

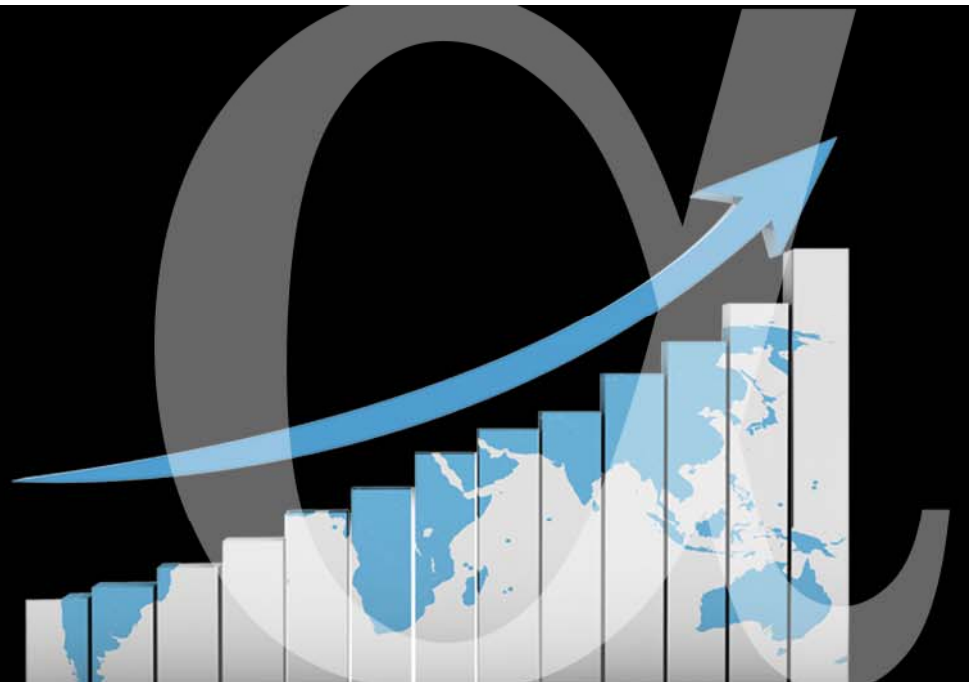
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11th Annual Global Energy Conference

Domestic State of Play: New Norm, New Day, New Rules

Chuck Davidson

May 17, 2016



Does anyone seriously think they know where commodity prices are going?



Natural gas may hit \$20

It's not a possibility.
It's going to happen'

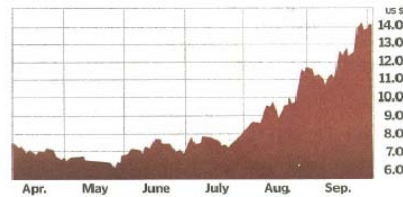
GEOFFREY SCOTTON
CALGARY HERALD

Natural gas prices could top \$20 US this winter, analysts warned Wednesday — as traders in New York sent the price of the critical heating, cooling, cooking and electrical generation fuel into record territory.

comber climbed as high as \$14.75 US per million British thermal units (mmbtu) on the New York Mercantile Exchange (NYMEX) before closing down slightly from Tuesday's record of \$14.22 US. Experts say the soaring prices — which include a record \$15.13 US Wednesday for January gas — are just a taste of things to come.

are going to be in a real crisis," said **Tristone Capital Corp.** managing director of research, Chris Theal. "We're going to see NYMEX gas clearly through \$20 US in that scenario." Theal and other analysts warned a meeting of chartered financial analysts Wednesday morning that conditions are forming that could see U.S. gas prices skyrocket, a scenario that could take the price for Calgary consumers into the low-\$20s per gigajoule (GJ) range.

