



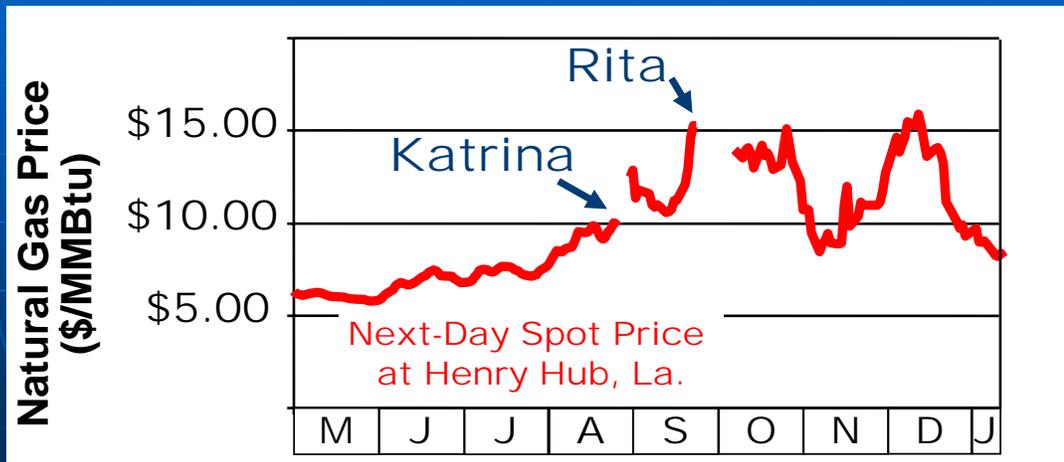
Winter 2005 - 2006 Natural Gas Market Update

**Item No.: A-3
January 19, 2006**

Good morning Mr.. Chairman, commissioners.

I'd like to bring you up to date on conditions in U.S. Natural gas markets now that we've completed December and have a fairly good idea about January. After i review several market drivers, Jeff will give you an update on LNG. When he's finished, we welcome your questions. After the 9th warmest November in 111 years, December (on average) looked much more like its history by starting cold and ending warm. The first several weeks of January have continued the extraordinarily mild trend, and at this point it appears that January will wind up much warmer than average. This extended period of mild temperatures from late December through the next week or two has had a significant effect on natural gas prices.

Gas Prices Respond to Colder U.S. Weather



SOURCE:
Intercontinental
Exchange

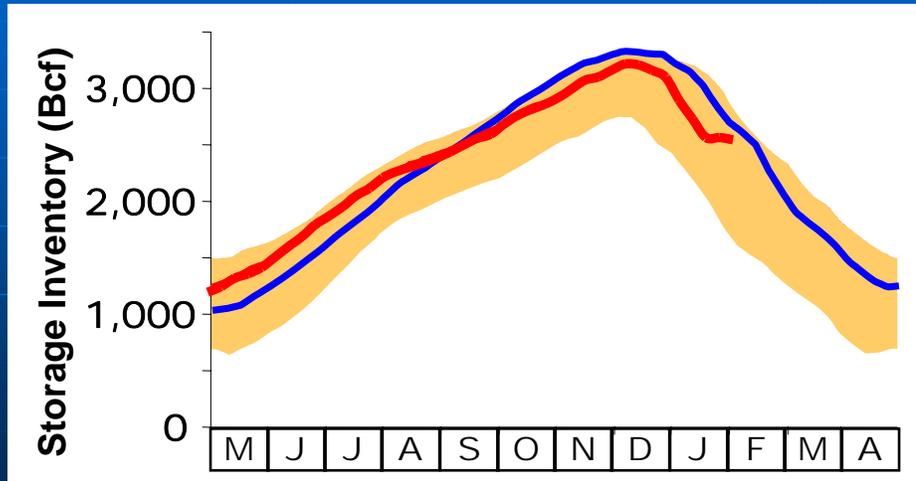
This graph shows how prices have risen and fallen this winter based on weather. After price peaks due to hurricanes Katrina and Rita and brief early cold in late October, prices sagged in to the relatively warm November. Prices peaked above \$15.00 per million British thermal units (or “MMBtu”) again during a significant cold period in early December, only to drop with the current warmer-than-normal temperature trend. Today, prices range across the country from lows in the mid-to-low \$7.00 range to as high as the mid \$9.00s. Trading at Henry Hub, Louisiana for next day delivery averaged \$_.__/MMBtu yesterday.^[1] this kind of price behavior is consistent with our earlier presentations in that prices are directly related to weather-based demand.

