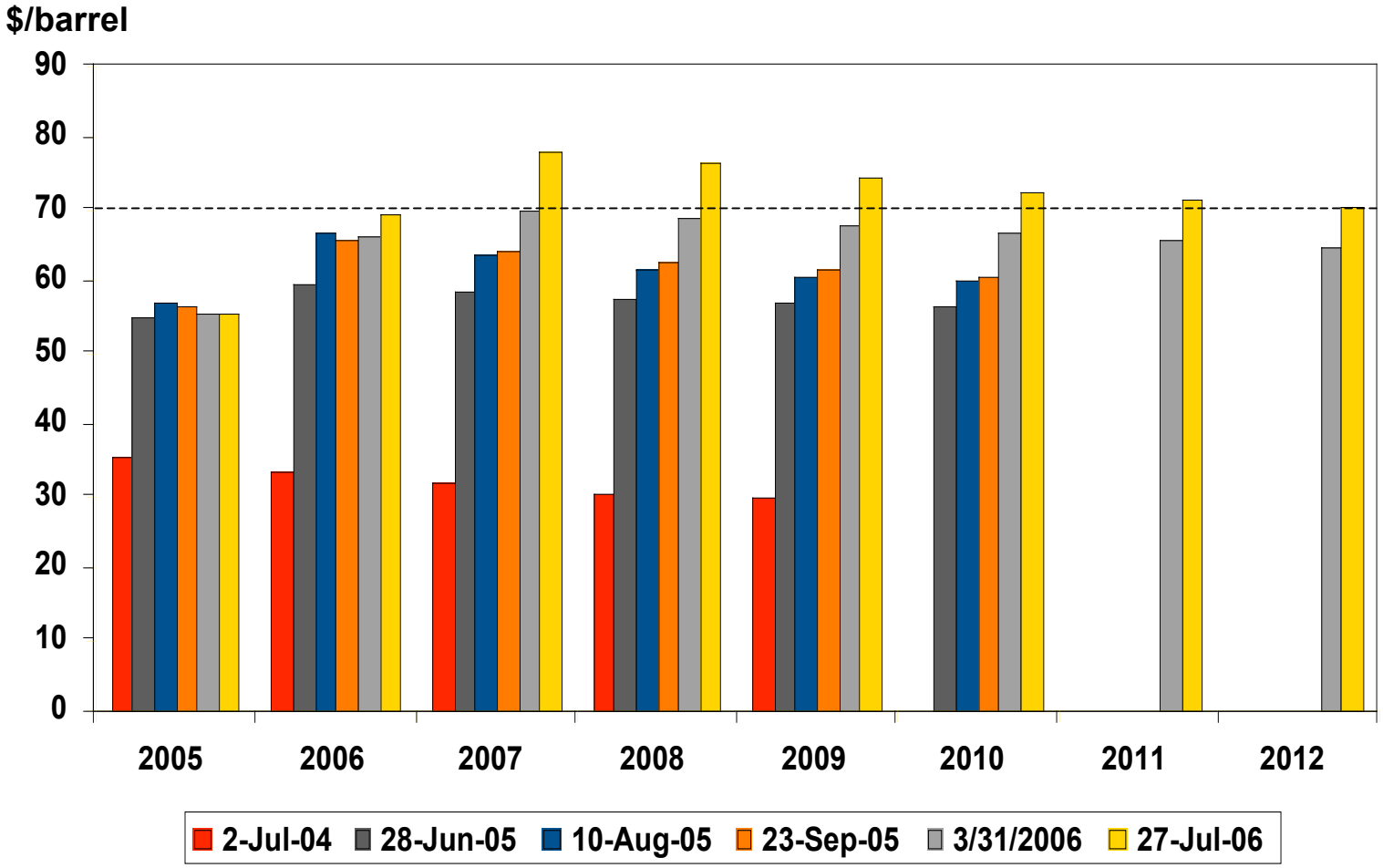
platts

NYMEX Henry Hub Annual Futures



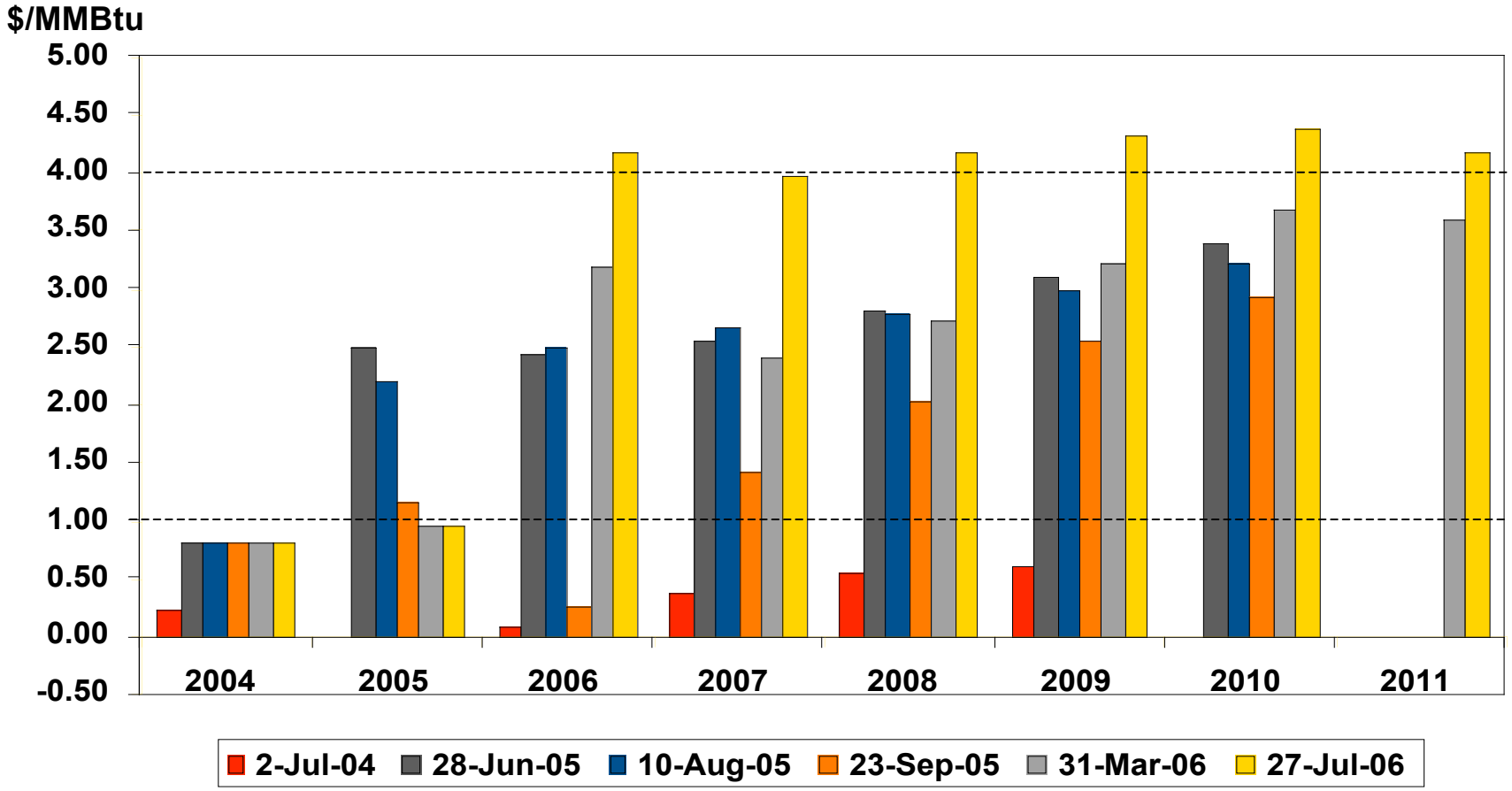
platts

NYMEX Light Oil Annual Futures



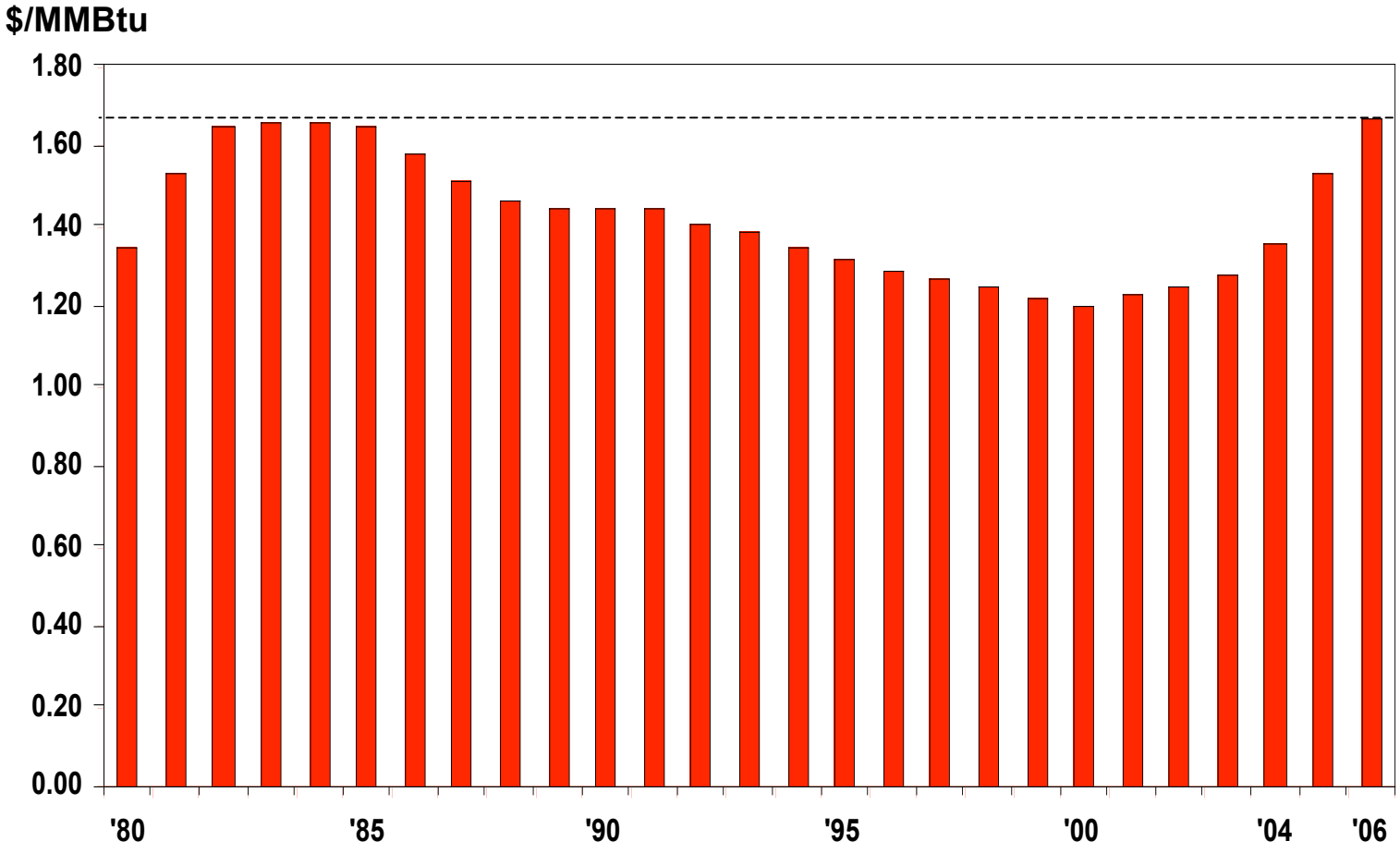
platts

Light Oil – Henry Hub Differentials
Annual NYMEX Futures



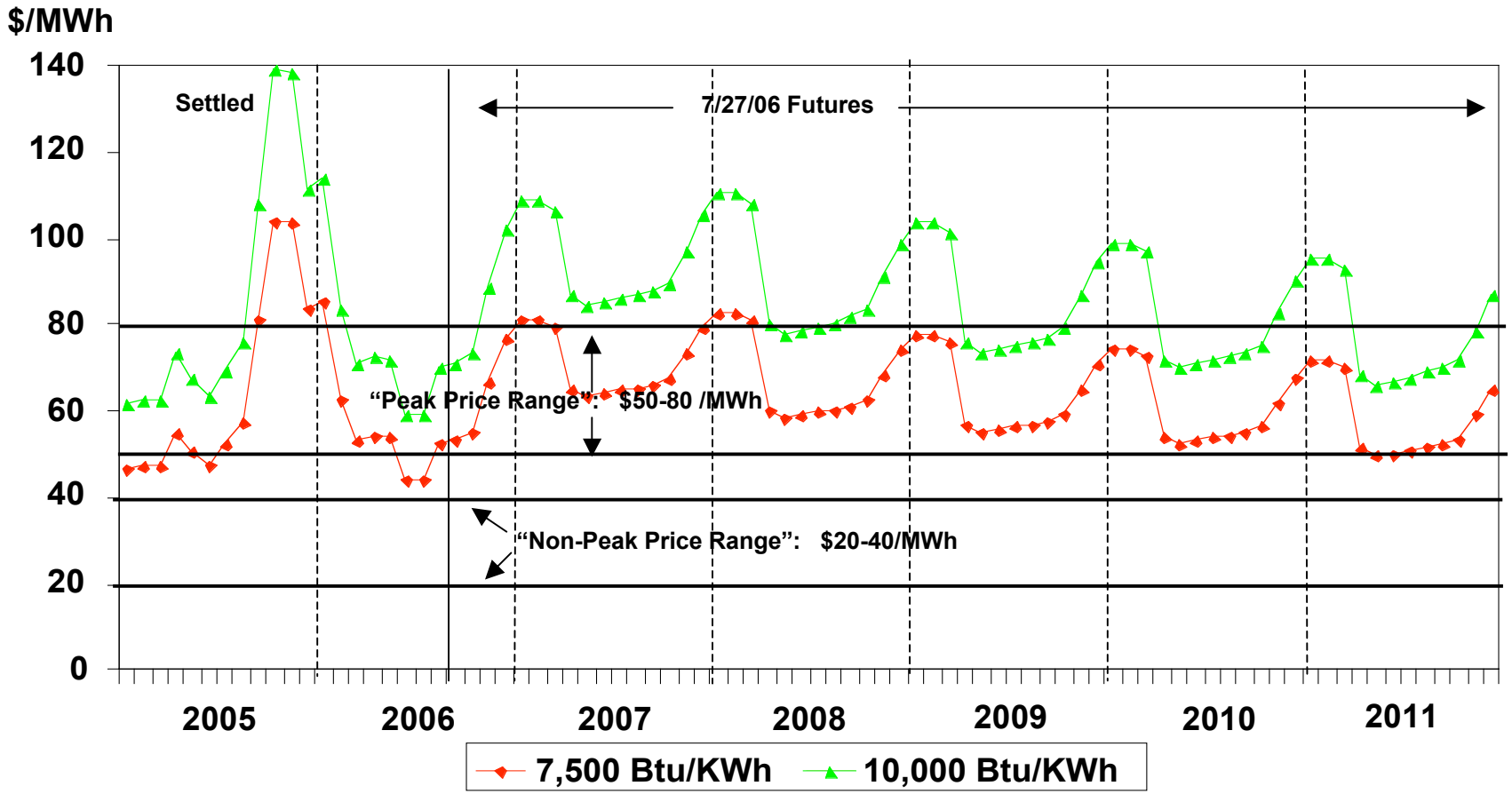
platts

Average U.S. Coal Prices to Power Plants



platts

Gas - Fuel Electricity Costs
(NYMEX Gas Futures as of 7/27/06)



platts

Energy Price Context to 2010

- Current Market Price "Floor" Expectations
  - Gas Prices about $8/MMBtu
  - Oil Prices around $70/barrel
- Gas and Oil Prices Divergence Likely to Grow
- Coal Prices at Record Levels
- Upward Pressures on Electricity Prices in Gas - "Dominated" Regions, Developing in Coal – "Dominated" Regions
- Option to Switch from Gas to Electricity in Gas - "Dominated" Regions, if Gas Uncompetitive for New Electricity Generation
