7th Annual Rice Global Forum October 12th, 2004

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Banc of America Securities

The Future of the Natural Gas Market

Bank of America

Near-term Factors Affecting Gas Prices

- Negative
  - Record working gas storage levels
  - Uncertain economic outlook
  - Permanent destruction in industrial demand

- Positive
  - Accelerating depletion
  - Limited drilling response to higher prices

Long-term Factors to Consider

- The Impact of LNG imports on US Supply and gas prices
- Percentage of global upstream spending on gas infrastructure development
- Potential implications of a gas cartel or centralized decision-making of gas exports
- Declining production per rig
- Drilling capacity given the continued improvements in drilling efficiencies

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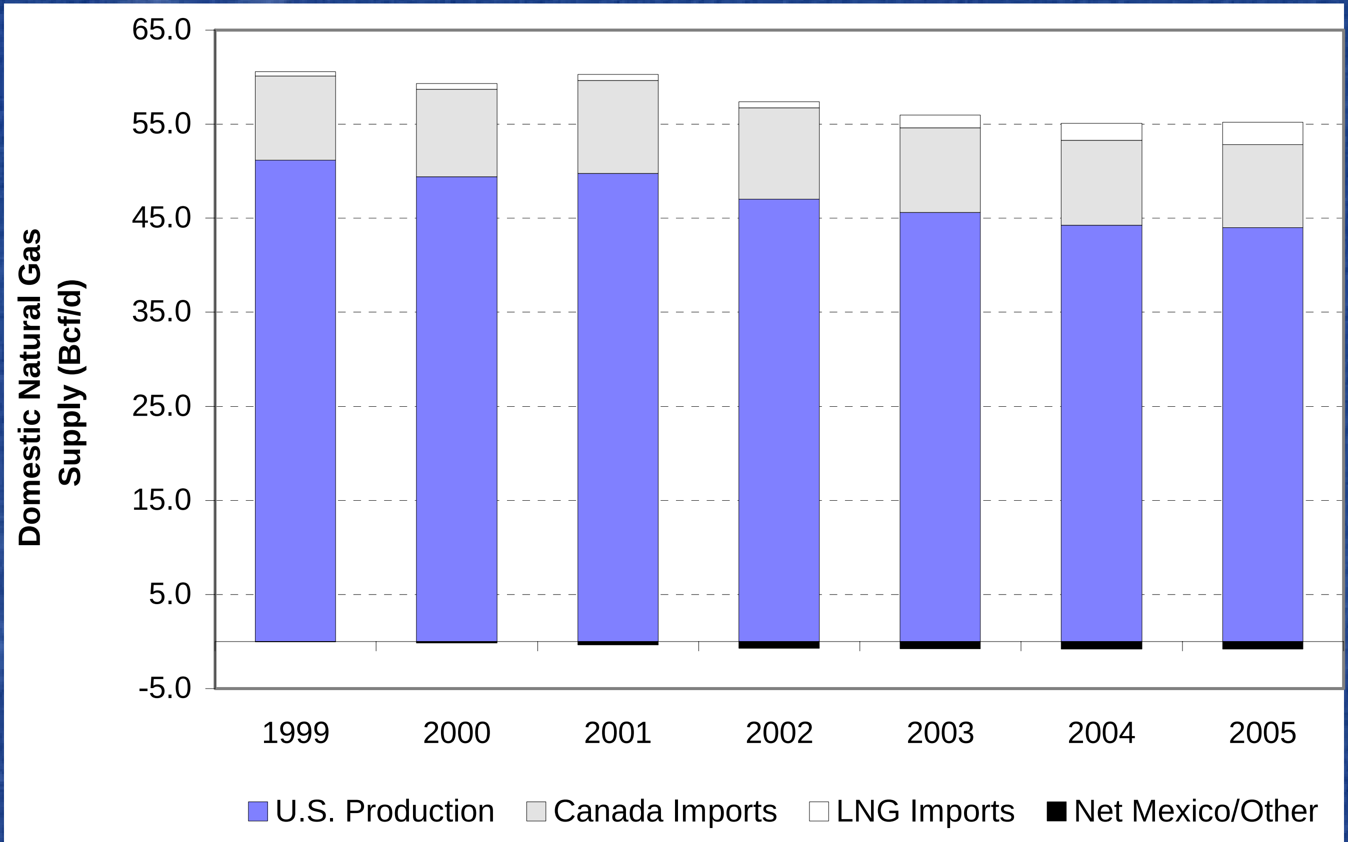
Near-term Natural Gas Supply/Demand Fundamentals

