OTHER ENERGY BUSINESS DEVELOPMENTS

FERC announced it will open to public comment the Policy Statement on Penalty Guidelines (PL10-4) issued 3/18/10, before issuing a final order and putting the guidelines into effect. The penalty guidelines are intended to add fairness, consistency and transparency to all FERC civil penalty determinations. The Commission has conducted three workshops on the penalty guidelines in Washington, D.C., Houston and San Francisco. The Commission said that the public interest would best be served by giving entities broader opportunity to comment on the penalty guidelines before issuing a final order. “The Commission considers its March 18 action as interim in this proceeding.” Entities have 60 days to submit comments.

The International Energy Agency (IEA), in a recent report, applauded Canada’s “sustainable energy goals and calls for greater policy coordination.” The IEA “commended Canada’s commitment to increase the share of clean energy in electricity supply by 2020.” IEA Executive Director Nobuo Tanaka said “the goal to increase to 90% the portion of Canada’s electricity needs that are provided by carbon-free sources such as hydro, nuclear or wind power by the end of the decade is progressive and ambitious.” He praised Canada’s recent climate target announcement to reduce greenhouse gas emissions by 17% below its 2005 levels by 2020 under the non-binding Copenhagen Accord that emerged from the international climate change conference in Denmark in December.

However, Tanaka stressed that “Canada must continue to develop and implement a comprehensive national energy efficiency strategy, coupled with a coordinated climate change policy targeted at the key emitting sectors, if long-term energy goals are to be realized.” Canada is one of the highest per-capita CO_2 emitters in the OECD and has higher energy intensity than any IEA member country. Tanaka noted the need to contribute to the cleaner use and production of fossil energy, especially by reducing the environmental impact of oil-sands and the deployment of carbon capture and storage (CCS). “Indeed, large-scale deployment of CCS is one of the key components of Canada’s long-term energy future and the IEA commends Canada for this position,” added Tanaka. CCS is a priority for the federal government and presents Canada with an opportunity to develop a new technology that can reduce greenhouse gas emissions on a large scale. Canada is encouraged to provide international leadership in the development of CCS technology. Tanaka also suggested that if Canada is to remain a leading energy supplier it must maintain its commitment to “streamlining upstream oil and natural gas regulatory processes.” The forecast increase in production from the resource-rich oil sands of Alberta “will bring with it many challenges. Canada must take care to develop this resource without a disproportionate increase in emissions and other associated environmental risks.”

According to an STRH Energy Research analysis, the dramatic acceleration in gas-directed drilling activity year-to-date implies the industry is likely to spend almost 30% in excess of unhedged cash generation this year, and this is the primary reason for a downward gas price revision this year. STRH anticipates the gas rig count averages ±930 rigs this year and assumes a further 20% increase in well/rig productivity “equally attributable to a higher percentage of horizontal drilling activity and continued learning curve/drilling efficiencies.” Notably, the analysis lowered the 2009 U.S. natural gas production by 1.5 Bcf/d in anticipation of a downward adjustment to government supply data. “The revision better corroborates with our storage model, state production data and accounts for a percentage of the discrepancy in the EIA's balancing item. We believe U.S. onshore gas production should experience a 2 Bcf/d (3%) peak-to-trough decline.” U.S. LNG imports will increase from 1.2 Bcf/d last year to 2.0 Bcf/d this year and almost double to 3.7 Bcf/d in 2011. Meanwhile, Canadian natural gas production is expected to decline 0.6 Bcf/d this year, which should result in a similar decline in Canadian imports to the U.S.

As to demand, STRH forecast industrial gas demand should regain 60% (0.9 Bcf/d) of last year's loss in 2010 given anticipated continued improvement in industrial production.

After 2010, “assuming the industry structurally spends 10% in excess of cash generation, our analysis suggests a $7.50 gas price is required to incentivize the 1075 gas rig count necessary to maintain gas market equilibrium.” Favorite gas-weighted names with superior growth/equity value upside include Chesapeake Energy, Cabot Oil & Gas, Southwestern, Ultra Petroleum and EXCO Resources. Conversely, gas-weighted names with less growth and/or valuation upside include EQT Resources,

Newfield Exploration, Petroleum Development, St. Mary and Cimarex Energy. (research@gerdesgroup.ccsend.com).

