Winter 2004-05 Natural Gas Outlook—The View from the West

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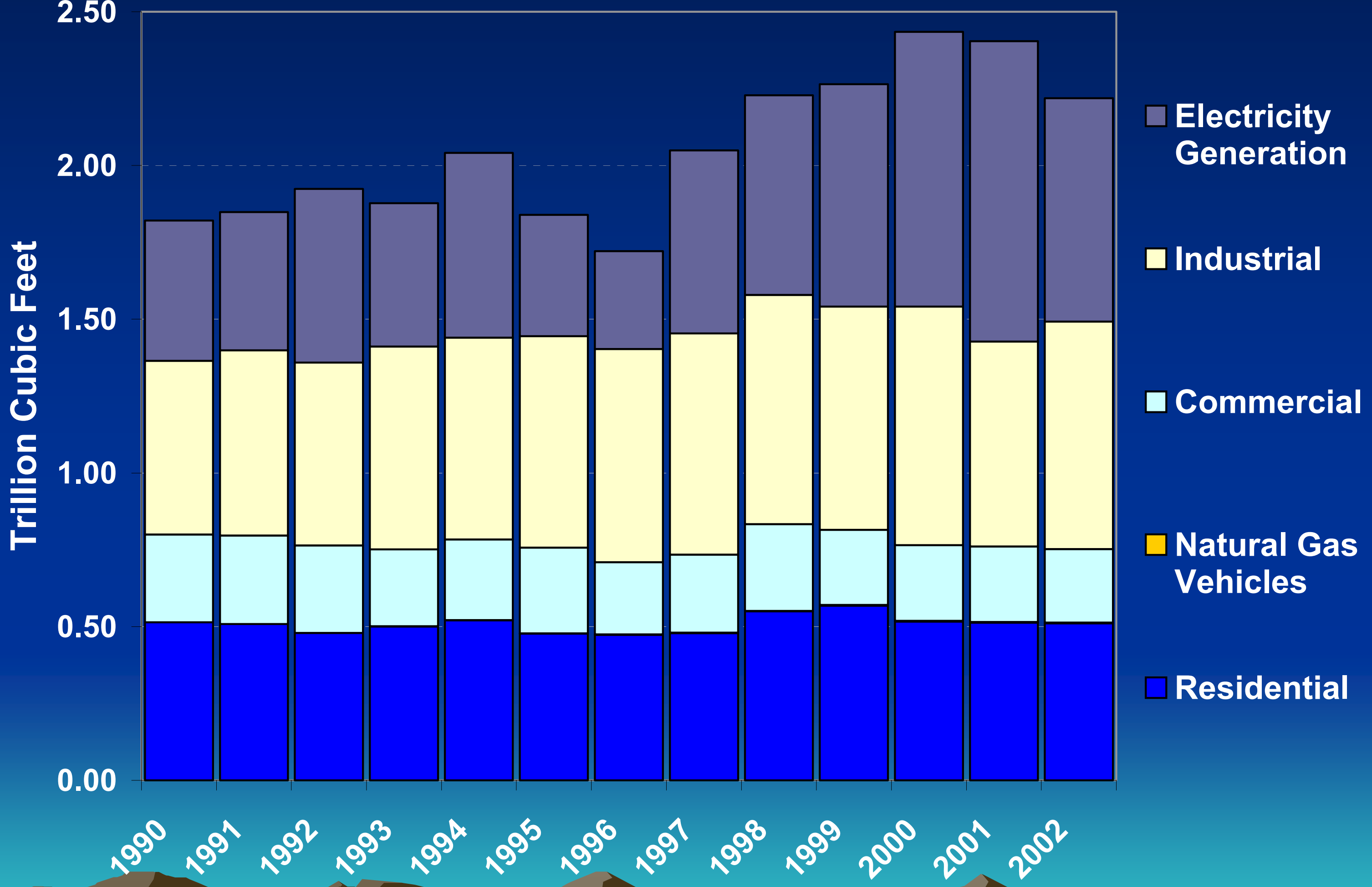
Today's Review

- Natural Gas Fundamentals Outlook
- Price Outlook
- Actions State Commissions Can Take
- Concluding Remarks

