

Natural Gas Winter Outlook

Winter Heating Season

2007-2008

Executive Summary

The Natural Gas Supply Association's (NGSA) seventh annual Winter Outlook summarizes the association's view of existing natural gas market conditions and fundamentals. The analysis covers the key pressure points that can affect supply and demand, and ultimately, consumer bills. For the 2007-2008 winter heating season, NGSA anticipates flat pressure on the natural gas market this winter compared to last heating season, primarily due to a projected slightly warmer than normal weather, a flat economy and moderate growth in both natural gas demand and supply.

- Weather is the largest single factor affecting natural gas demand and customer bills, and it is also the most difficult to predict. According to the National Oceanographic and Atmospheric Administration (NOAA), current conditions are likely to lead to a warmer-than-normal winter throughout much of the country. This winter is still expected to be cooler than the near-record warmth the last two winters. This cooler winter could put some upward pressure on price this winter.
- This winter, NGSA anticipates that the economy will continue its low level growth. Despite the recent economic uncertainty, public data indicate economic growth will be a flat winter-to-winter pressure point this heating season.
- The industry is once again entering the heating season with natural gas storage inventories at healthy levels, and storage is expected to significantly exceed the five-year average for the second year in a row at the start of the heating season. In addition, summertime natural gas prices have been trending downward, leading to somewhat less-expensive injection costs. The same trend occurred in last year's pre-winter season. We anticipate that this trend could result in downward pressure on price.
- Producers continue to respond, at a high pace, to spot prices with increased domestic investments in drilling activity (both the rig count and well completions have increased to record numbers during the past five years). Onshore and offshore, drilling and completion methods are proving to be very successful with production rising in several basins and the Gulf of Mexico deep-water. Therefore, despite expected modest declines in total imports this winter, NGSA expects that the counter-balancing onshore

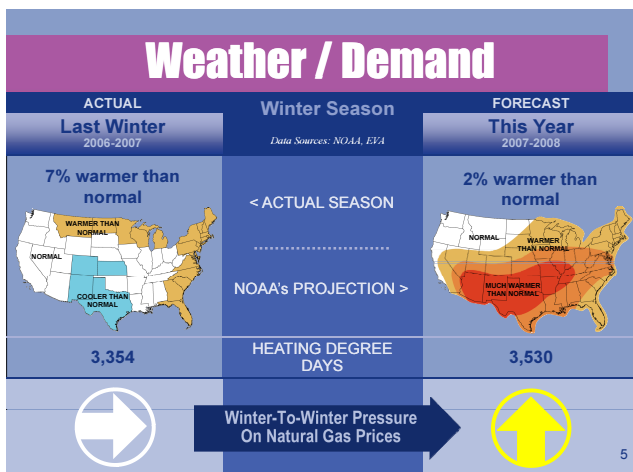
and offshore production increase could lead to an overall flat pressure on the wholesale market this heating season.

NGSA does not forecast natural gas prices. However, according to published reports, government and independent analysts are anticipating that due to the ongoing near term tight balance between natural gas supply and demand, Henry Hub spot prices—recently averaging around \$6.00 per million British thermal units (MMBtu)—could average in the \$7.00-\$9.00 per MMBtu range this heating season. The average Henry Hub price last heating season was \$7.14. However, as experienced in the past five years, short-term price fluctuations in the wholesale spot and futures markets also remain a very real possibility during cold snaps.

All of these projected pressure points are interrelated. Any deviation from this forecast is likely to affect the other assumptions in this equation. As always, the severity of the winter will undoubtedly be the biggest, single determining factor impacting the market.

Weather/Demand

The National Oceanographic and Atmospheric Administration (NOAA) is forecasting a slightly warmer than normal winter for the forthcoming winter, although still colder than the past two warm winters, based on a 30-year average. This forecast anticipates above normal temperatures this heating season in the South, Northeast, Mid-Atlantic, and part of the



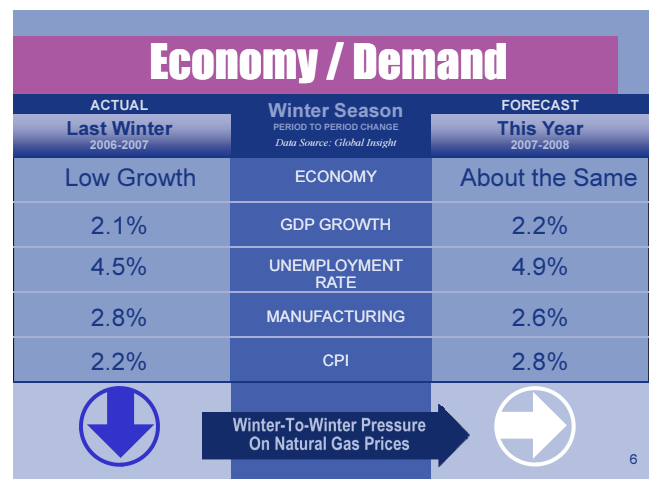
West resulting in more natural gas consumption than last year among residential and small commercial customers. Energy Ventures Analysis, Inc., (EVA) is

projecting 3,530 heating degree days (HDD) this winter, compared to 3,354 HDD last winter. As a result, the weather will likely put upward pressure on the natural gas market.