U.S. Rep. Dan Boren (D-Okla.), the co-leader of a special congressional group that promotes natural gas, on April 7 released a letter co-authored with a Pennsylvania Republican Rep. Tim Murphy inviting President Obama to meet with the Natural Gas Caucus. The Caucus is a bipartisan group of 81 members so far. The Caucus alleges Obama has given short shrift to natural gas. On behalf of the Caucus, the Boren/Murphy letter states "we are deeply committed to opening a dialogue on national energy policy and the role we believe natural gas can play in powering the nation in a new direction."

On 4/12/10, the U.S. Interior Department announced it is reviewing whether royalty rates that oil-and-gas producers pay for projects on federal lands and in federal waters are too low. A study will examine financial rules for oil and gas in other countries and compare them with U.S. practices. The department indicated its action was prompted in part by a Government Accountability Office report several years ago that found the U.S. federal government has a lower "government take" than many other oil-and-gas producing countries. U.S. royalty rates are currently 12.5% for onshore federal leases and up to 18.75% for offshore tracts. "The results of this study will enable the Department to ensure that its leasing policies are providing the public a fair return on federally-owned oil and gas resources, while balancing other objectives, including production and environmental stewardship," states Interior's announcement. Two Interior agencies – the Bureau of Land Management and the Minerals Management Service – will jointly contract for the study, which is expected to take nine months once the contract is awarded.

According to IHS CERA, the offshore U.S. Atlantic continental shelf could contain 3.8 billion barrels of oil and 137 Tcf of natural gas, and first production could occur as early as seven to 10 years. Current estimates are still very preliminary, said Pete Stark, vice President of IHS CERA. The company said the resources potential of the region can be established by the significant gas production offshore Nova Scotia and from flowing gas tests in five wells that were drilled 30 years ago in the Baltimore Canyon Trough, where 35 wells were drilled between 1977 through 1984. According to IHS CERA, five wells in the Hudson Canyon and Wilmington Canyon offshore areas of the Baltimore Canyon Trough reported tests of natural gas ranging from 5,500 to 16,000 MMcf/d from Upper Jurassic and Lower Cretaceous sandstones at depths ranging from 12,000 ft to 15,000 ft. One well also tested about 630 bbl/d from Upper Cretaceous sandstone. These hydrocarbon tests established the presence of oil and gas but the wells were determined to be non-commercial during a period of low natural gas prices and were abandoned. During the same period of time 10 exploratory wells were drilled in the Georges Bank area offshore New England and seven were drilled offshore Georgia and northeast Florida. The technology "has advanced dramatically in the years since those exploratory wells were drilled, greatly expanding capabilities, but no assessment of the resource potential has been made in the Atlantic margin in the decades since." IHS CERA noted that this kind of geologic setting has yielded substantial-and increasing-volumes of hydrocarbons in the U.S. Gulf of Mexico and also in the south Atlantic offshore Brazil. "The evidence from three decades ago indicates the offshore U.S. Atlantic Continental Shelf is primarily gas prone but it is certainly possible that deeper drilling may confirm the presence of untested sub-salt formations that could boost the oil and gas potential substantially – as it is now doing off the coast of Brazil," according to Stark.

On April 9 FERC staff issued an environmental assessment (EA) of the Mobile Bay Lateral Extension Project proposed by Florida Gas Transmission Co., LLC (FGT) (CP09-455) and the Pascagoula Expansion Project proposed by FGT and Transcontinental Gas Pipe Line Co., LLC (CP09-456). The FERC staff concludes that approval of the proposed projects, with appropriate mitigating measures, would not constitute a major federal action significantly affecting the quality of the human environment. This EA was prepared in cooperation with the U.S. Army Corps of Engineers, the U.S. Fish and Wildlife Service (USFWS); and the Mississippi Department of Wildlife, Fisheries, and Parks. The proposed Mobile Bay Project includes approximately 8.8 miles of 24-inch diameter mainline pipeline, from near Grand Bay in Mobile County, Alabama to the existing FGT compressor station (CS 44) in Mobile County, Alabama; one new Meter and Regulation station in Grand Bay, Alabama; and other modifications in Citronelle, Alabama. The Pascagoula Expansion Project would consist of a receipt meter station near Pascagoula in Jackson County, Mississippi; approximately 15.5 miles of 26-inch diameter jointly owned pipeline from Jackson County to Grand Bay; modifications to FGT/Transco's existing Compressor Station 82 in Mobile County;

and minor above-ground facilities. Comments are due on May 10.