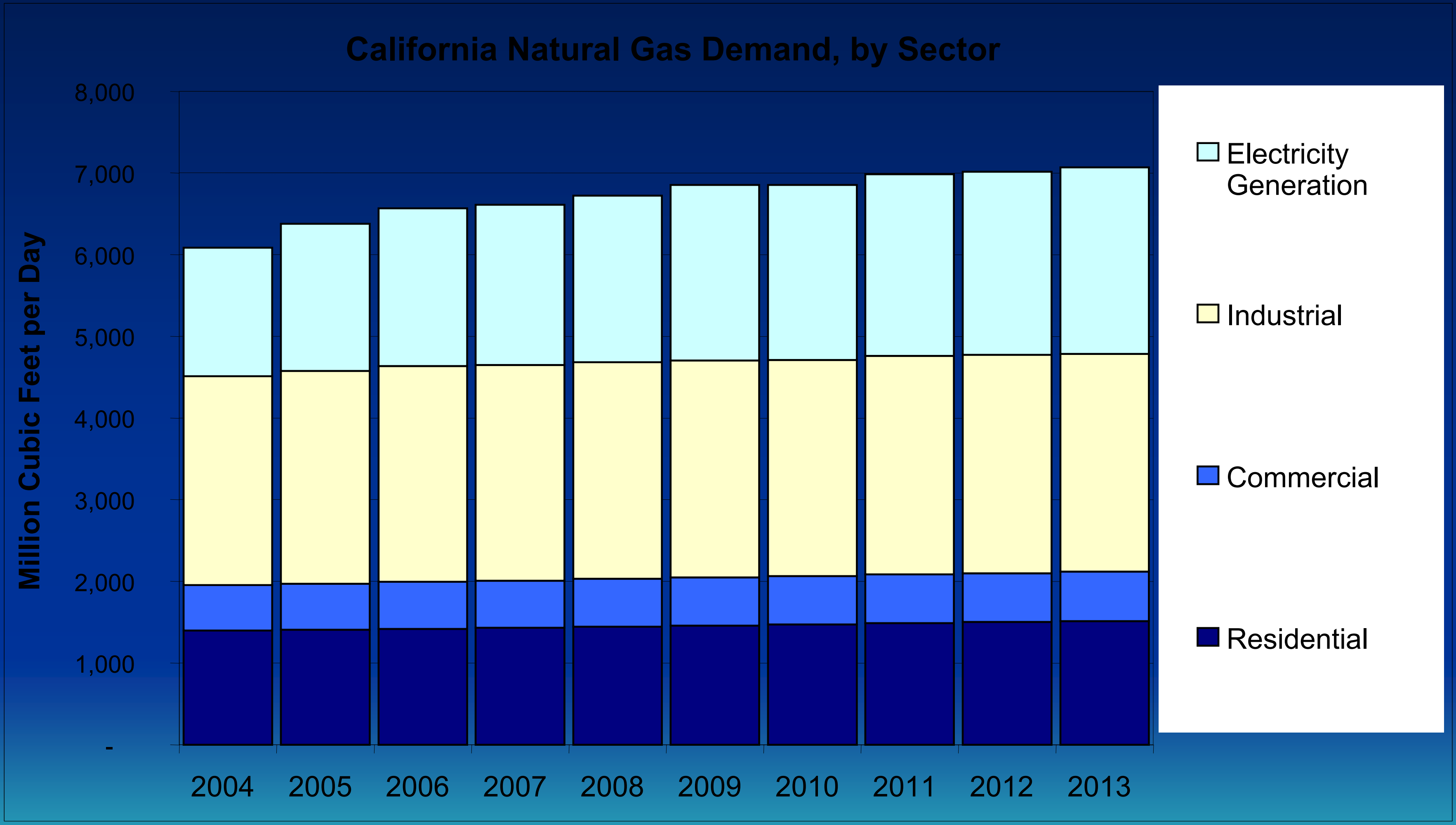
Natural Gas Fundamentals Outlook

– Western perspective
– Demand trends
– Weather outlook
– Supply trends
– Infrastructure status
– Operations status