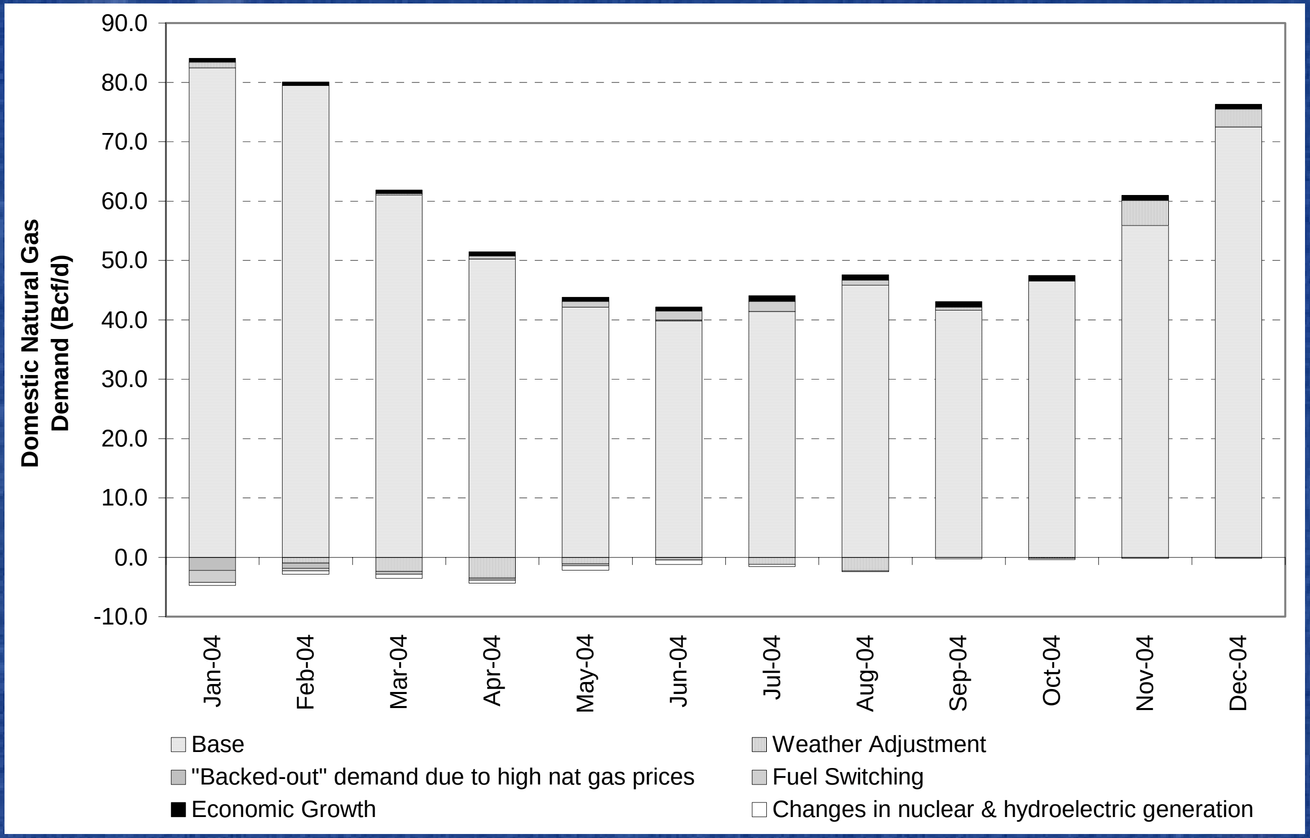
Bank of America

Total U.S. Natural Gas Supply Forecast



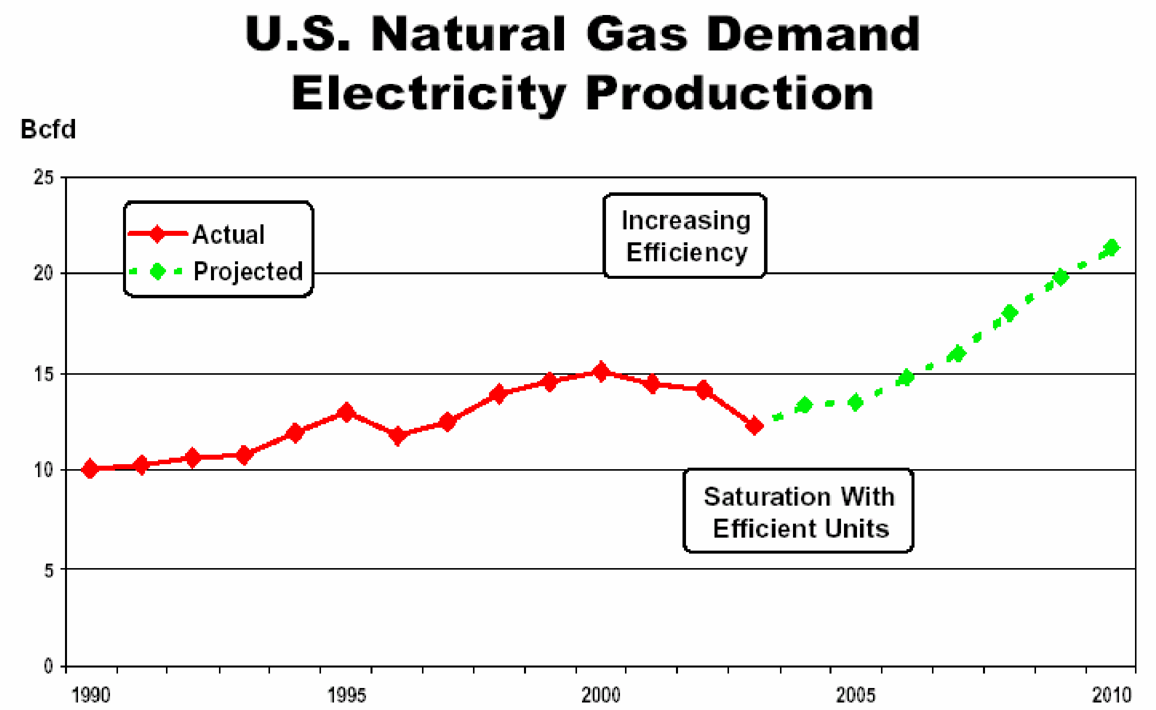
Source: EIA, BAS E&P Equity Research Team

Total U.S. Natural Gas Demand Forecast



Source: BAS E&P Equity Research Team

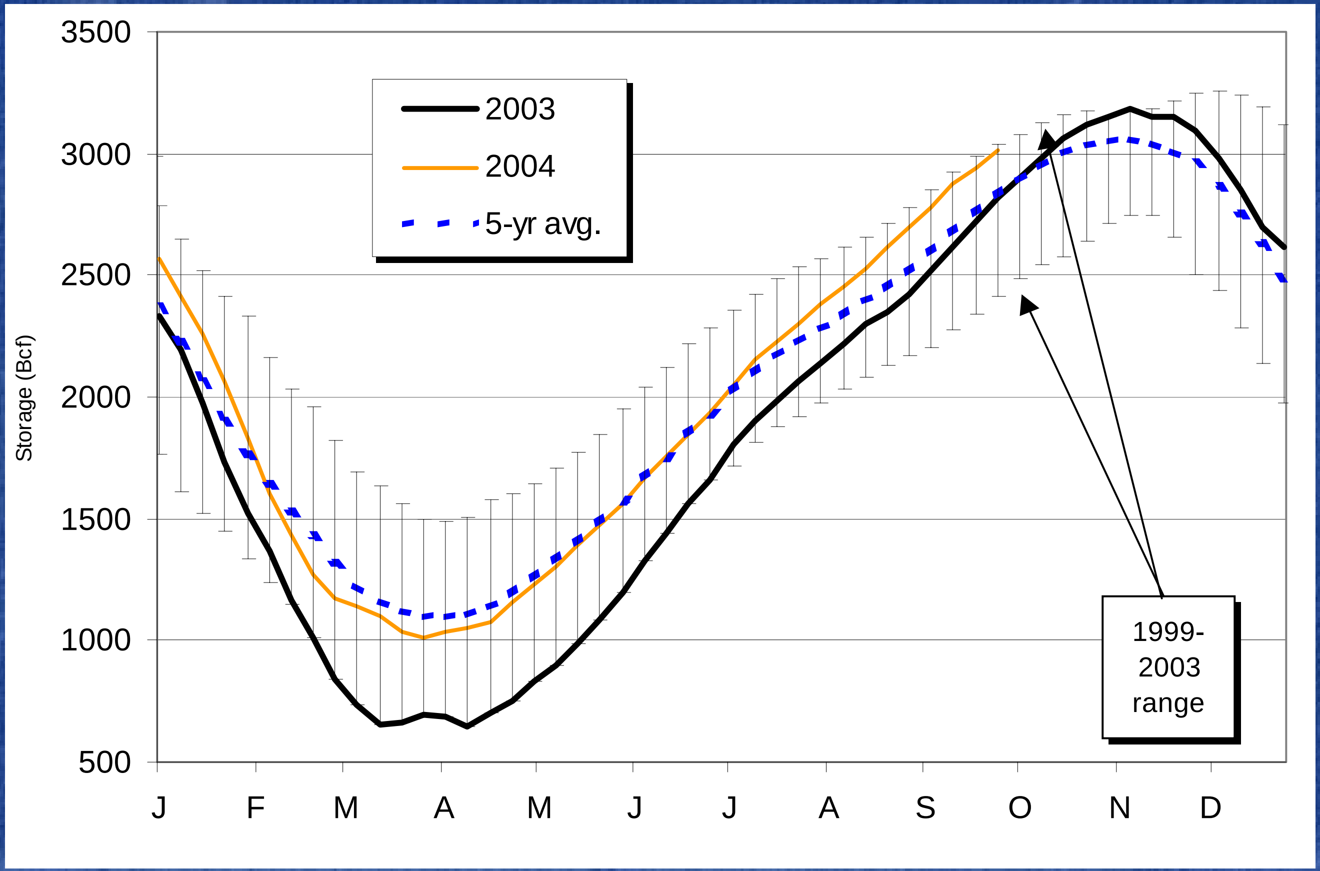
Increasing Demand for Electricity Production



2004 - 2010 Electricity Gas Demand Growth = 1.3 Bcfd/Year

Sources: DOE, EOG Model

Working Gas Storage High



Source: EIA, BAS Analysis

Supply/Demand Factors

U.S. Natural Gas Supply/Demand Balance
Nov 2004 – Oct 2005
Potential Scenario

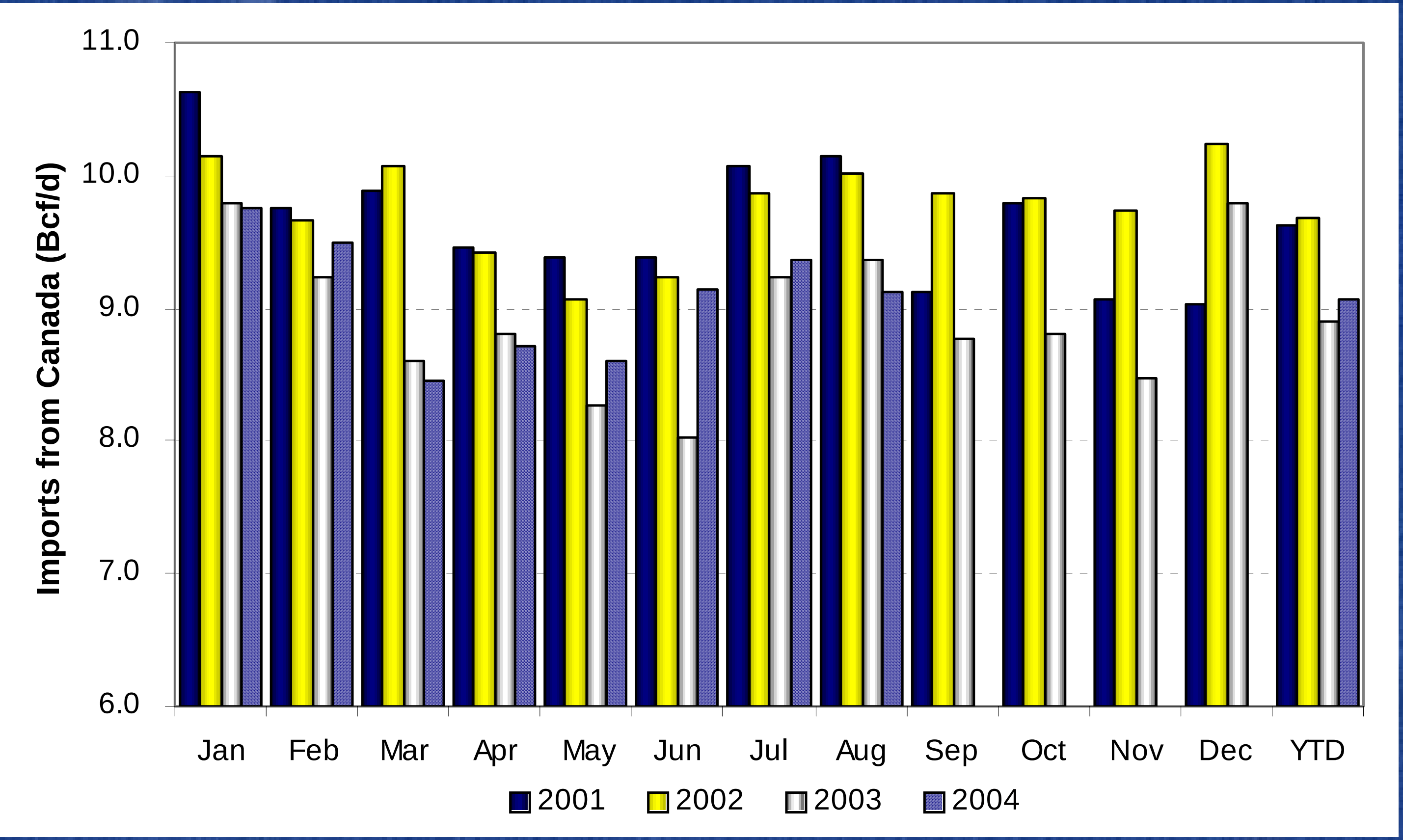
Supply	Bcfd
Domestic	(0.6)
Canada	0.2
Mexico	(0.3)
LNG	0.4
Total	(0.3)