^[1] to be updated on Wednesday afternoon.

Initial Storage Inventories Begin to Face Cold



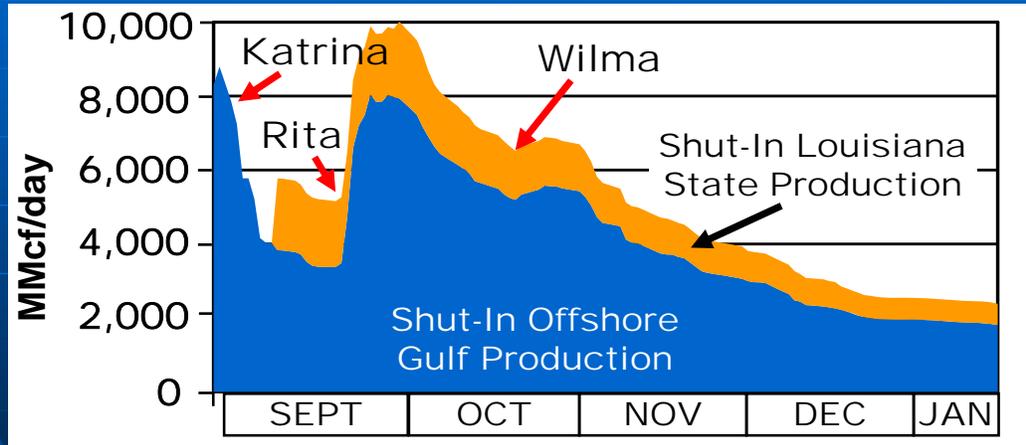
SOURCE:
Energy Information
Administration



Other statistics reflect the warmer-than-normal winter we're experiencing as well. This is a graph of storage inventories contrasted to last year and the historical range, with this year shown in red. The energy information administration's report two weeks ago actually indicated a net injection into U.S. Storage – very unusual for late December. That and the last week's report create the "kink" you can see in the red line. [Today's report of a ____ Bcf withdrawal is higher/lower than general expectations and is/is not consistent with continuing that trend.][1] in large part, that "kink" is due to the unseasonably warm weather, though there does seem to be something else going on. We have also noted a lower level of withdrawal for every degree of cold weather this winter. We are trying to determine whether this effect is related to supply or demand issues, and plan to report in more detail next month.

[1] if the eia report is issued before the presentation, Steve will get the number and use the material in brackets. If not, he will not use the material.

Gulf Production Continues Strong Recovery



SOURCES:
Minerals Management
Service and the
Louisiana Department
of Natural Resources

Turning to gas supplies, progress continues in returning gulf production, slowing somewhat in the past month or so. The blue area is the level of shut-in gas from the offshore as reported by the minerals management service; now about 1.8 billion cubic feet (or Bcf) per day. This graph, unlike previous ones I've shown you, also adds the blue area that represents shut-in gas onshore in Louisiana as reported by the Louisiana department of natural resources. Shut-in onshore Louisiana gas, which was reported as totaling as much as 2.0 Bcf/d immediately after hurricane Rita, is now down to a little less than 0.6 Bcf/d. Today, using data from these two sources, a little less than 2.4 Bcf/d is not flowing due to the hurricanes.

Given weather conditions this winter, supply overall appears to be adequate for U.S. Needs through the winter, though prices could still spike on cold weather and local deliveries could be affected by local factors.