California's Annual Natural Gas Consumption by End Use Sector



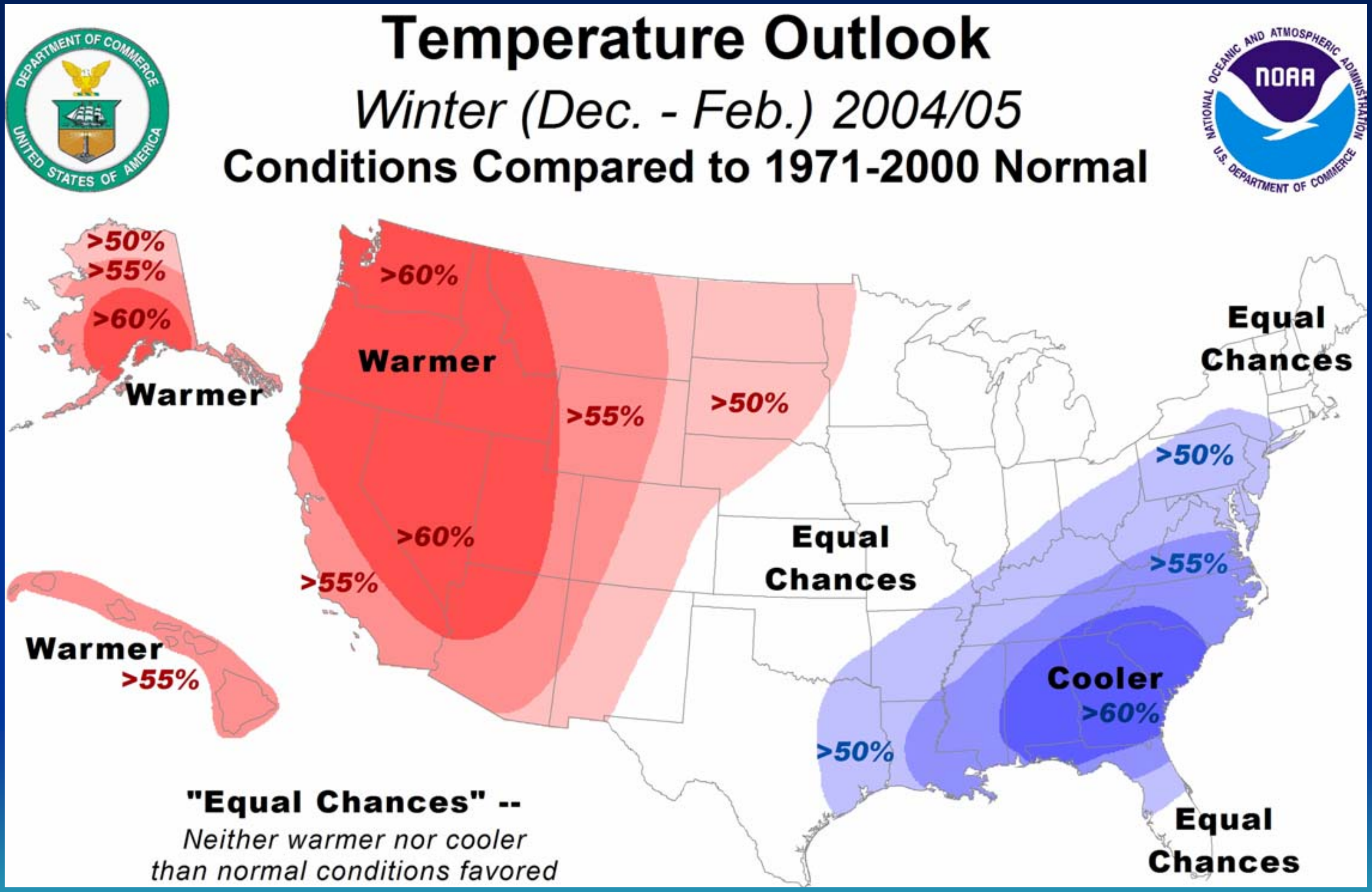
California's Demand Trends



Western Weather Outlook

- NOAA, WSI—West likely to have a moderate winter
- Snowfalls have started early—California ski season has started 1 month early
- Hydropower outlook good for California—helps reduce total and peak gas demand next summer
- Severe drought in the Colorado River Basin—will increase total gas demand next summer