Demand	Bcfd
Heating	0.8
Electric	0.9
Industrial	0.0
Total	1.7

Supply/Demand Constriction of 2.0 Bcfd

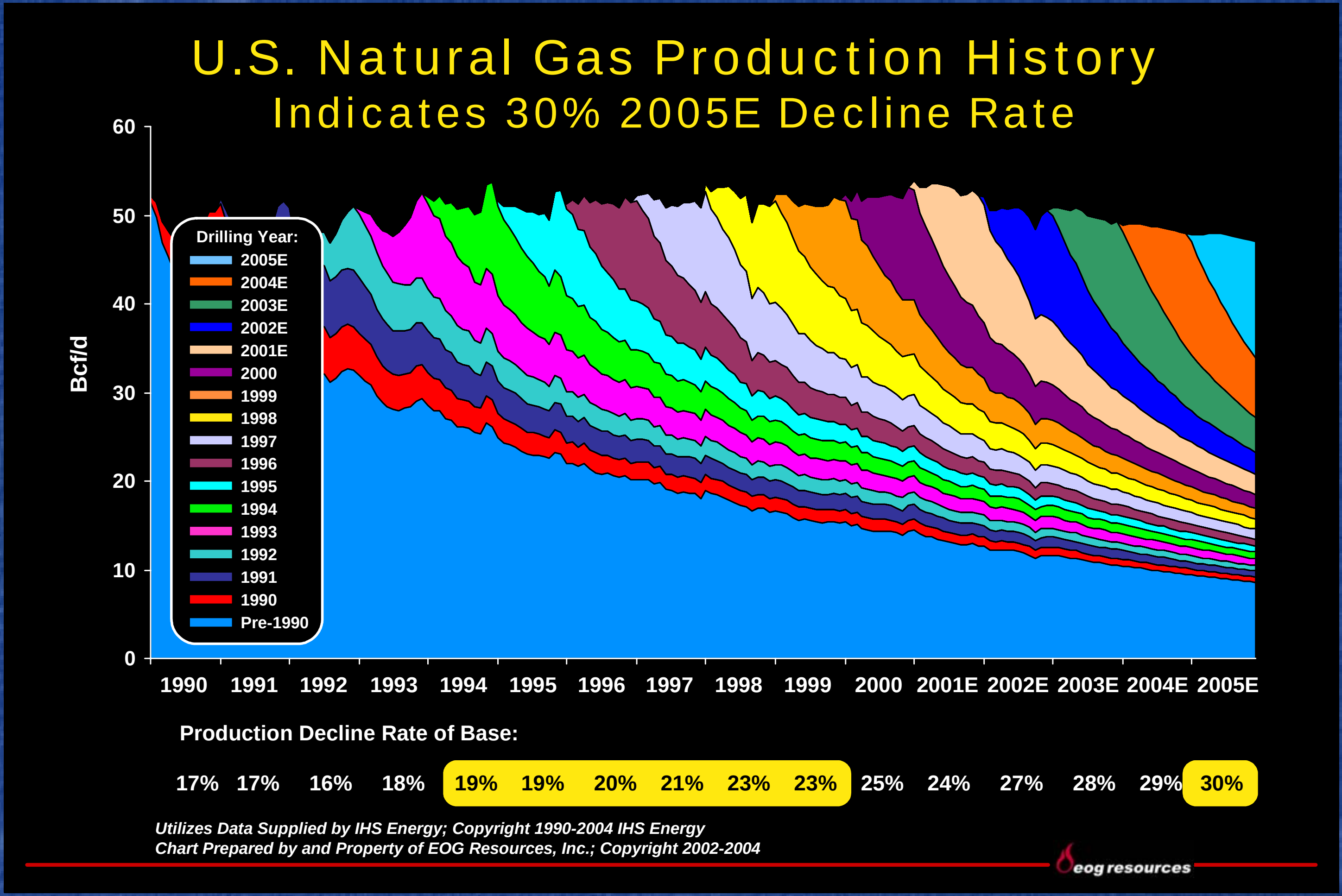
Source: EOG Estimates

Canadian Imports Rising Slightly

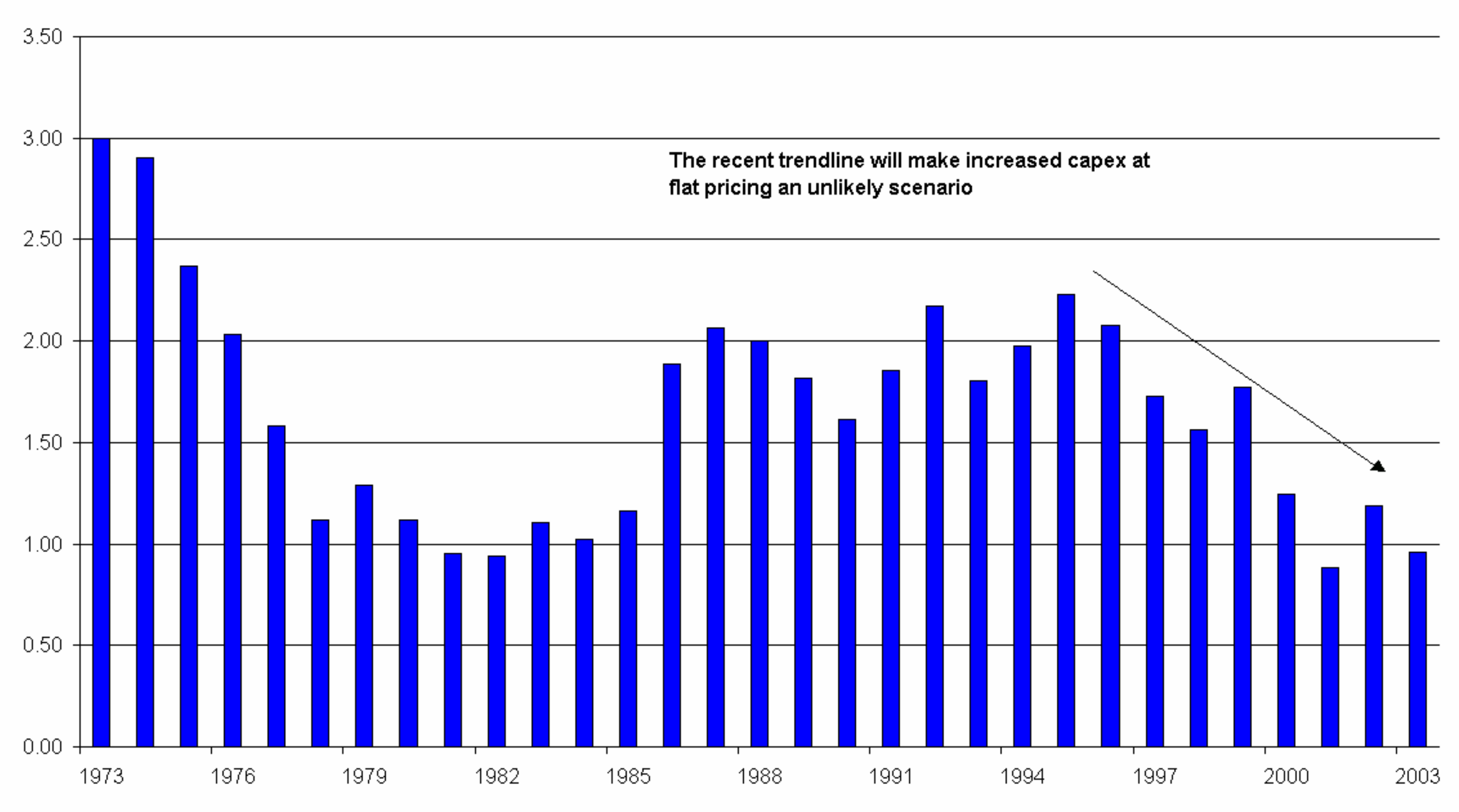


Source: National Energy Board, BAS E&P Equity Research Team

Accelerating Decline Rates in the US

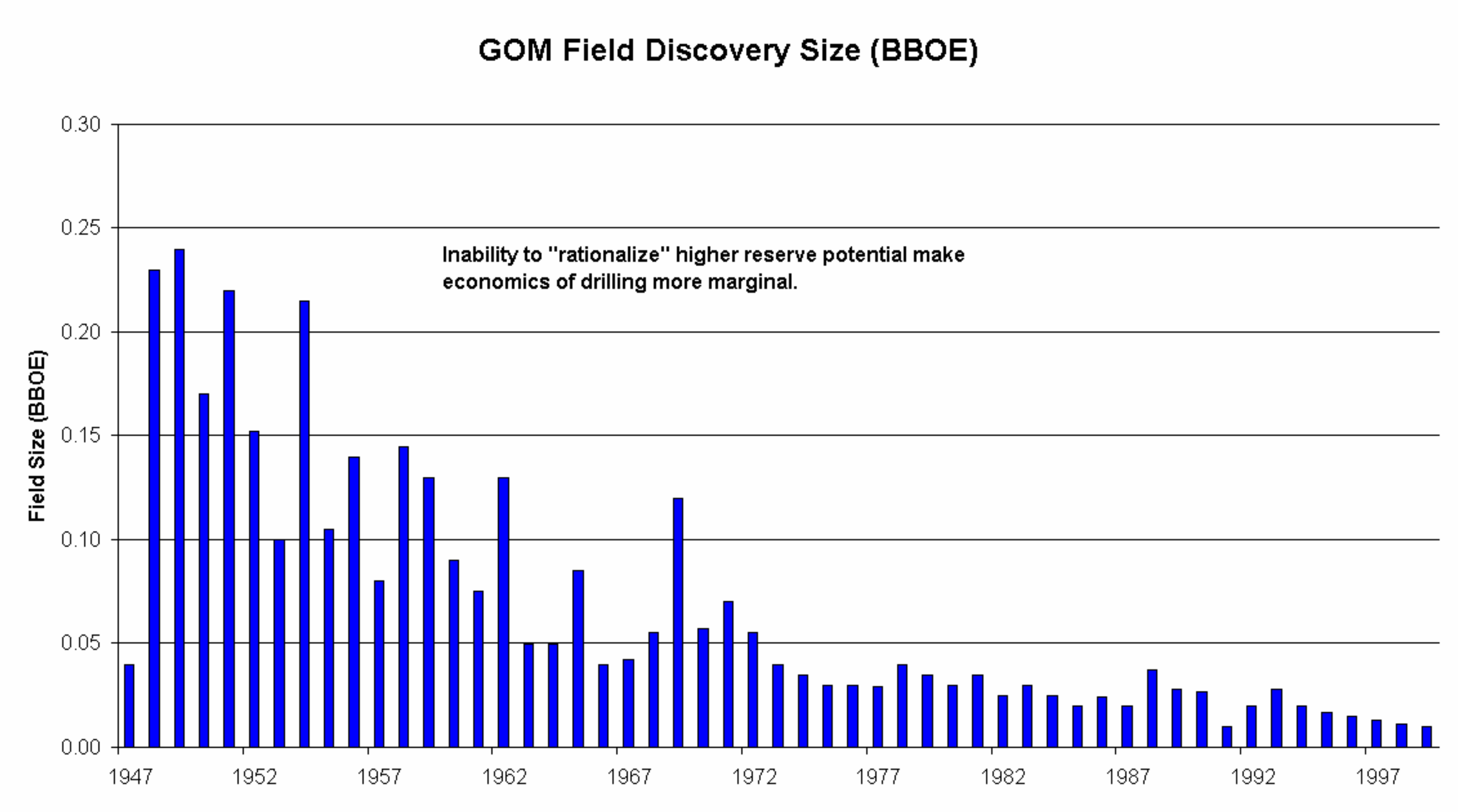