- Bottom Line

Energy Prices Affected More by Events than "Costs"

platts

Near-Term Gas Market Factors
Absent Singular Events

Physical Market Factors

- Gas Injection Volumes Looking for “Home” even if Gas Storage at Record Level on “November 1” 2006
- Little or No growth in 2006 LNG Imports, but Buyers’ Market Possible in 2007
- Western Hydro “Normal,” Reducing West Demand and Prices

Dark Linings in Silver Clouds

- Possible Reduction in Canadian Gas Exports Due to Growing Alberta Gas Demand
- U.S. Gas Production Unlikely to Show Much Growth in 2006-07

platts

Gas Price Prospects

- Strong Downward Pressures on Gas Prices from Gas-on-Gas Competition through Spring 2007 and Possibly into 2008
- Gas Price Erosions Probably Weakest on Eastern Gulf Coast and Atlantic Seaboard
- North American Storage Likely at “Record” Levels through 2007
- Western Hydro Output Possibly “Normal” for 2006
- Critical Price Uncertainties
  - Return of Gulf Coast Demand
  - Hurricanes and Other Weather Events
  - Pace of European Storage Recovery

platts

Near-Term Electricity Prices
Absent Singular Events

- Lower Electricity Prices if Gas Prices Erode
- Less Downward Pressures on Gas (and Electricity) Prices on Eastern Gulf Coast and Atlantic Seaboard
- Short-Term Competition in Southeast between Nuclear and Coal in Mid-2007
- Major Gas Displacement of Petroleum Fluids in Electricity Generation
- Critical Price Uncertainties
  - Coal “Capture” of Economic Rent
  - Hurricanes and Other Weather Events

platts

General Price Observations

- Oil Price “Floor” More Likely to Grow than Erode, Gas Price “Floor” Growth More Uncertain
- Gas and Electricity Price Regional Differences Likely to Grow
- Current Price “Floors” More Likely to Grow than Erode
- Gas/Electricity Fuel Switching Options Worth Investigation, Principally in Canada and Interior U.S. Regions
- Opportunities to Budget Energy Expenditures through at least 2008 and Possibly 2010

Longer-Term Price Prospects

- Until Lower-Price Options Available, Upward Price Pressures to Continue
- Periodic Price Declines, but not Sustainable without Growing Lower-Price Options
- Lower-Price Options Imply Policy Initiatives
- Downward Price Pressures from Lower-Price Options Unlikely until post-2010
- Buy Energy for Budget, not Lowest Price
- Follow the Boss Tweed Philosophy

Contact Information

Tom Woods

Energy Domain Expert

Platts

Tel: 720-548-5635

Email: tom_woods@platts.com

platts