North American Natural Gas: After the Revolution

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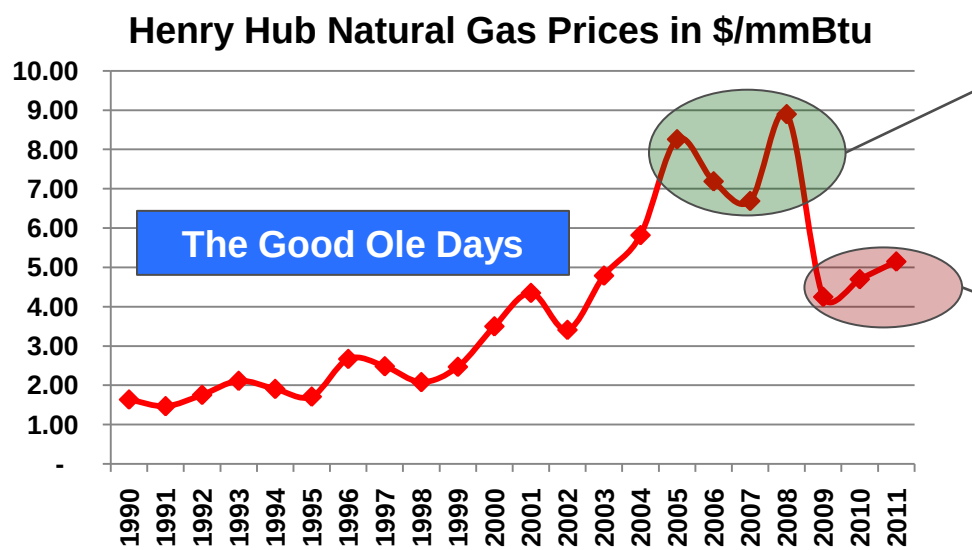
Natural Gas: Key Takeaways

- Well variability is a key driver of production resiliency
- North America does not need LNG, but will get plenty anyway
- Market cannot sustain prices above $6.50; and $5 gas probably necessary to crush producers' dreams
- Medium-term outlook increasingly bullish
- Key elements of the regime have changed:



The Glorious Revolution

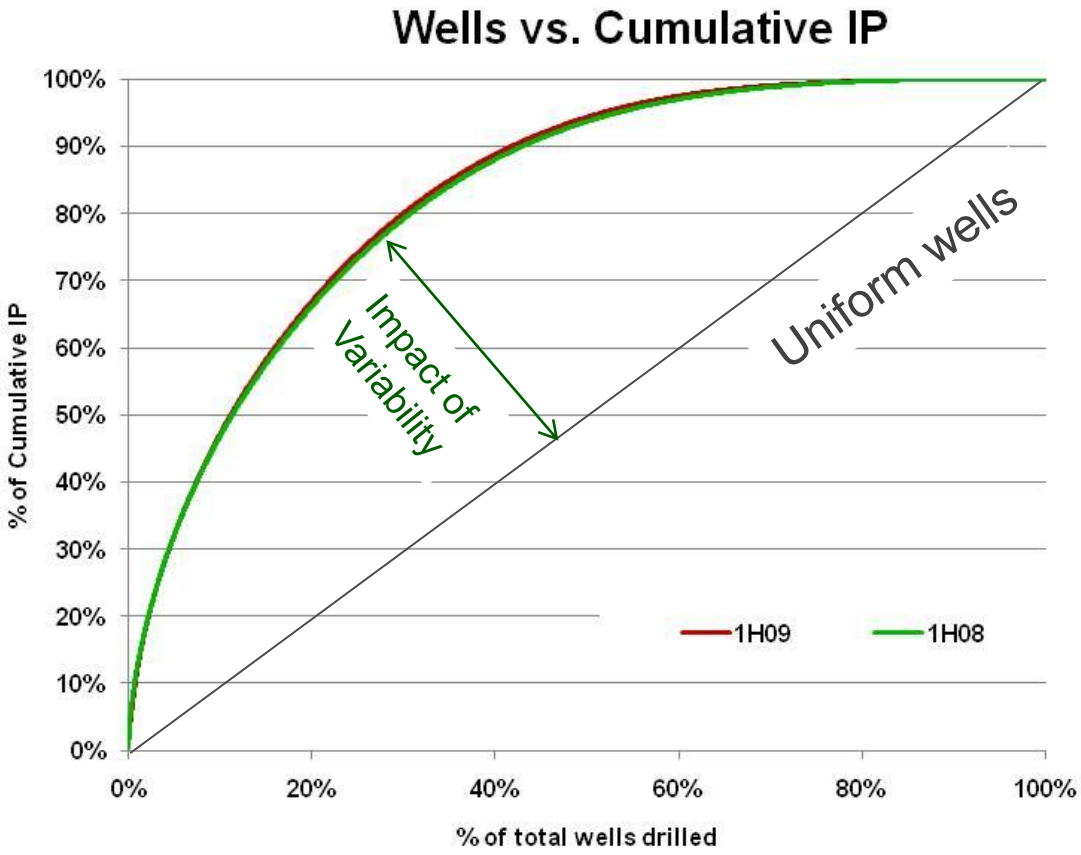
- Prices cap = demand elasticity
- Breakthrough tech gains
- Focus on finding new plays
- Debt/equity markets open to all
- Company creation