Natural Gas Production Per Well Falling



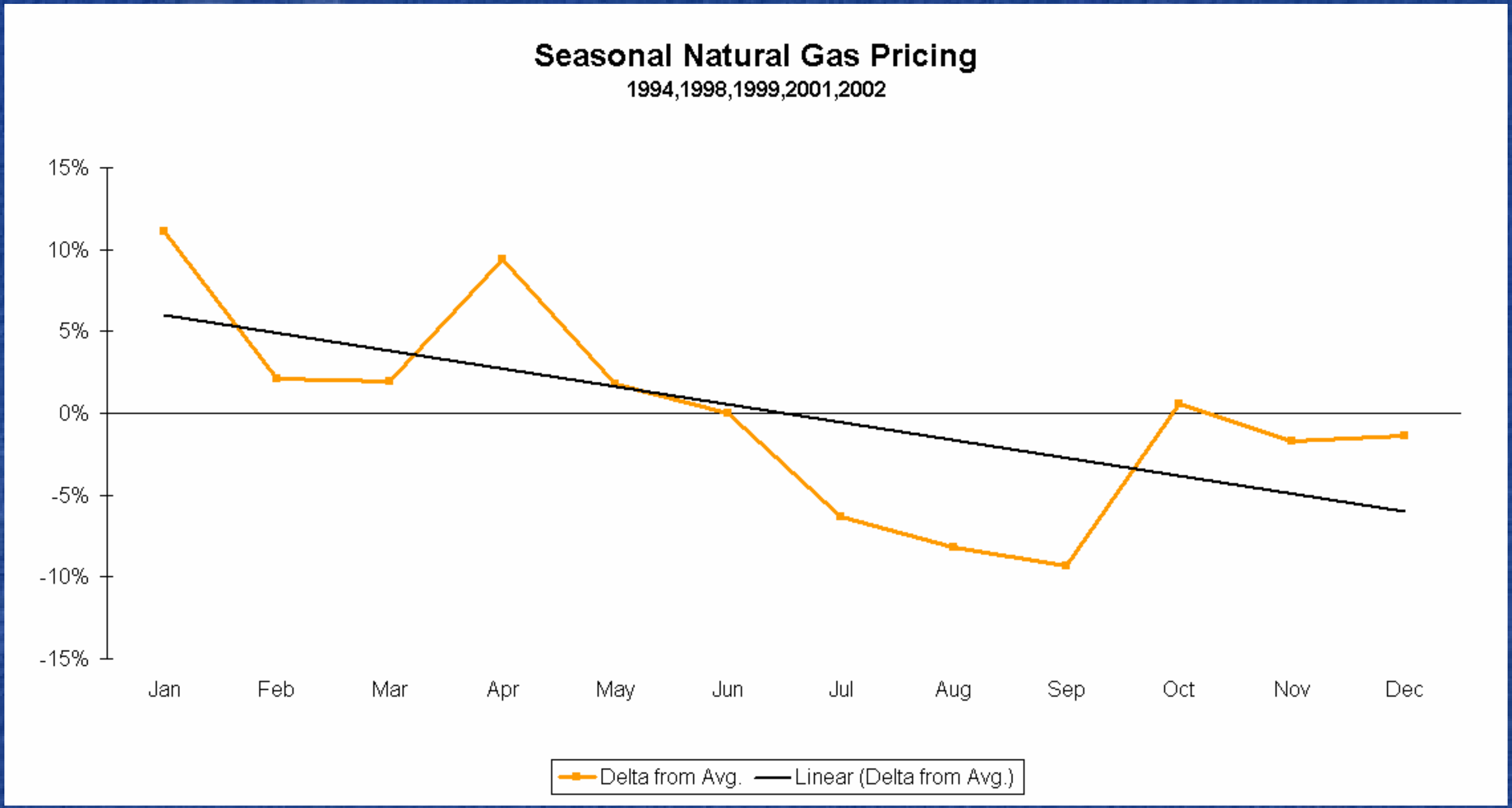
Source: EIA, BAS Analysis

Reserve Sizes Shrinking



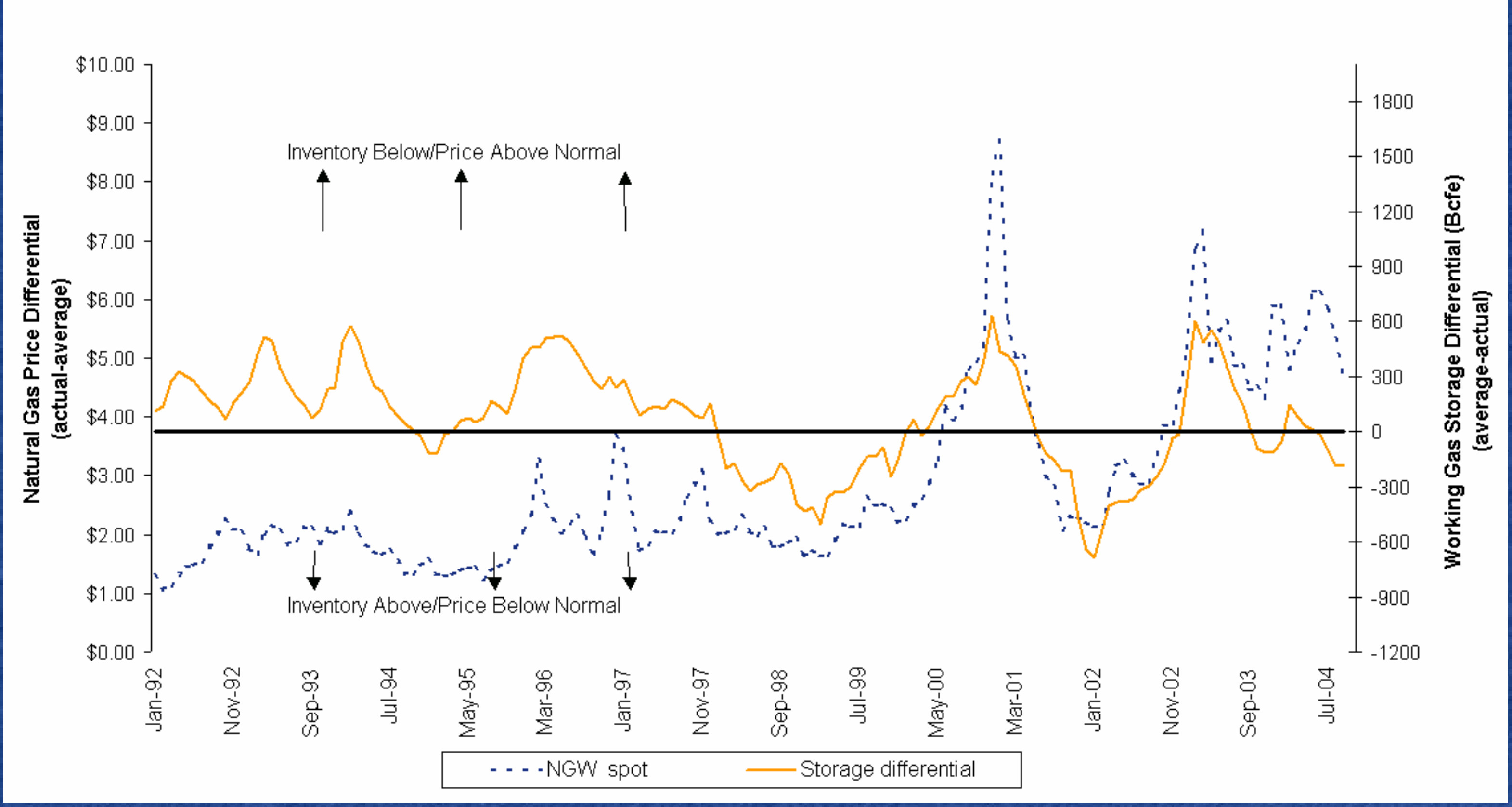
Source: MMS, EIA, BAS Analysis

Seasonal Declines in Gas Prices During High Storage Season



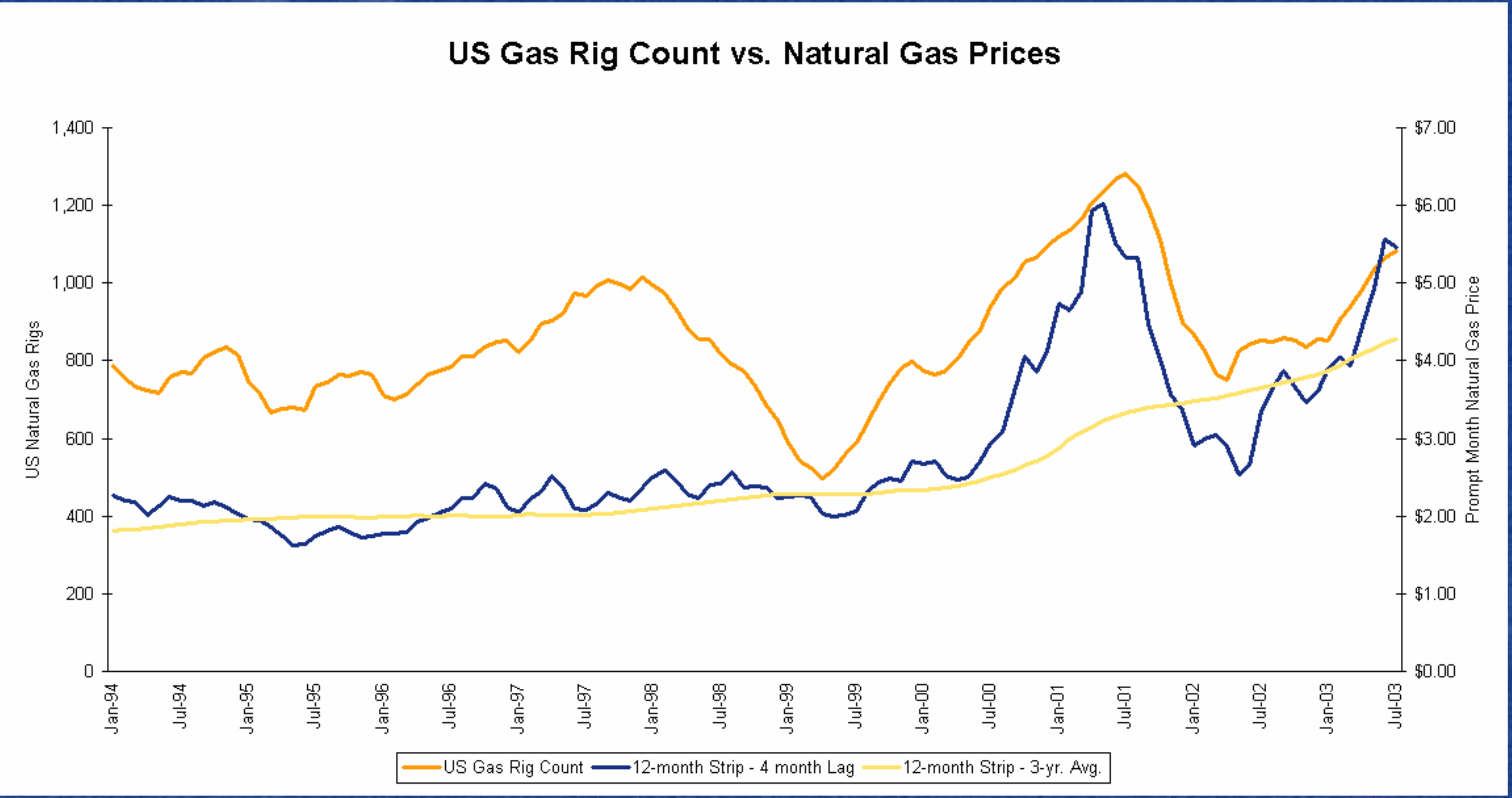
Source: EIA, Bloomberg, BAS Analysis

Gas Prices vs. Storage Differential