Because residential natural gas customers make up 62 percent of all U.S. homes, a near normal winter in general leads to strong consumption. A colder-than-expected weather pattern, however, could lead to further upward pressure in the market, especially if the coldest temperatures are concentrated in those regions that mainly use natural gas for heating, the Northeast, Midwest, and Mid-Atlantic states. While not projected this winter, a much colder-than-normal winter across the entire U.S. could result in greater volatility and short-term price spikes. If this winter is warmer than last year, the opposite is likely.

Economy/Demand

Last winter, economic growth in the U.S. slowed to below trend following expansions the previous three



winters. This heating season, the economy appears to follow a similar slow expansion to last winter. In spite of this, additional energy demands are still anticipated during the winter, particularly in the residential and commercial sectors, which are expected to grow 3.7 and 2.2 percent, respectively.

According to data from the nationally recognized economic forecasting firm Global Insight, gross domestic product (GDP) is expected to increase 2.2 percent, up slightly from 2.1 percent last winter. Manufacturing, another important factor for natural gas demand, is projected to grow at a milder 2.6 percent this winter compared to last winter's 2.8 percent. The unemployment rate is expected to increase to 4.9

percent from 4.5 percent, and inflation is forecast to increase to 2.8 percent from 2.2 percent.

An independent demand analysis performed by EVA notes that natural gas consumption in the residential and commercial sectors this heating season will not reach the same levels attained in prior similar heating seasons, primarily due to behavioral (e.g., wearing a sweater or adjusting the heating thermostat to a lower level) and structural (installation of additional insulation and installing double and triple pane windows) conservation. The forecast assumes this recent level of conservation within these two sectors will continue and increase.




After the residential class, the industrial class is the second largest consumer of natural gas. The six energy intensive industries, food, petroleum, paper, chemicals, primary metals and an industrial group producing stone, clay, and glass, account for about 65 to 70 percent of industrial sector natural gas demand. These industries have not kept up with the overall growth in industrial production indicating continued demand destruction within the sector. The increase in natural gas demand by some industries due to economic growth, such as the ethanol industry, is offset by increasing demand destruction in other industries, the net result of relatively high prices. The colder weather predicted for the forthcoming winter will also be a factor for the industrial sector this heating season and, in fact, will likely offset the net erosion for gas demand within the sector. NGSA anticipates that the state of the economy and demand could result in flat winter-to-winter price pressure.

Storage/Supply

Underground natural gas storage allows companies to physically stockpile natural gas supplies purchased during the summer for use during the winter when demand is at its peak. This season an additional 104 billion cubic feet (Bcf) of storage capacity are expected to be in place, compared to last season's capacity.


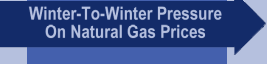

In 2007 storage levels are substantially above the five year average and, until recently, were higher than the 2006 storage levels, which were at an all-time record. A hot end of summer in heavy gas-consuming regions led to additional natural gas demand in the electric generation sector. While weekly injections during the refill season were good due to increasing production, high natural gas demand resulted in some

temporary slowdowns of storage injections, and even some summertime regional withdrawals. Still, with over a month left before the start of the heating season and with storage levels likely reaching 3,520 Bcf, NGSA expects that this inventory level could result in downward market pressure this winter.

Storage / Supply		
Last Winter 2006-2007	Winter Season <small>Data Sources: EIA, ICF</small>	This Year 2007-2008
3,445 Bcf	END OF INJECTION SEASON	3,520 Bcf
105%	PERCENT OF AVG. FILL (FIVE-YEAR AVERAGE)	105%
24 Bcf	ADDITIONAL STORAGE CAPACITY	Est. 104 Bcf
	Winter-To-Winter Pressure On Natural Gas Prices 	

Production/Supply

Overall, U.S. Lower-48 natural gas production is projected to be moderately higher during this heating season. According to ICF International, significant increases this year in both well completions and rig counts will result in a production rate of 51.3 Bcf per day (Bcf/d), compared to an average of 50.7 Bcf/d last winter, a 1.2 percent increase.