In response to the growing needs of its customers in northeast British Columbia, Spectra Energy Corp. this week announced open seasons to assess customer requirements for expanded transportation service on its Transportation North (T-North) system, and for raw gas gathering and processing service in the Fort Nelson resource area. Interested parties are invited to respond to a binding open season for up to 200 MMcf/d of firm transportation service from Spectra Energy's Fort Nelson Gas Plant to existing and proposed delivery points into the NOVA Gas transmission system. The planned expansion has a targeted in-service date of January 2012. "Spectra Energy's Fort Nelson mainline is a critical part of the natural gas transportation system in northeast British Columbia and is strategically positioned to provide take-away capacity from active producing areas," said Rob Whitwham, vice president, pipeline, Spectra Energy Transmission West. "We are offering new pipeline capacity to meet the rising demand for transportation service in the region." Spectra Energy is also seeking non-binding expressions of interest for incremental transportation capacity required in 2012 or thereafter, between any receipt and delivery points on the T-North system. In addition, in response to customer interest and significant producer expectations for continued growth in shale gas production from the Fort Nelson area, the company is seeking non-binding expressions of interest for the expansion of raw gas transmission service and processing service at its Fort Nelson Gas Plant and its recently approved Fort Nelson North Processing Facility. "We are holding this open season to evaluate the needs and timing requirements for additional raw gas gathering and processing services in the Fort Nelson area," said Duane Rae, vice president, field services, Spectra Energy Transmission West. Parties interested in the transportation services open season are required to submit a service request prior to the close of the open season period on May 7. The details of the open season and the service request forms will be posted on www.wei-pipeline.com. Customers should contact Mel Thorp, director of marketing and business development, T-North, Spectra Energy Transmission West, by telephone at 403-699-1578 or by email at MelThorp@spectraenergy.com. Parties interested in the raw gas gathering and processing services open season must submit a nomination form prior to the close of the open season period on May 7. To obtain a nomination form, or for enquiries regarding the open season, customers should contact their Spectra Energy Strategic Account Manager, or Brian Tanaka, director of marketing, field services, Spectra Energy Transmission West at 403-699-1810.

On April 14 the American Petroleum Institute (API) announced the appointment of Linda Schoumacher Rozett as the oil and natural gas trade association's new vice president of communications, effective immediately. According to API President and CEO Jack Gerard, "when I joined API, I promised to put in place a team that would create a nimble and dynamic organization that would advocate our industry's interests aggressively: Linda is a key part of that team." Rozett joins API after several years running her own media consultancy firm, FirstWord Strategies. Previously, she has served as communications director for the Friends of Fred Thompson organization, and as senior vice president of communications for the U.S. Chamber of Commerce. She once was Washington editorial news producer for Good Morning America at ABC. Rozett also has worked for the Edison Electric Institute and the Natural Gas Supply Association. "I am excited by the professional opportunity ahead," Rozett said. "Few issues touch on as many of our country's challenges as energy. From job creation and economic growth, to transportation, the environment, and natural security, America relies on the oil and natural gas industry."

According to this month's API analyses, U.S. refineries produced more gasoline this March, at 9.3 million barrels per day, than any previous month on record. March gasoline deliveries (a measure of demand) were higher at 9.2 million bbl/d than any previous March. The highest amount of gasoline ever delivered was 9.6 million barrels per day in July 2007. Total March deliveries of all products, including gasoline, distillate, kerosine-jet fuel, and residual fuel, rose 3.5% from a year ago. Total imports of crude oil and products fell in March compared with the same month a year ago. Crude oil imports slipped 1.2%; product imports fell 31.0%. Except for March last year, crude oil stocks at 352.8 million barrels were the highest for any March since 1990. Total gasoline inventories fell for the first time in five months.