Source: EIA, Bloomberg, BAS Analysis

BAS Adjusted U.S. Gas Rig Count vs. Gas Futures Strip

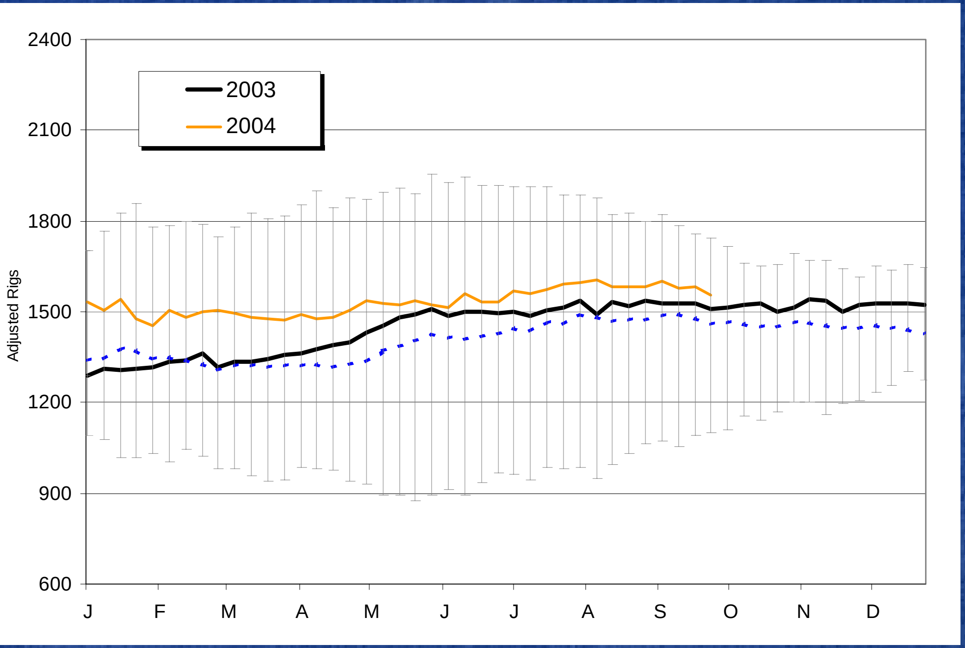


Source: Baker Hughes, Bloomberg, BAS Analysis

BAS Adjusted Natural Gas Rig Count

A Decent Proxy for Production

	Weighting
Estimated onshore gas rig count + Estimated offshore gas rig count * 7	85%
Total U.S. oil rig count	15%