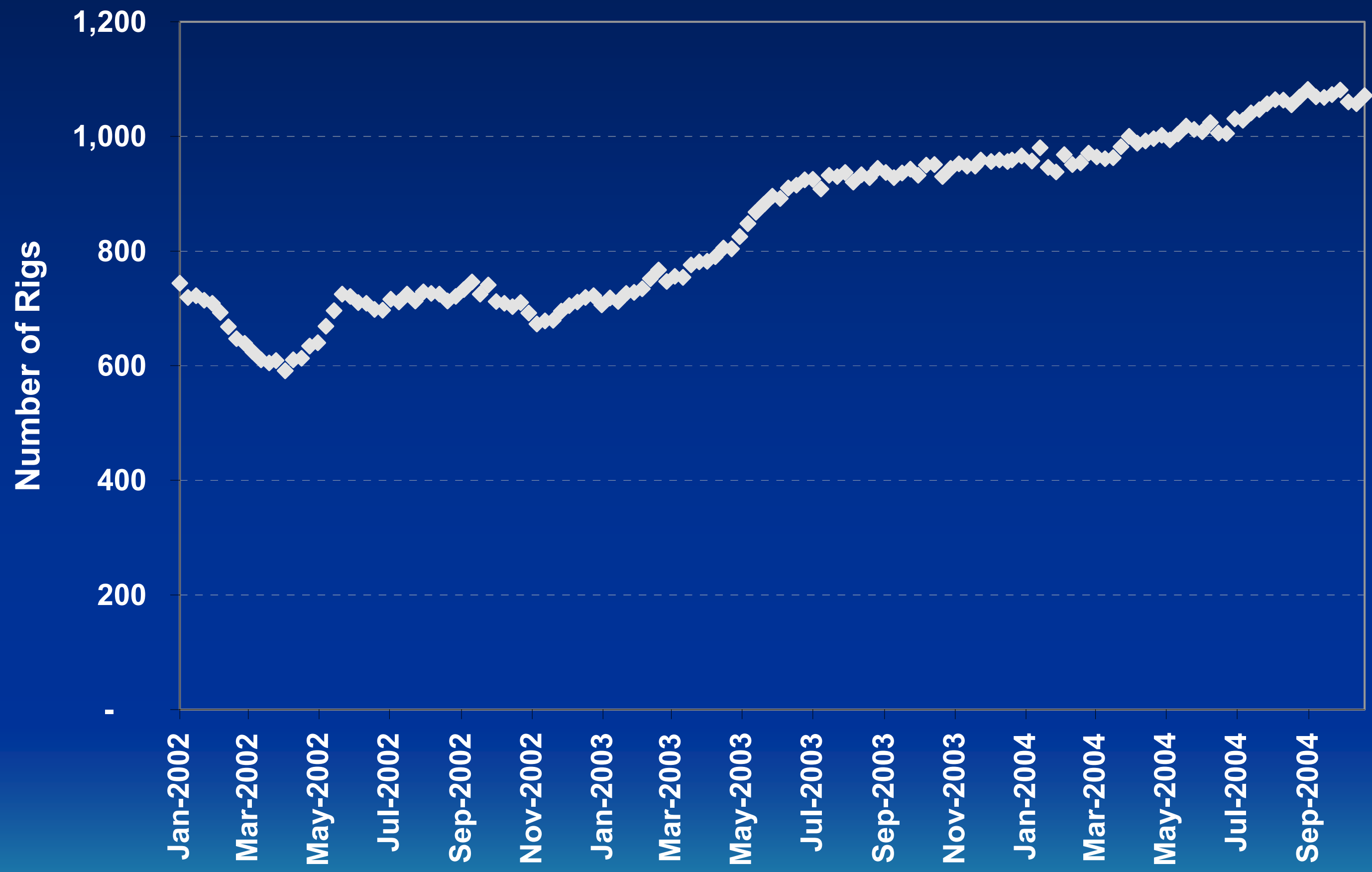
NOAA's Winter 2004-05 Outlook



Western Supply Trends

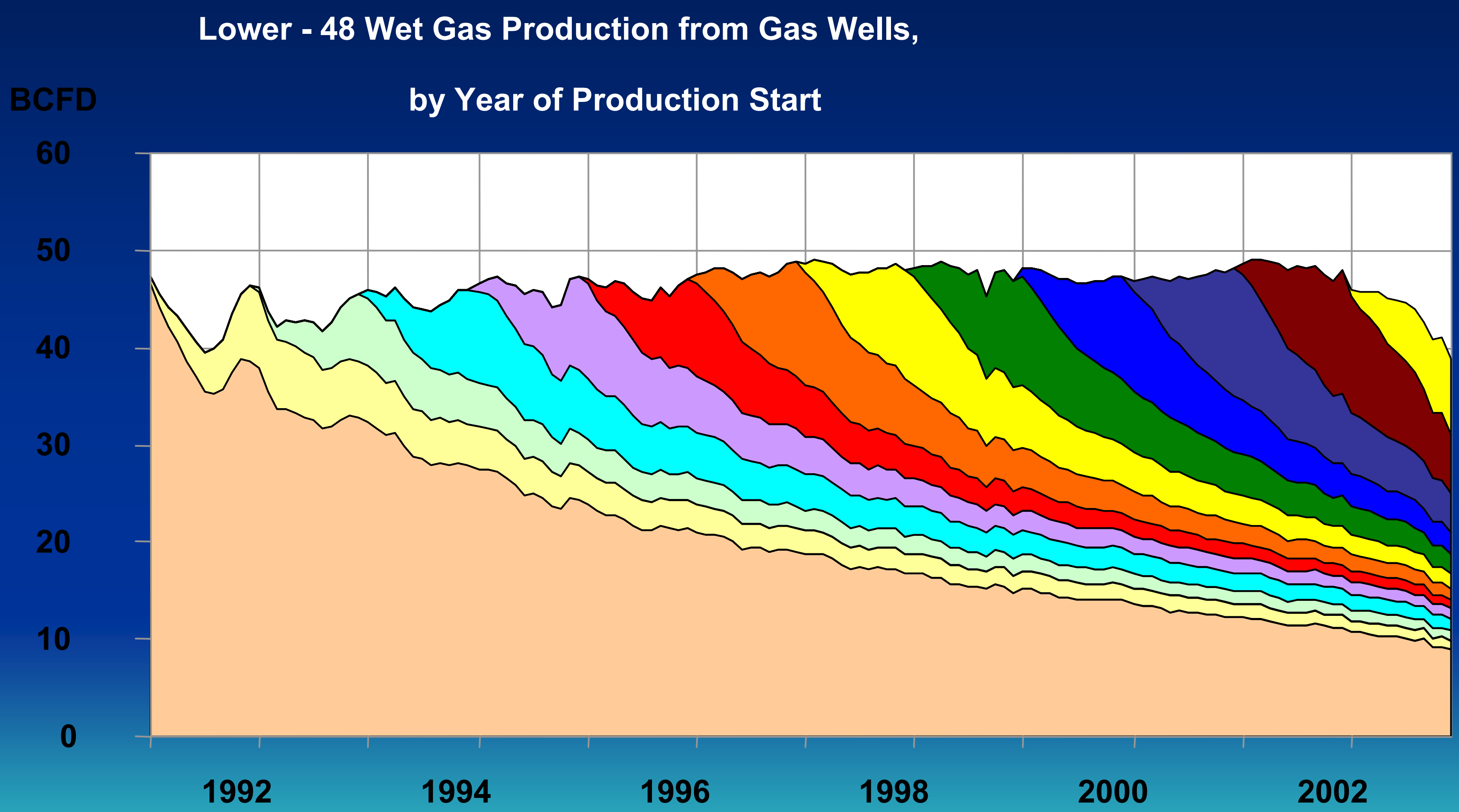
- California production is slowly trending down
- Rockies production is increasing
- Gulf shut-ins of 1.5 bcf/day is worrisome
- Drilling activity is at an (almost) all time high
- New wells are being drained faster