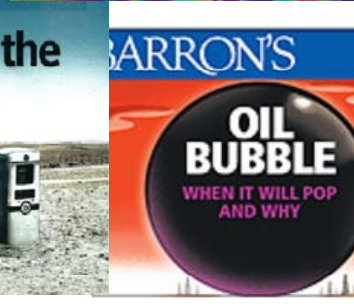
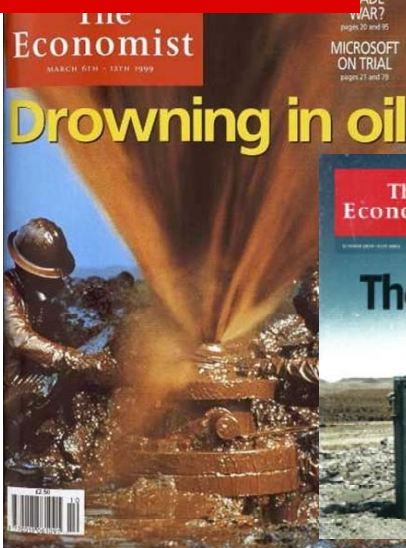
A TASTE OF THINGS TO COME



THE PRICE OF NATURAL GAS FROM APRIL 1 TO OCTOBER 4, 2005



E WEEK

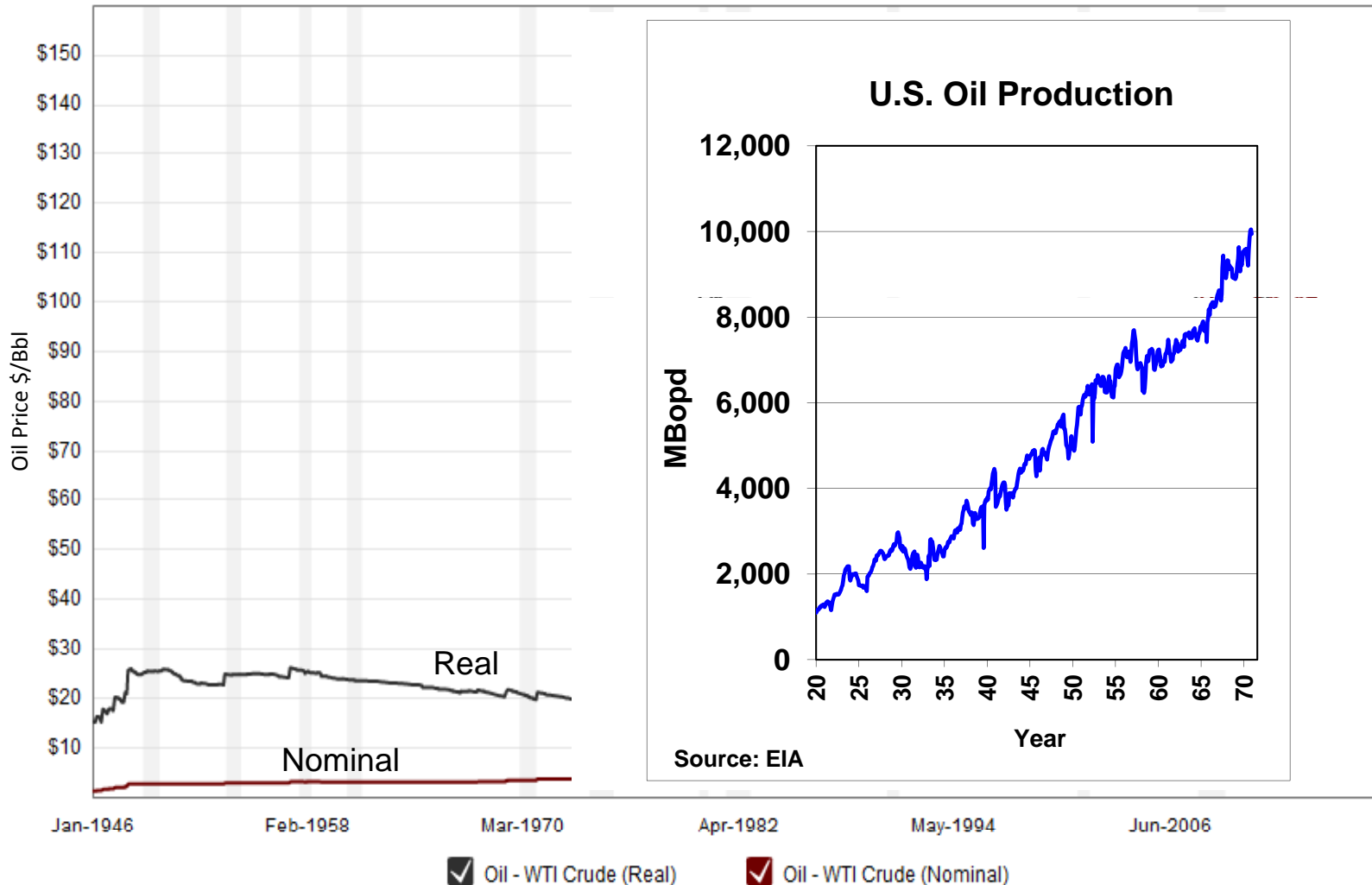


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Oil Prices Not Always Volatile : Post WW2 – A Period of Stability