Source: Baker Hughes, BAS Analysis

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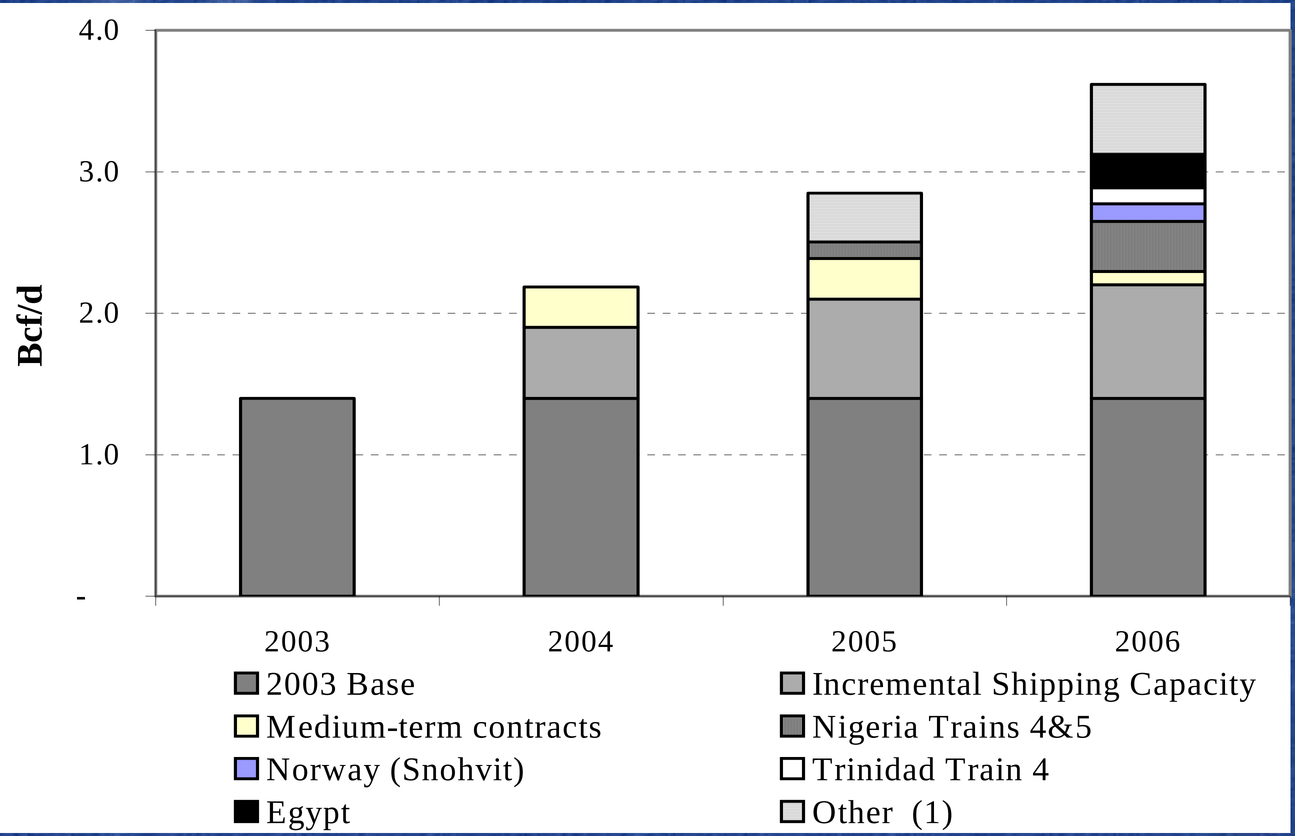
LNG

The Future of Natural Gas

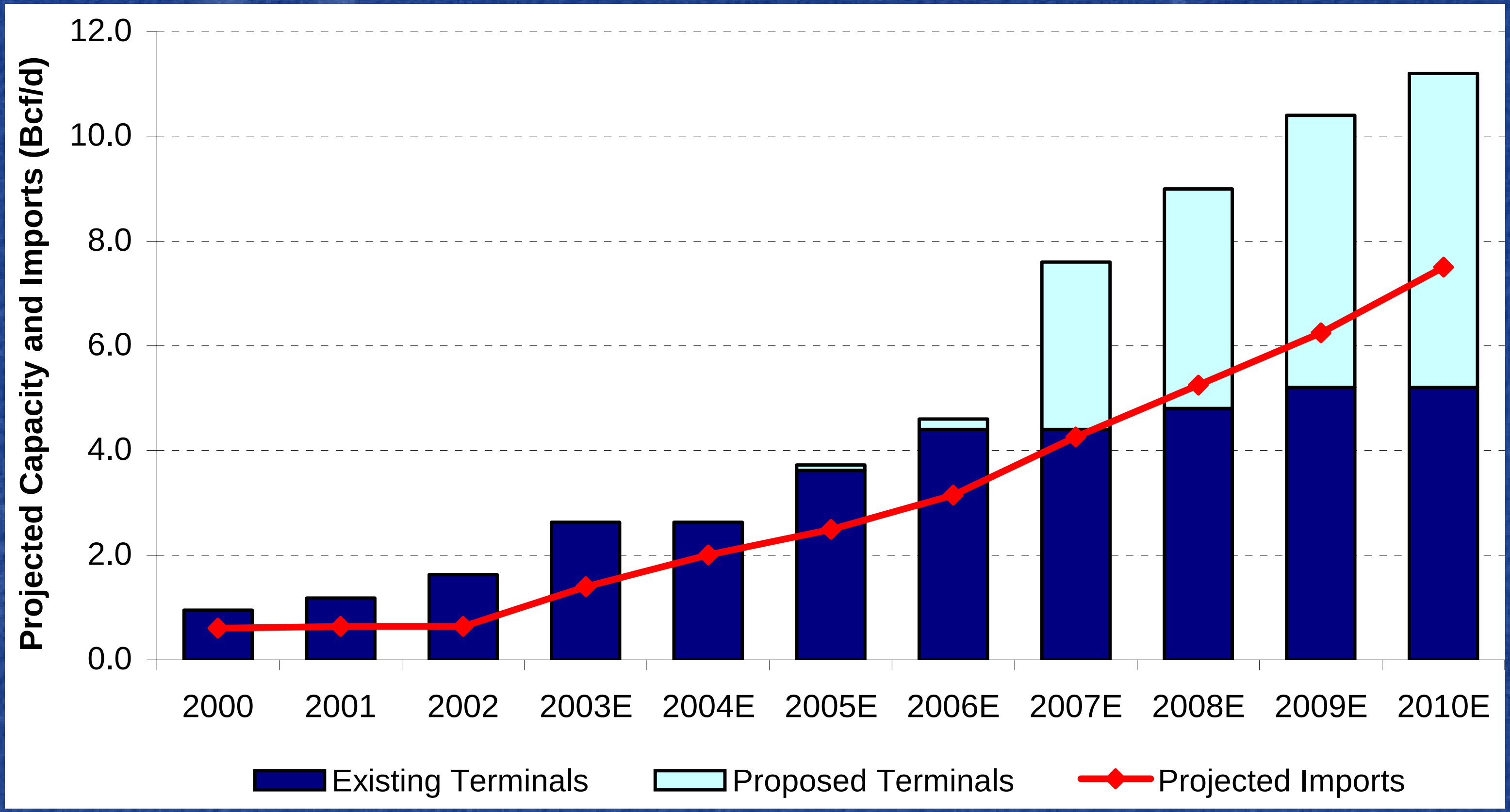
Projected U.S. LNG Import Volumes and Key Contributors
(2003-2006E)



(1) Potential supply from spot cargoes from liquefaction plants currently under construction with the majority of their output currently slated for markets outside of the U.S