U.S. Active Gas Drilling Rigs



Source: Bakers Hughes

Gas Depletion Rates

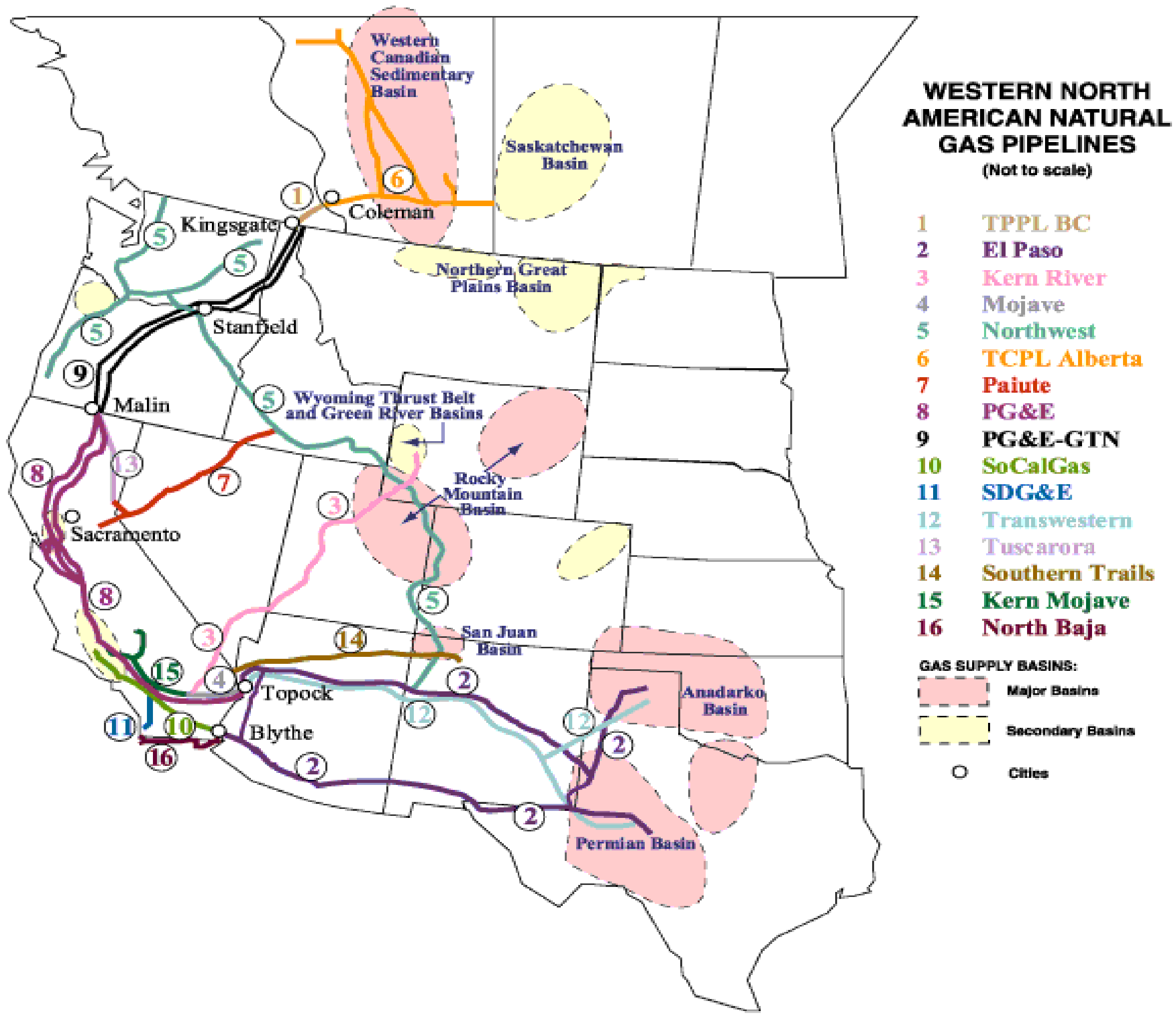


Infrastructure Status

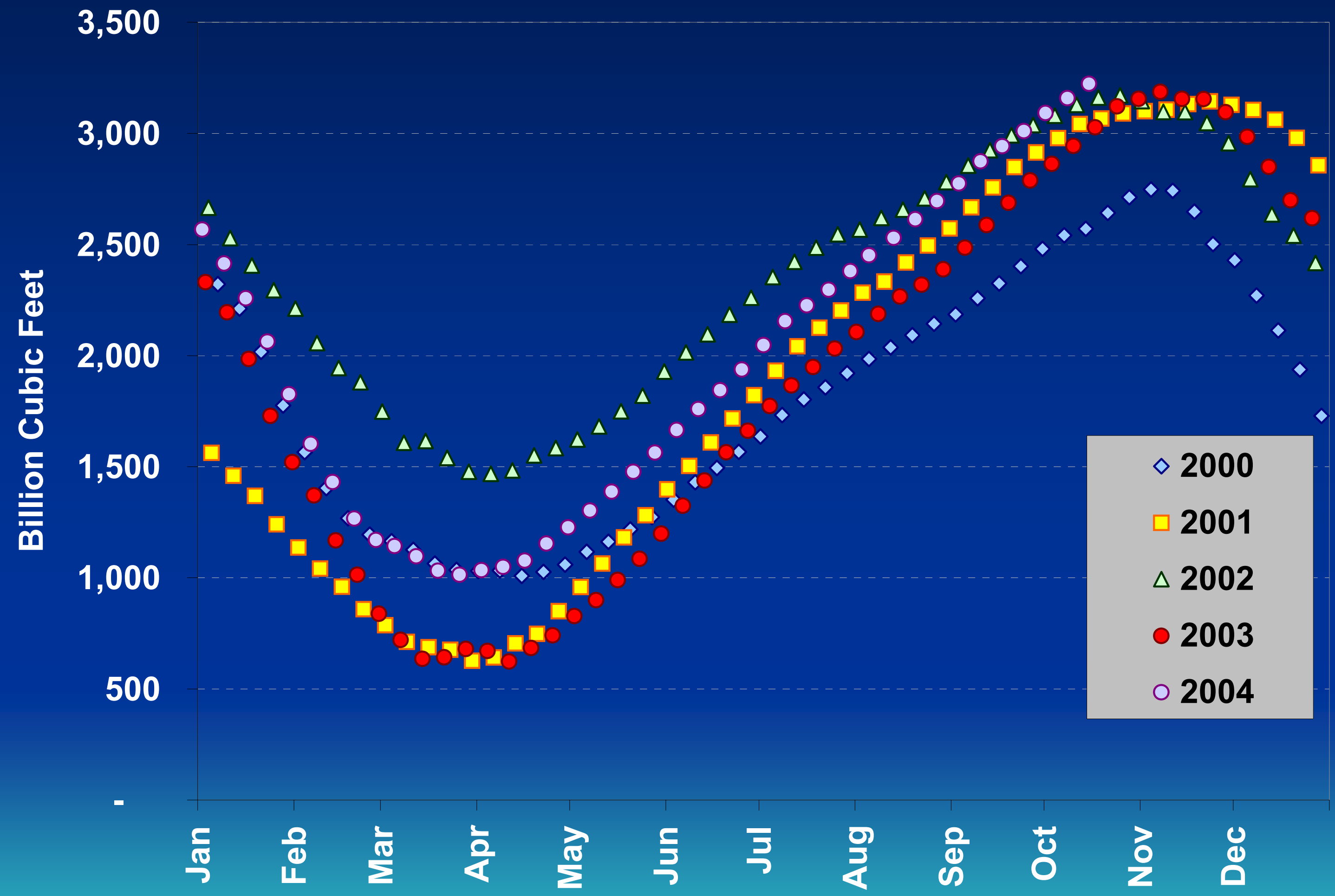
- Kern River Pipe Expansion completed May 03
- Wild Goose Storage Expansion completed Nov 03