Real oil prices decline as production grows to 10 MMBpd (peak) in 1970



Source: Macrotrends

Energy in the 70's – The Beginning of Modern Era Oil Volatility

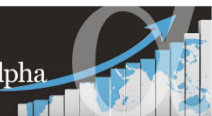
Shortages, Gas Lines, Price Controls and Rising Prices



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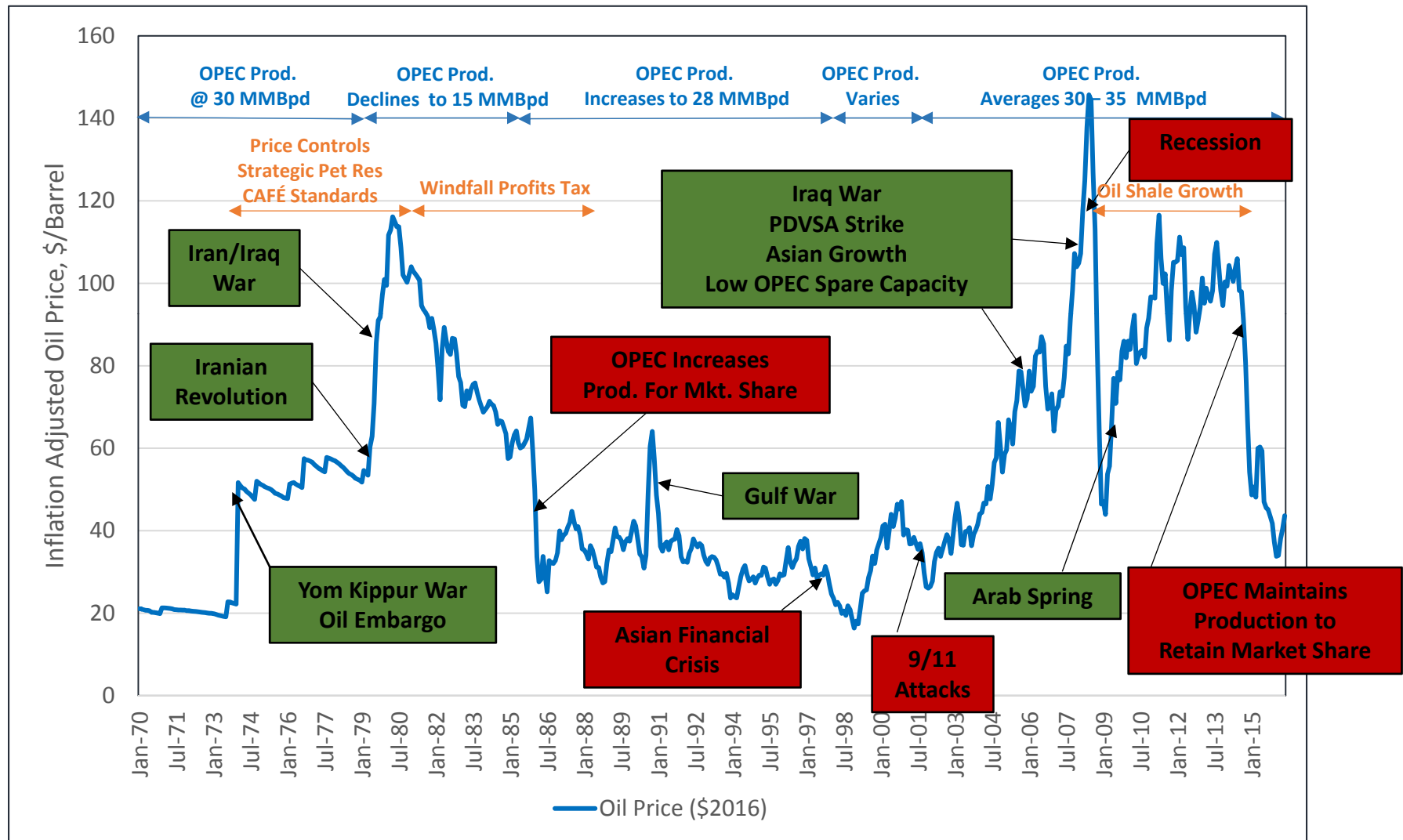
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After the Fall: Seeking Positive Alpha