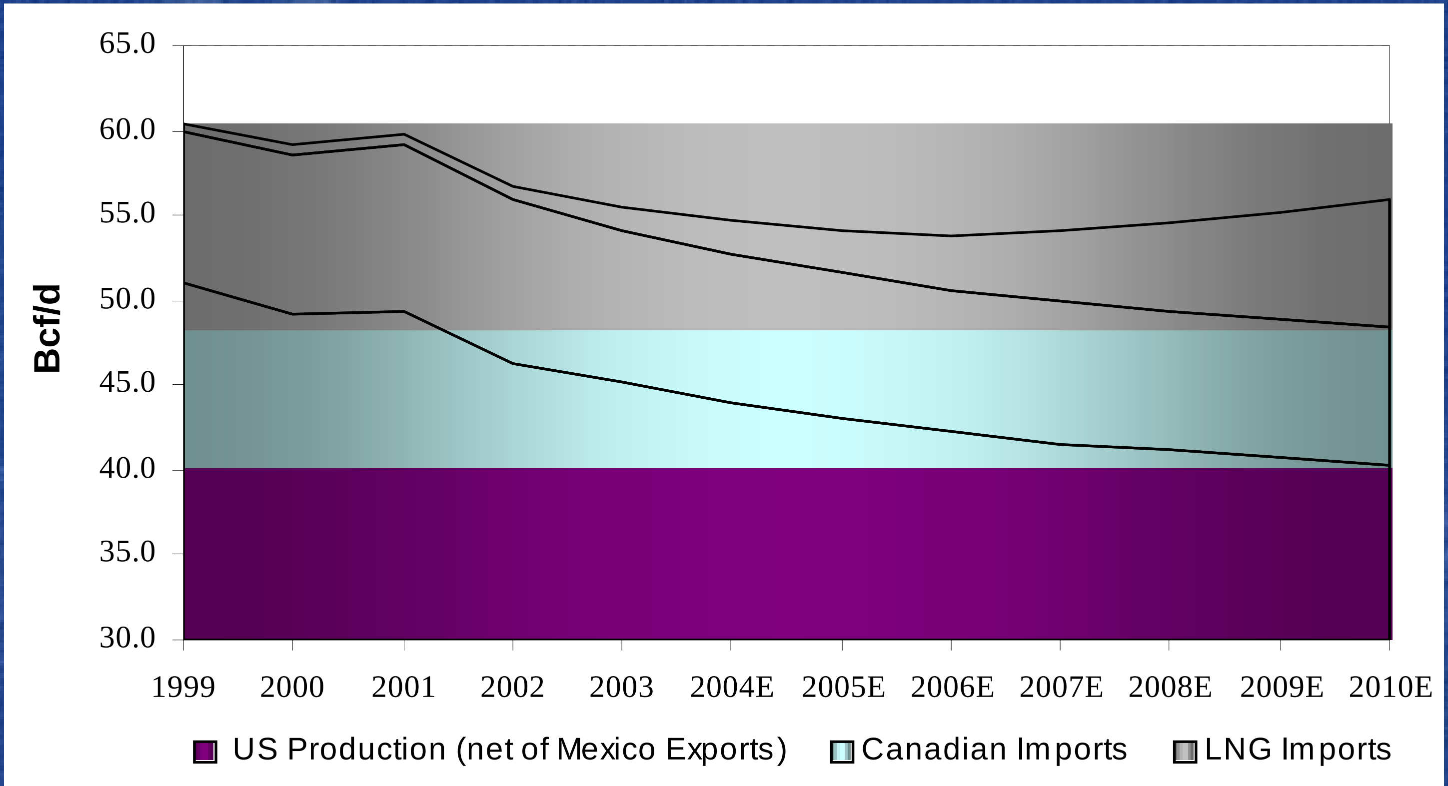
Source: DOE – Office of Fossil Energy and BAS E&P Equity Research Team

Projected U.S. LNG Imports and Capacity



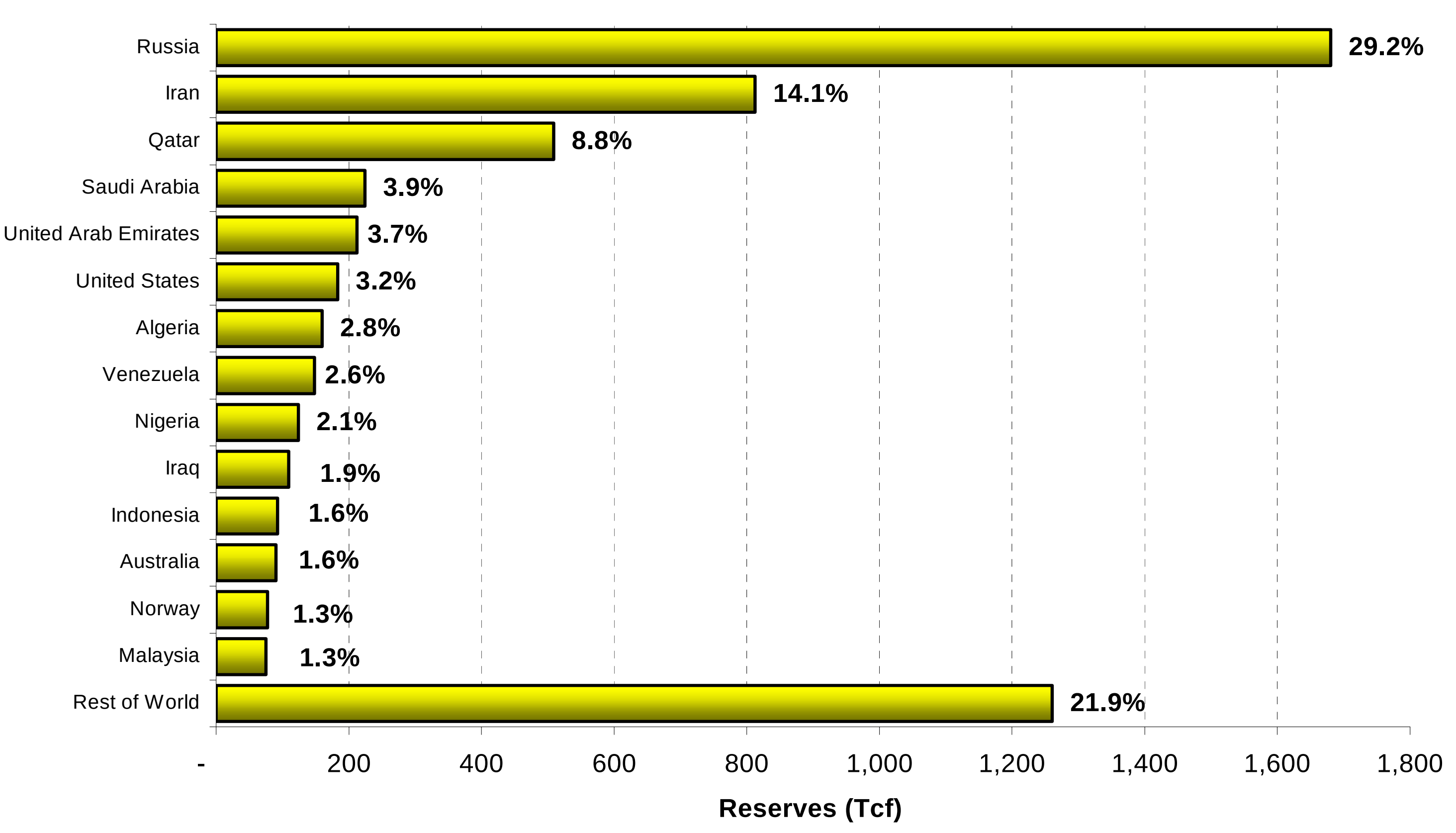
Source: BAS E&P Equity Research Team

Historical and Projected Total U.S. Natural Gas Supply



Source: EIA, BAS E&P Equity Research Team

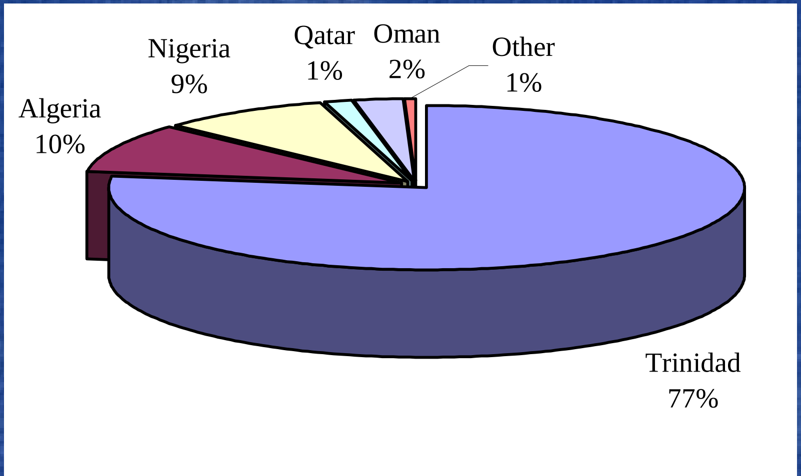
World Natural Gas Reserves
As of January 2003