On April 15 Apache Corp. and Mariner Energy announced a merger agreement described as "a strategic step and a natural extension into the deepwater Gulf for Apache." Apache also announced it will acquire additional Gulf Shelf assets from Devon Energy Corp. that add production of 19,000 boe per day with

year-end 2009 estimated proved and probable reserves of 83 million boe across 158 blocks. Apache's last corporate transaction was with the Phoenix Resource Companies in 1996.

G. Steven Farris, Apache's chairman and CEO, said Mariner provides a new platform for growth in the deepwater and complements strengths in the Gulf Shelf and the Permian Basin. Under the agreement, Mariner shareholders will receive, in aggregate, 0.17043 of a share of Apache common stock and $7.80 in cash for each outstanding share of Mariner's common stock, subject to an election feature and proration. At Apache's closing stock price of $108.06 on April 14, the transaction values Mariner's shares at $26.22 per share or approximately $2.7 billion. Apache also will assume $1.2 billion in debt. In February, Mariner produced 63,000 barrels of oil equivalent (boe) per day from the Gulf Shelf and deepwater, the Permian Basin and unconventional onshore plays. At year-end 2009, Mariner had estimated proved reserves of 181 million boe (47% liquid hydrocarbons) as well as unbooked resource potential of 2 billion boe.

The Devon deal was announced on April 12. Apache will acquire Devon's oil and gas assets on the Gulf of Mexico Shelf for $1.05 billion. Apache estimated net proved and probable reserves of 83 million barrels of oil equivalent at year-end 2009. Devon's properties are projected to produce 9,500 barrels of liquid hydrocarbons and 55 MMcf/d (net) after closing – the same balance of liquids and natural gas in Apache's current worldwide production. Closing is expected in early June. Liquid hydrocarbons also are expected to contribute more than 70% of the projected revenues from the acquired properties. About half of the estimated proved reserves of 41 million barrels equivalent are oil and natural gas liquids. "Devon's exit from the Gulf of Mexico creates a great opportunity for Apache to add one of the best remaining Shelf asset portfolios to our existing core area," said Farris. Projected daily production from the acquired assets for the remainder of 2010 equals 3% of Apache's fourth-quarter 2009 worldwide daily production. When the transaction is completed, the Gulf Shelf's share of Apache's estimated worldwide production will be slightly less than 20%. Apache is the largest held-by-production acreage owner and the second-largest producer in Gulf waters less than 1,200 feet deep. The acquired assets comprise 477,000 net acres across 158 blocks. The fields have 80 platforms and 211 production caissons in waters to 450 feet deep.

On 4/9/10 Excelerate Energy LP announced it is accepting "value propositions" from LNG counterparties to participate in "asset optimization discussions" centered around its Gulf Gateway Deepwater Port. Excelerate will explore creative asset structures including capacity slots, regasification, options, swaps and discretionary dedicated shipping to maximize natural gas value within the "strategic" Atlantic basin. According to Rob Bryngelson, CEO of Excelerate, Gulf Gateway enjoys a competitive advantage over conventional land-based LNG receiving terminals due to its inherent flexibility, storage and reliability. This facility discharges natural gas directly into a substantial number of interstate and intrastate pipelines. This direct access to the NYMEX-traded Henry Hub provides arbitrage opportunities within the U.S. natural gas pipeline grid. Additionally, Gulf Gateway can accept virtually all qualities of LNG due to the presence of downstream processing.

Beyond traditional arbitrage, Gulf Gateway provides international gas marketers with incremental value from oil-based pricing derived from several processing facilities. Furthermore, it provides unique on-ship floating storage as well as access to affordable high-turn salt-dome. Gulf Gateway demonstrated its reliability during Hurricane Katrina. Excelerate's Energy Bridge Regasification Vessel (EBRV^{TM}), Excellence, continued to discharge natural gas supplies into the market long after other natural gas producers were forced to evacuate and shut-in. At present, "Excelerate Energy is involved in collaborative discussions to develop and evaluate high-level structures with LNG supply chain candidates." This June, Excelerate will short-list qualified counterparties to begin final negotiations.