- California has ample surplus infrastructure capacity for this winter

Western Infrastructure Status

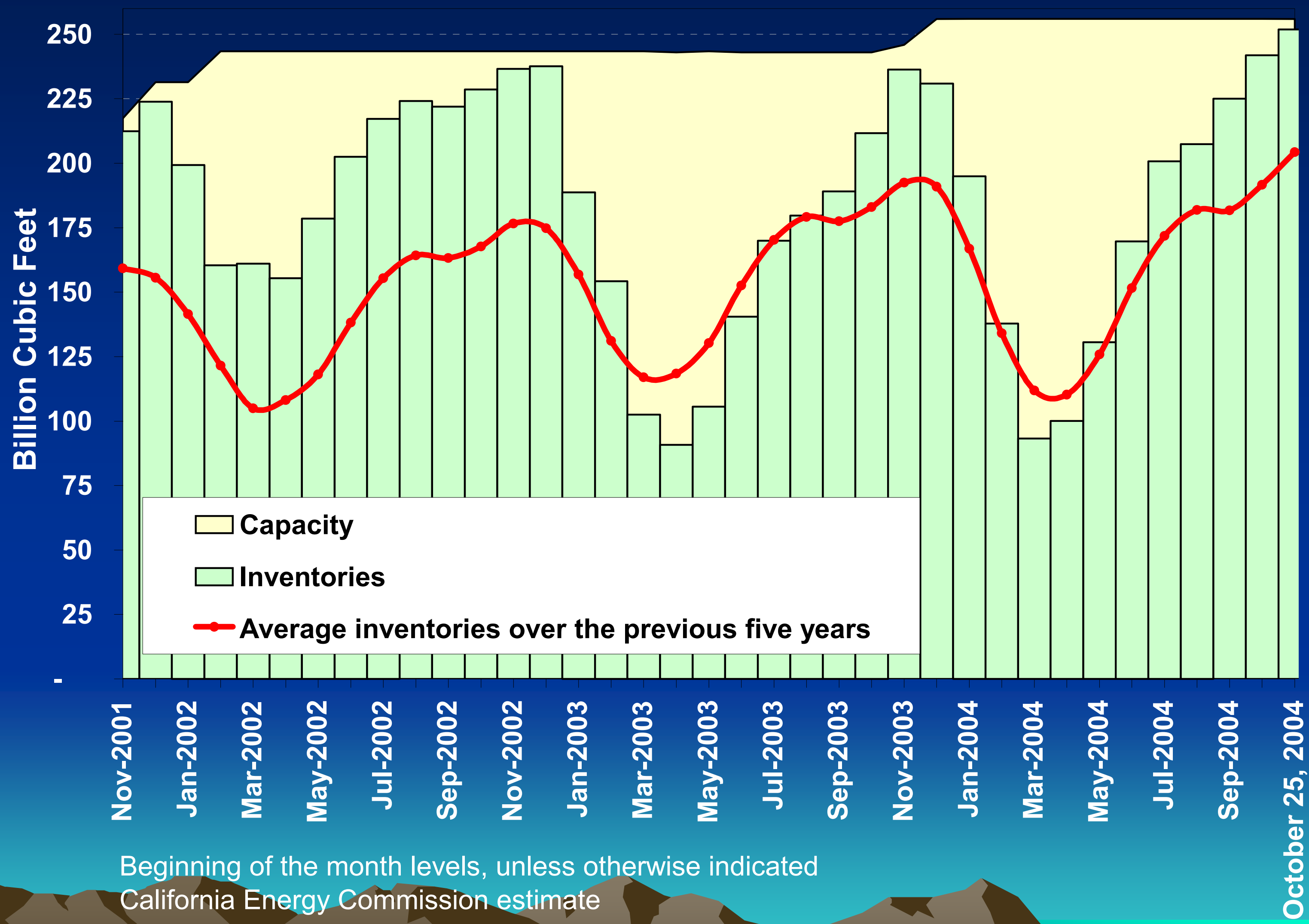


U.S. Natural Gas Storage