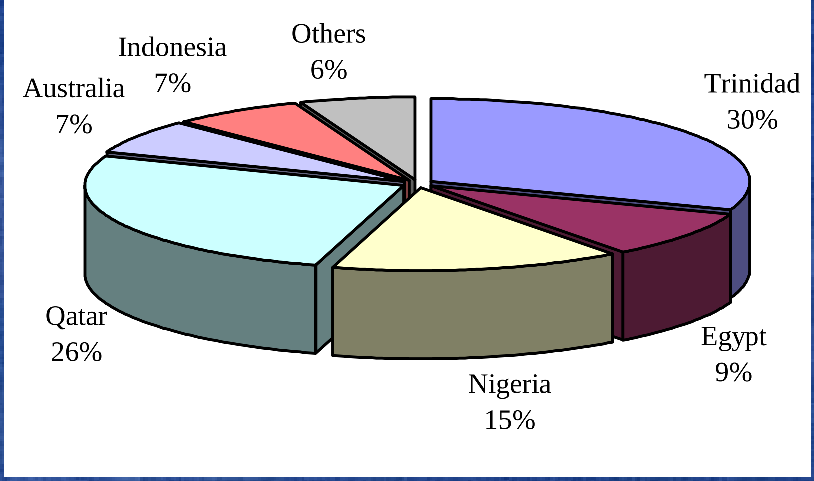
Source: EIA, BAS E&P Equity Research Team

Current and Projected U.S. LNG Imports by Country

2003

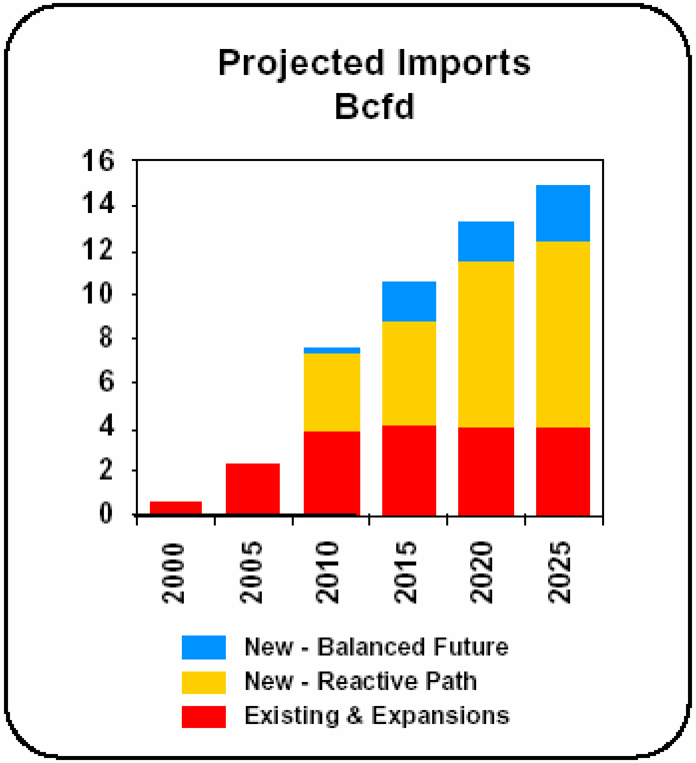


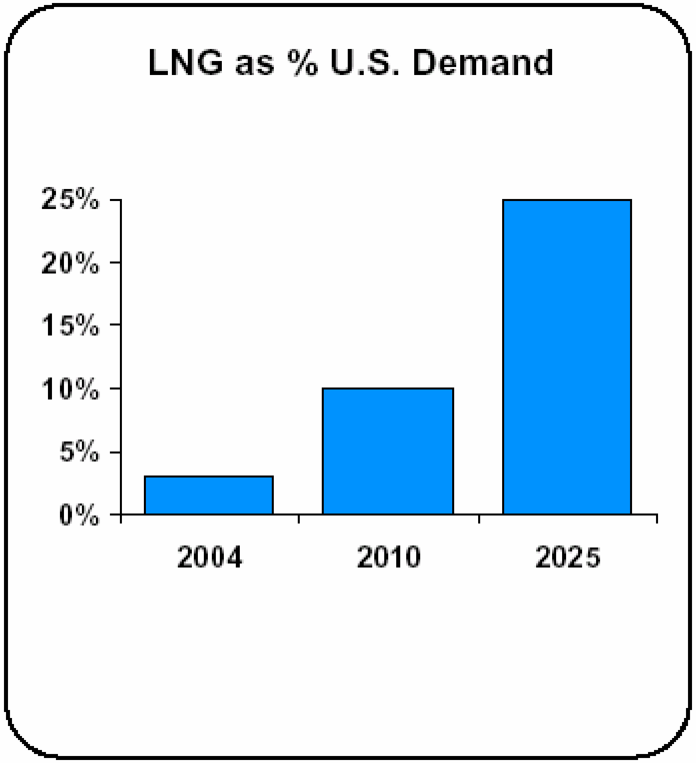
2010E



Source: DOE, BAS E&P Equity Research Team

Accelerating Imports for LNG

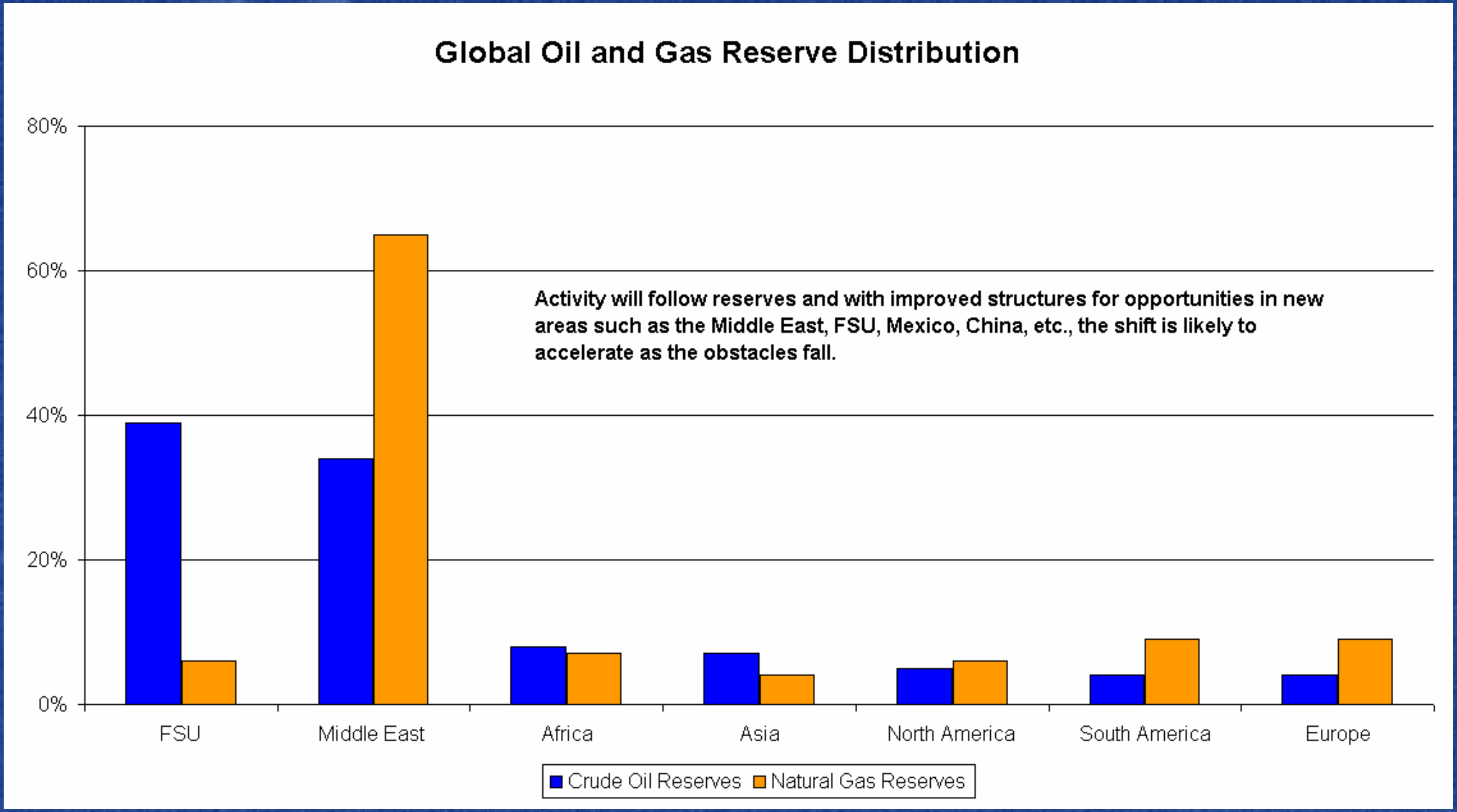




Conclusion: In 2025 - 75% of Domestic Gas Demand Must Be Met By Indigenous Sources

Source: National Petroleum Council, September 2003 Gas Study

The Reserves Aren't in the US



Source: DOE, BAS Data