Production / Supply		
ACTUAL Last Winter 2006-2007	Winter Season <small>Data Source: ICF</small>	FORECAST This Year 2007-2008
29,000	ANNUAL WELL COMPLETIONS	30,500
1,372	ANNUAL AVG. RIG COUNT	1,485
50.7 Bcf/d	WINTER AVG. PRODUCTION	51.3 Bcf/d
8.5 Bcf/d	CANADIAN IMPORTS	7.8 Bcf/d
1.9 Bcf/d	LNG IMPORTS	2.0 Bcf/d
	Winter-To-Winter Pressure On Natural Gas Prices 	

Huge investments being made by majors and independents to sustain and increase onshore and offshore production are proving successful, despite high decline rates, lack of access to new supply, leases that are uneconomical to explore, and permitting challenges. Natural gas producers in August averaged 1,473 gas rigs in the field, an increase of 10 percent from the rig activity at the same time last year. This

increased activity level is expected to lead to another record of annual gas well completions of about 30,500 gas wells in 2007.

Imports continue to play an important role in supply. According to ICF, due to Canadian demand growth, Canadian imports are expected to provide 7.8 Bcf/d, down slightly from the 8.5 Bcf/d for the same period last year. LNG imports are anticipated to remain relatively flat at 2.0 Bcf/d from 1.9 Bcf/d.

Altogether, this level of overall U.S. supply could result in flat winter-to-winter price pressure.

Other Market Factors

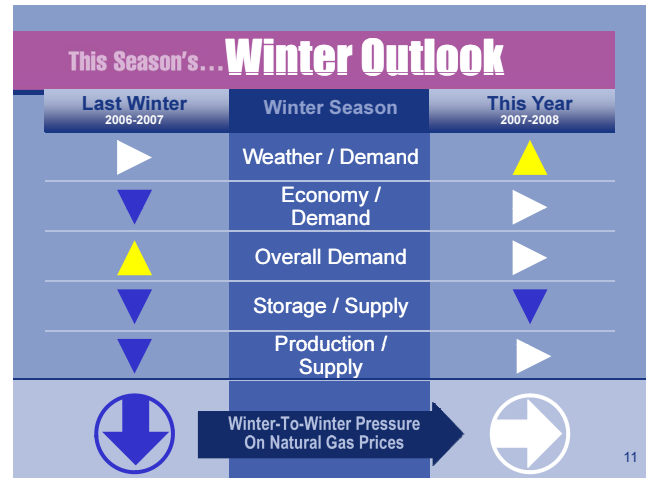
Hurricane Impacts/Dust Storm Effects: With several weeks remaining in this year's relatively quiet storm season, there continues to be a risk for hurricanes of sufficient magnitude to cause damage to platforms and gathering lines in the Gulf of Mexico, leading to prolonged supply disruptions. Dust storm effects from the Saharan desert can modify hurricane activity in the Atlantic. On the other hand, power outages caused by hurricane activity could also result in decreased natural gas demand.

Other Weather Surprises: As usual, the weather is the most difficult factor to predict but also has the greatest impact. An exceptionally cold winter or a surprise blizzard in heavy consuming regions could have a powerful influence on natural gas demand and on regional prices.

New Transportation Infrastructure: Rockies Express Pipeline, among others, is expected to come online over the winter heating season that could provide a moderating effect on markets by diversifying supply.

Conclusion

NGSA does not forecast natural gas prices. However, according to published reports, government and independent analysts are anticipating that due to the ongoing near term tight balance between natural gas supply and demand, Henry Hub spot prices—recently averaging around \$6.00 per million British thermal units (MMBtu)—could average in the \$7.00-\$9.00 per MMBtu range this heating season. The reports indicate flat pressure on natural gas prices this winter, compared with the average for last winter season, primarily due to the following estimates affecting market pressure points:



- a projected warmer-than-normal winter, although cooler than last winter;
- soft growth in the U.S. economy;
- a record inventory level significantly above the five-year average; and primarily,
- moderate growth in both natural gas demand and supply.

The underlying tight balance between supply and demand also means that deviations from the forecast have the potential to more significantly affect the supply/demand equation, and consequently, customer bills through the first quarter of 2008.

Because of its clean-burning characteristics, natural gas will continue to be a critical component of our nation's energy portfolio. Producers continue to show their long-term commitment to the natural gas market through huge levels of investment. It is in our national interest to continue to expand supply resources, both to help stimulate economic expansion and to reduce air pollution, creating a more secure energy future for America.

For more information, please visit www.NGSA.org, or www.NaturalGas.org.