Sources: EIA/AGA

California Natural Gas Storage

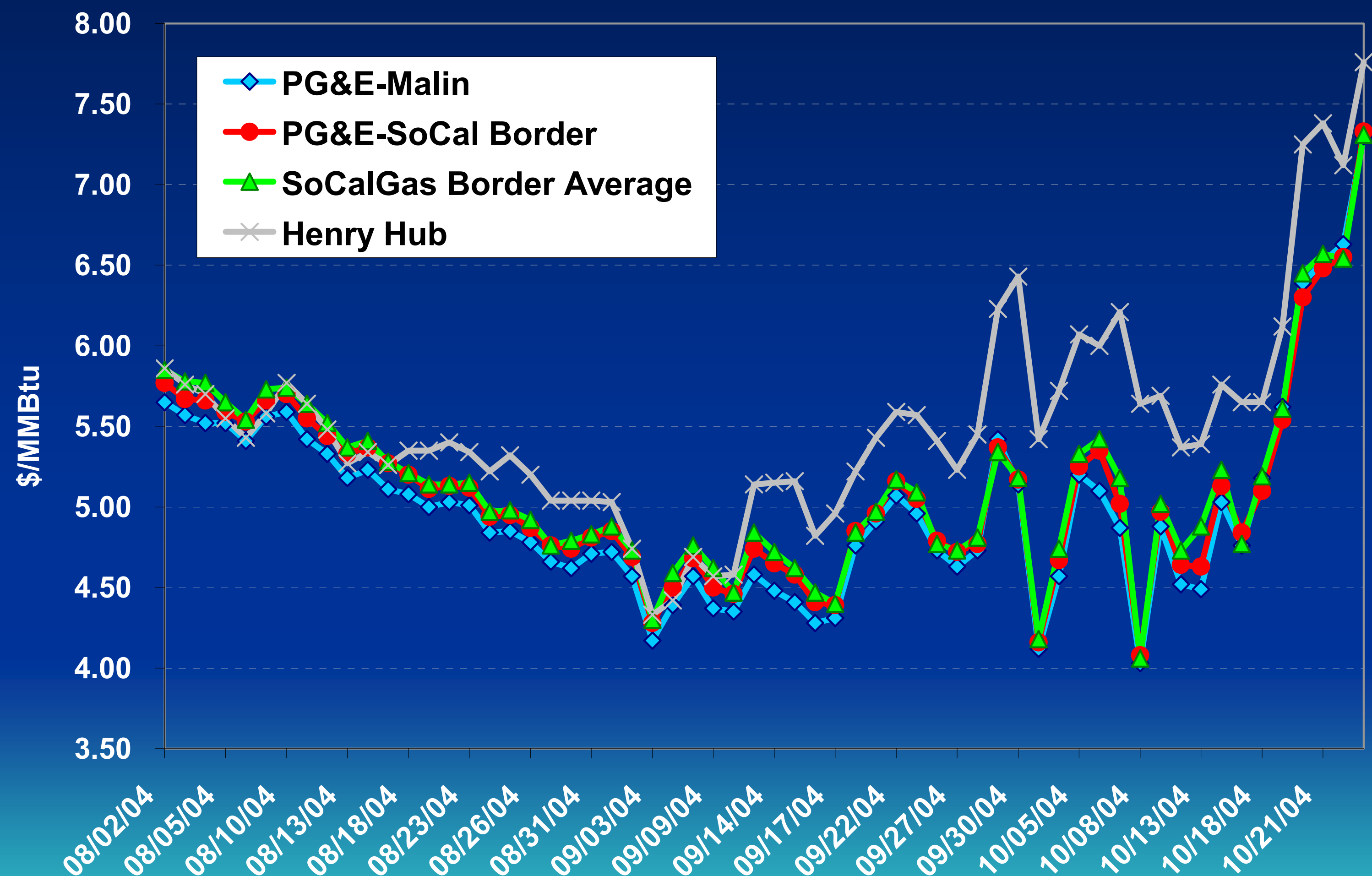


Beginning of the month levels, unless otherwise indicated
California Energy Commission estimate