U.S. Oil Prices Highly Volatile Since Early 70's

World economic and political events drive price extremes

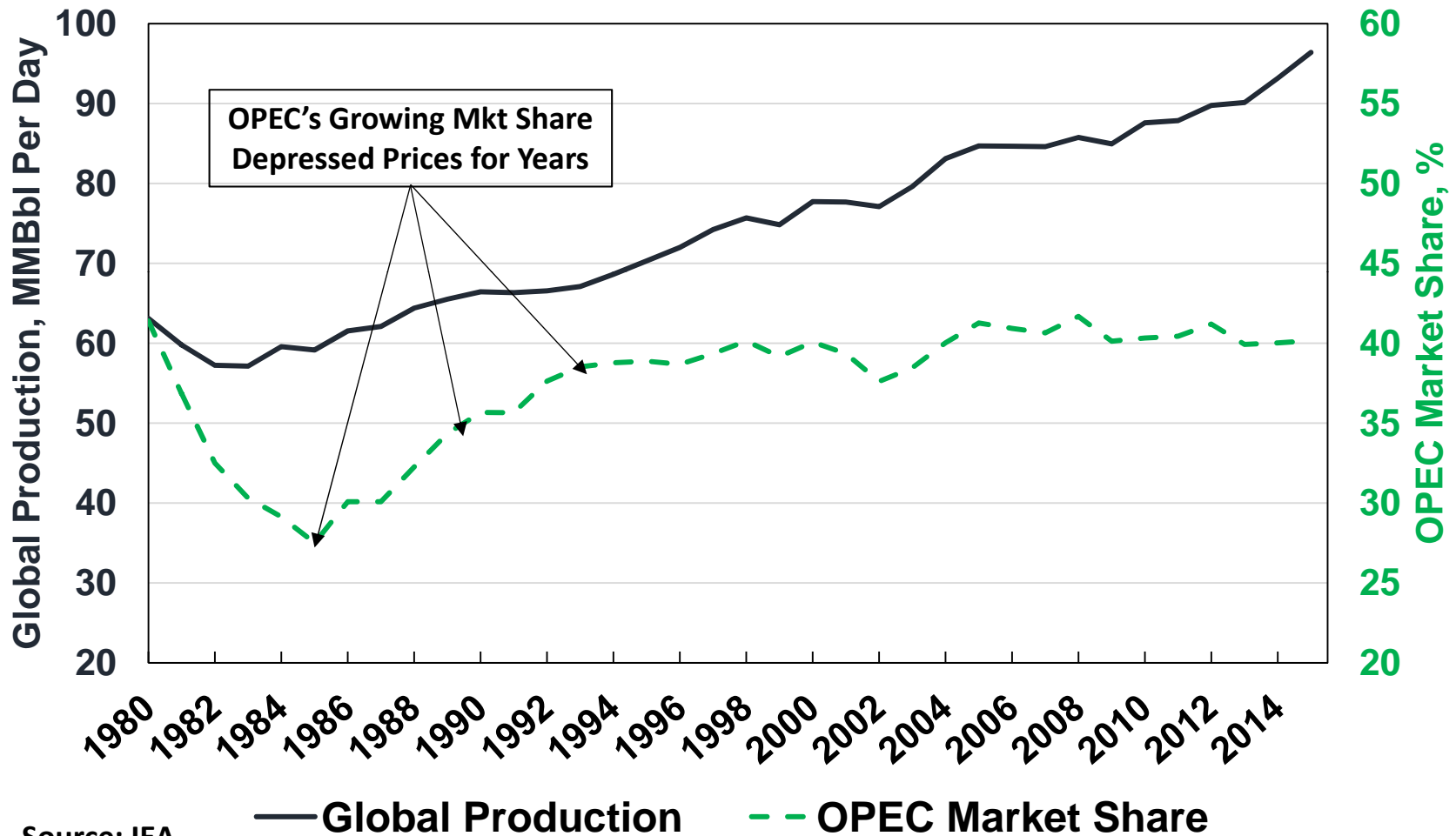


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Source: Macrotrends