The Hangover

- Price cap = supply elasticity
- Incremental tech gains
- Focus on existing inventory
- Financial distress
- Company consolidation

Getting There Fast: Variability Matters

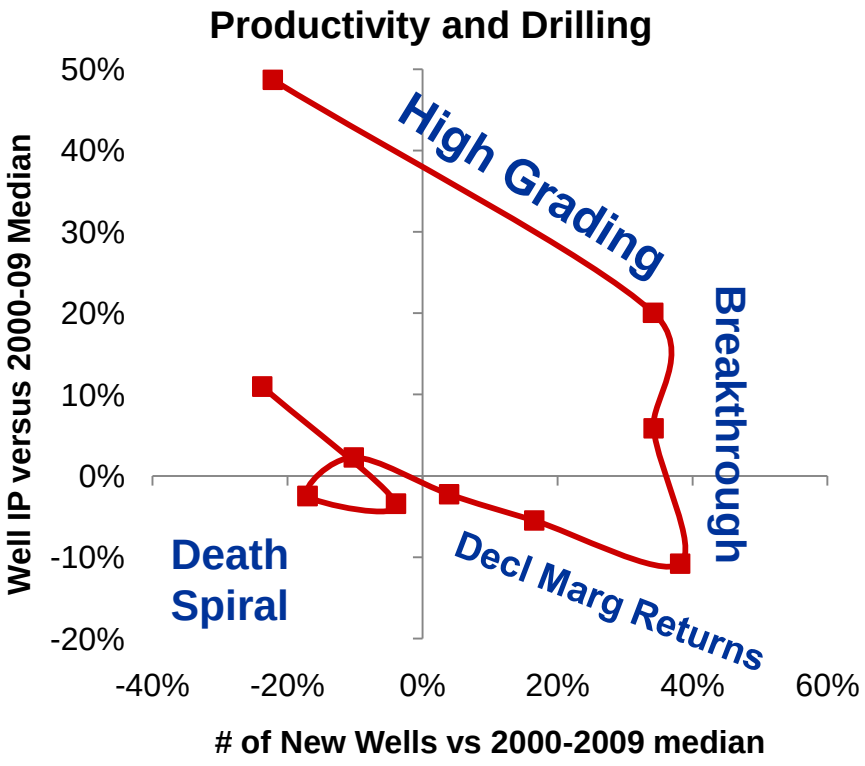
- **Distribution of well performance remains important**
- **Effect in 2009 almost identical to 2008**

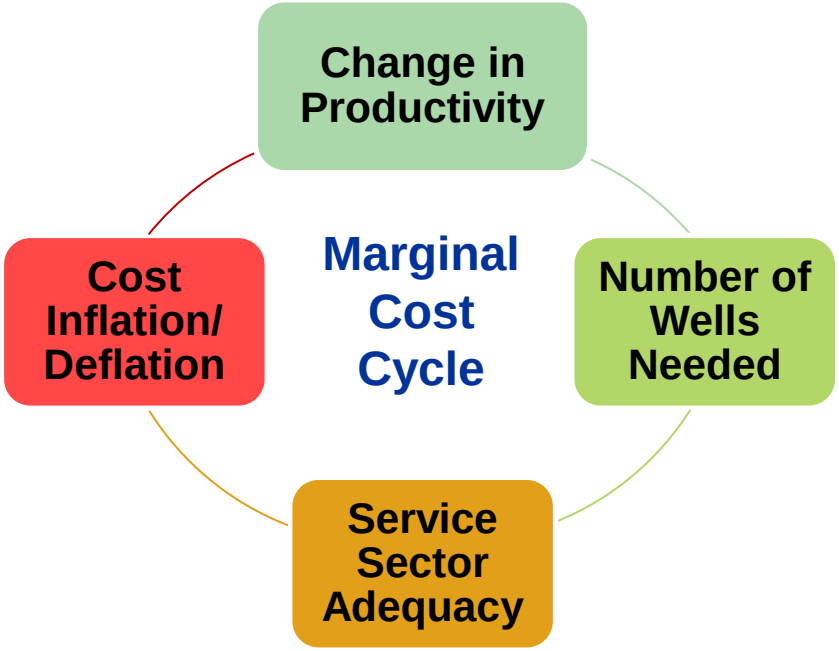


20% of wells drilled provide 70% of IP output.