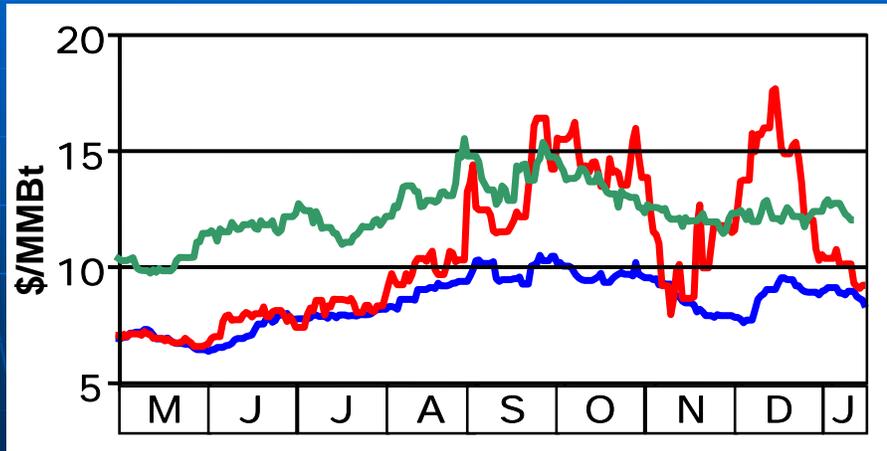
Oil May Prevent Further Gas Price Decreases

Heating Oil
(No. 2, New York)

Wholesale Gas
(New York)

Residual Fuel Oil
(No. 6, 0.3%
Sulfur, New York)

SOURCE:
Intercontinental Exchange



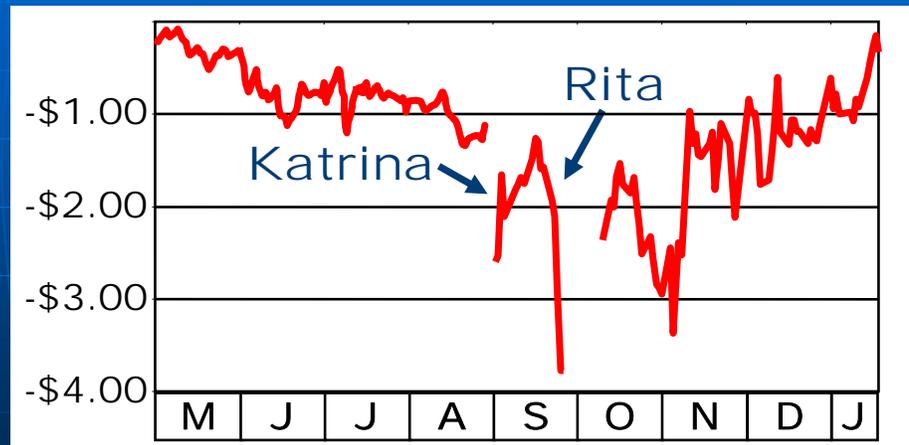
Again, prices are down from their post-hurricane highs to something under \$9.00/mmbtu at Henry Hub. Why, given the relatively high levels of storage available and the extremely mild weather, haven't prices fallen further? One answer is oil prices. Let's look at New York, where there is a lot of information about competing fuels. This graph shows wholesale gas prices at New York compared both to heating oil and low sulfur residual oil (or "resid"). We've noted over time that gas prices in New York tend to move in the channel between these two fuels, except when there's real scarcity in gas supplies, when gas prices can rise above heating oil for short periods. That happened during the cold weather in early December, but prices are now down at the lower end of the relationship.

At current resid prices, it is unlikely that gas can fall much further this winter – the graph shows that they've met their effective floor in New York. The exact nature of these relationships is different around the country, but oil does seem to have a strong influence on gas prices and does seem to have provided a floor at a little below \$9.00/mmbtu. I could conceive of a situation where this alternate fuel floor would not hold and gas prices could plunge – if so much inventory was still in storage at the end of the winter that physical operations required its owners to remove it no matter what the price. This condition seems unlikely unless current warm weather conditions remain through February.