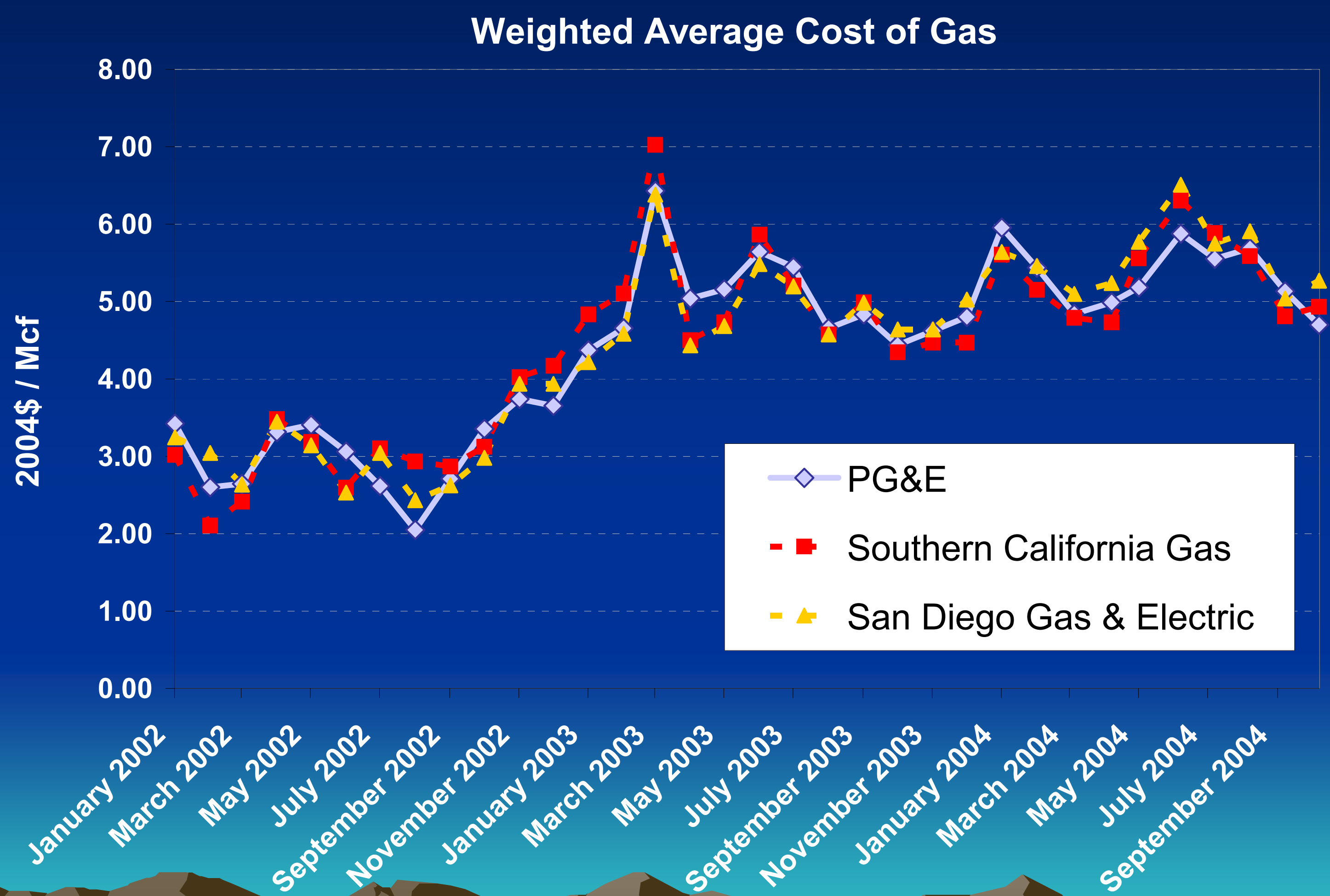
NG Price Outlook

- California doesn’t predict absolute market prices
- California tracks many drivers of market prices
- NG fundamentals don’t appear to support current market prices
- Other drivers have been used to explain current market price levels
- California is planning to pay higher prices

Daily Natural Gas Spot Prices



California's NG Context
Prices to Consumers



Actions for State Commissions

- Short term for this winter
  - Energy efficiency
  - Energy efficiency
  - Energy efficiency

Actions for State Commissions

- Energy efficiency
  - Focus on natural gas **and** electricity
- Energy efficiency
  - Increase program funding, effectiveness, and choices
- Energy efficiency
  - Establish an aggressive public information campaign

Actions for State Commissions

- Mid term
  - Renewable energy programs
  - Demand response programs
  - Assess NG infrastructure adequacy on a regional basis
    - Deliverability
    - Pipe
    - Storage
    - Financial hedges
    - Risk management programs
  - Help ensure supplies exceed demand

Concluding Remarks

- Fundamentals: Western supply, demand, and infrastructure look good and don’t support current level of market prices
- Market Prices: the reality of current and near term prices can only be explained by other market drivers
- Western Outlook: the West should not contribute to any potential price run ups this winter
- Energy Efficiency: this tool remains the most effective short term method to help consumers manage their bills

Thank you.

Questions?

West Coast LNG Proposals