Twin Forces Fueled 2009 Production Resilience

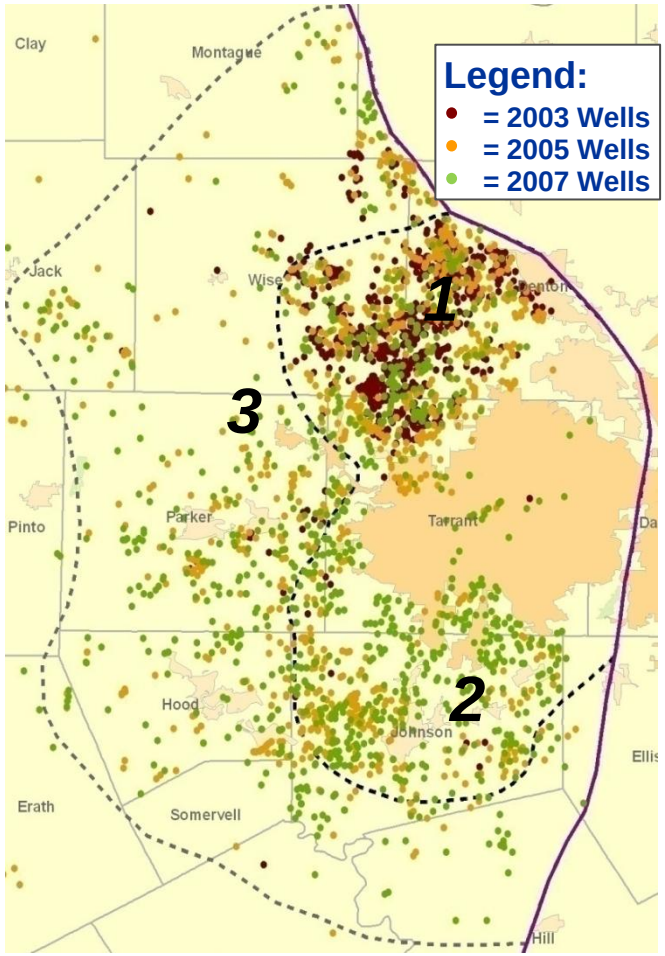
- **Data bear out positive impact of high-grading as companies have cut back**
  - Average IP is increasing in most states
  - Overall IP up by 24%
- **Marginal price cycle has changed from vicious to virtuous**



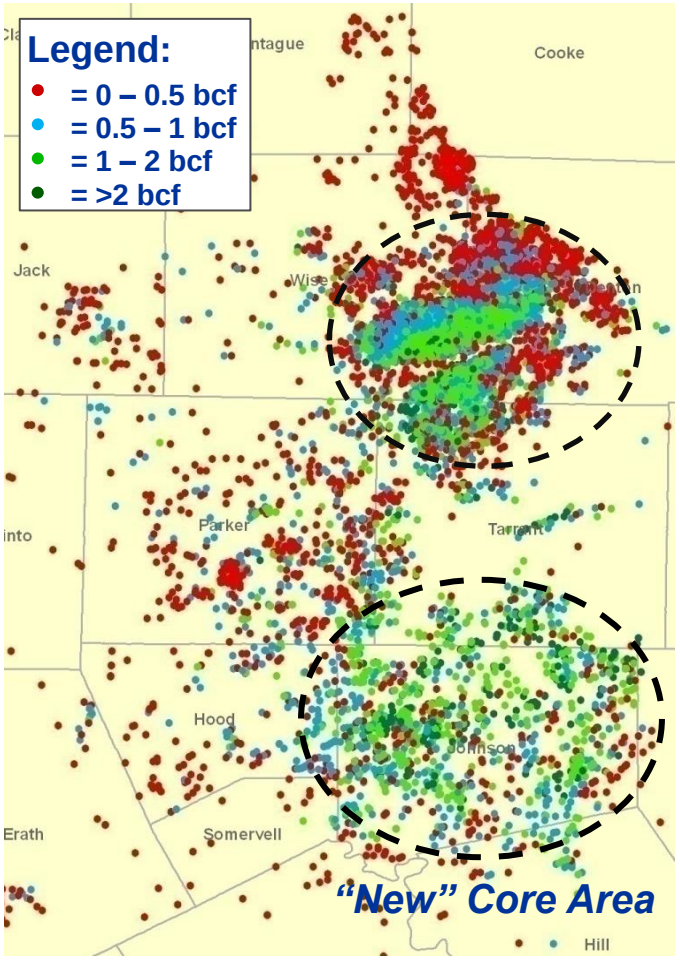


Medium-Term More Bullish for Prices

- **Lack of policy likely to favor gas demand**
- **Policy likely to favor gas since only gas meets all four critical criteria**
  - Clean Affordable Domestic Impactful



- **As search for new plays tapers and pace of technology gain slows, expect basin exhaustion to gain the upper hand**



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