Post-Hurricane East-West Price Differences Decline

Difference in Next-Day Spot Prices Between PG&E and Henry Hub, La.

SOURCE: Intercontinental Exchange



Before handing the presentation over to Jeff, I'd like to speak to the observations I made last time about the east/west divide in prices. Subsequent to the hurricanes, we saw prices diverge more between the eastern and western U.S. This graph shows the daily difference in prices between Henry Hub (representing the east) and northern California's PG&E "city-gate" price. As a result of both hurricanes Katrina and Rita, we saw the California price fall relative to Henry Hub. Immediately before hurricane Rita, prices were almost \$4.00/MMBtu apart. This difference has come back to the below-\$1.00 level we saw earlier in the year. Not all of these geographic price relationships we track are back to pre-hurricane levels, but they seem to be trending in that direction.

And now Jeff will update you on LNG issues.

LNG Events

- Review of 2005
- Supply Development
- U.S. Regasification Activity
 - Under Construction
 - Expansion of Existing Facilities
 - Potential New Capacity

Based on estimates by the US. Waterborne LNG report, the U.S. Imported about 630 Bcf of LNG in 2005, down from the 653 Bcf imported in 2004. Over 70 percent of the LNG imports came from Trinidad (450 Bcf). Algeria has been our second largest supplier; however, with the commencement of liquefaction in Egypt in mid-2005, that country has been our second largest supplier in recent months.

The office of fossil energy at the department of energy began tracking spot deliveries of LNG to the us in October of 2005. In the month of October, the us received seven spot cargoes totaling about 20.4 Bcf. This accounted for 34 percent of 59.6 Bcf of LNG deliveries received in October. In November, the us received five spot cargoes totaling 14.6 Bcf. This was 25 percent of total November LNG imports of 58 Bcf.

World liquefaction, specifically in the Atlantic basin, increased with the start-up with the fifth train, or production plant, in Nigeria. The first shipment from the fourth train in Nigeria, which began production in November 2005, is scheduled to be delivered to Lake Charles. Nigeria LNG states that it will be shipping about 1 Bcf per day to us markets when its sixth train comes on line in 2007.

In addition, the fourth production train has commenced operations in Trinidad with the first cargo destined for the united kingdom. This new production facility increases its capacity by the equivalent of approximately 0.6 Bcf per day.

Regasification activity is proceeding in the us. Five new regasification terminals are under construction in the us: Cameron (Semipro), Corpus Christi (Cheniere), Sabine Pass (Cheniere), Golden Pass (ExxonMobil), and Freeport (Cheniere). The total sendout capacity of these terminals is 9.2 Bcf per day. Also, expansions of the Cameron, Sabine Pass and Freeport terminals have been proposed. This would add an additional 5.1 Bcf per day of sendout capacity.

There is also activity at existing regasification facilities. Next month, southern LNG's Elba Island facility will increase its daily deliverability by 0.5 Bcf per day. And in the spring, Trunkline LNG's Lake Charles facility will increase its deliverability by 0.6 Bcf per day.

We also see continued early development activity. Elba island has already announced another expansion of its terminal which will increase its deliverability by 0.9 Bcf per day. In conjunction with this expansion, el paso corporation plans to construct a new pipeline from the Elba Island facility to access markets in the southeast and eastern us. The commission has recently approved pre-filing status for a potential LNG facility in Maine – Quoddy bay – near the Canadian border. Another potential terminal in the same area – downeast LNG – has recently asked for pre-filing status. Finally, aes corporation has announced its intention to construct a new LNG terminal in Baltimore, Maryland in the sparrows point industrial area. The terminal would have the capacity to send out up to 1.5 Bcf per day.

That concludes our presentation. Steve and I would be happy to answer any questions you may have.