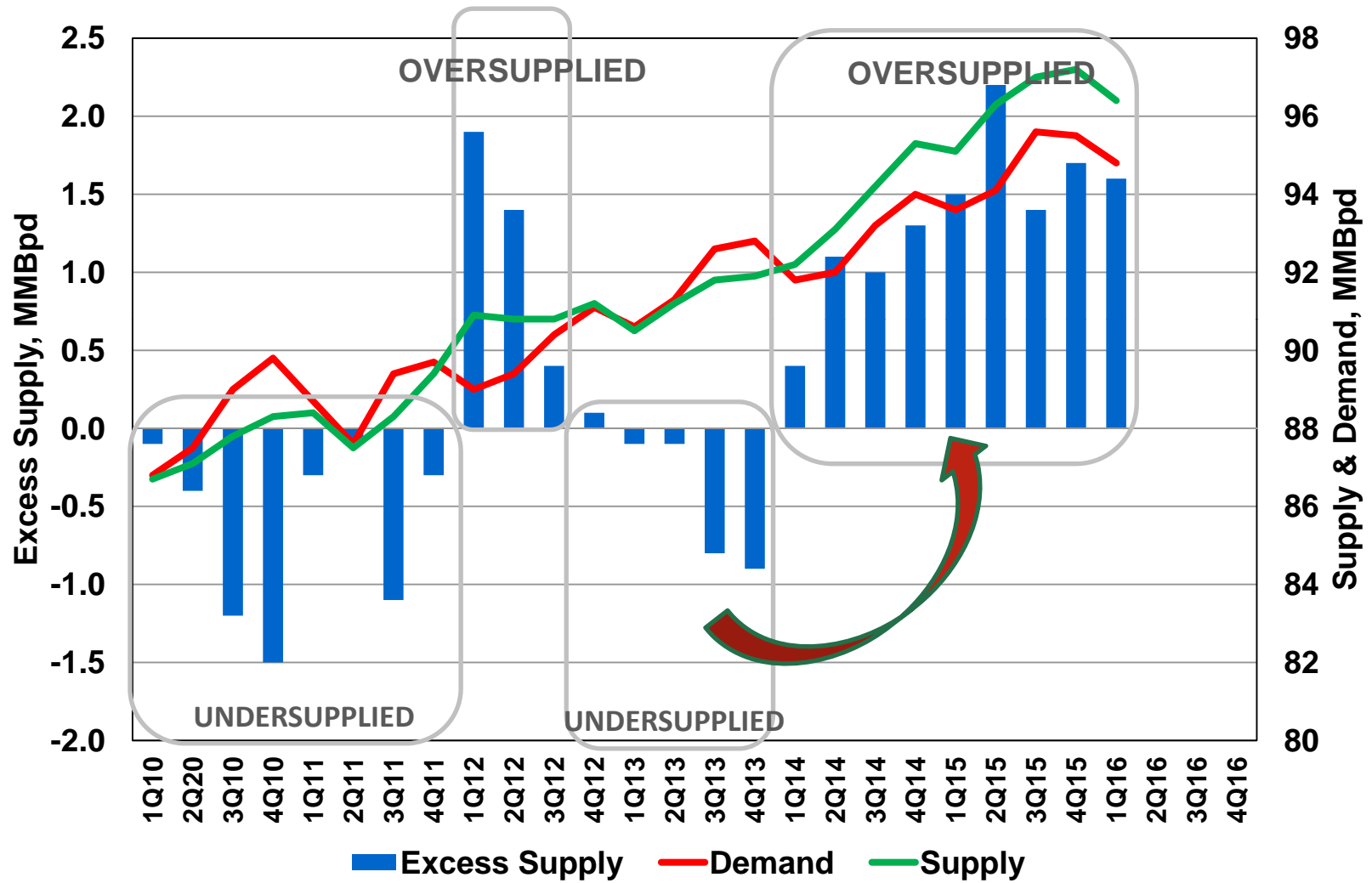
OPEC is Now Maintaining Market Share

Current market share bears little resemblance to mid-1980's



Global Oil Supply & Demand

Significant shift from undersupply to oversupply



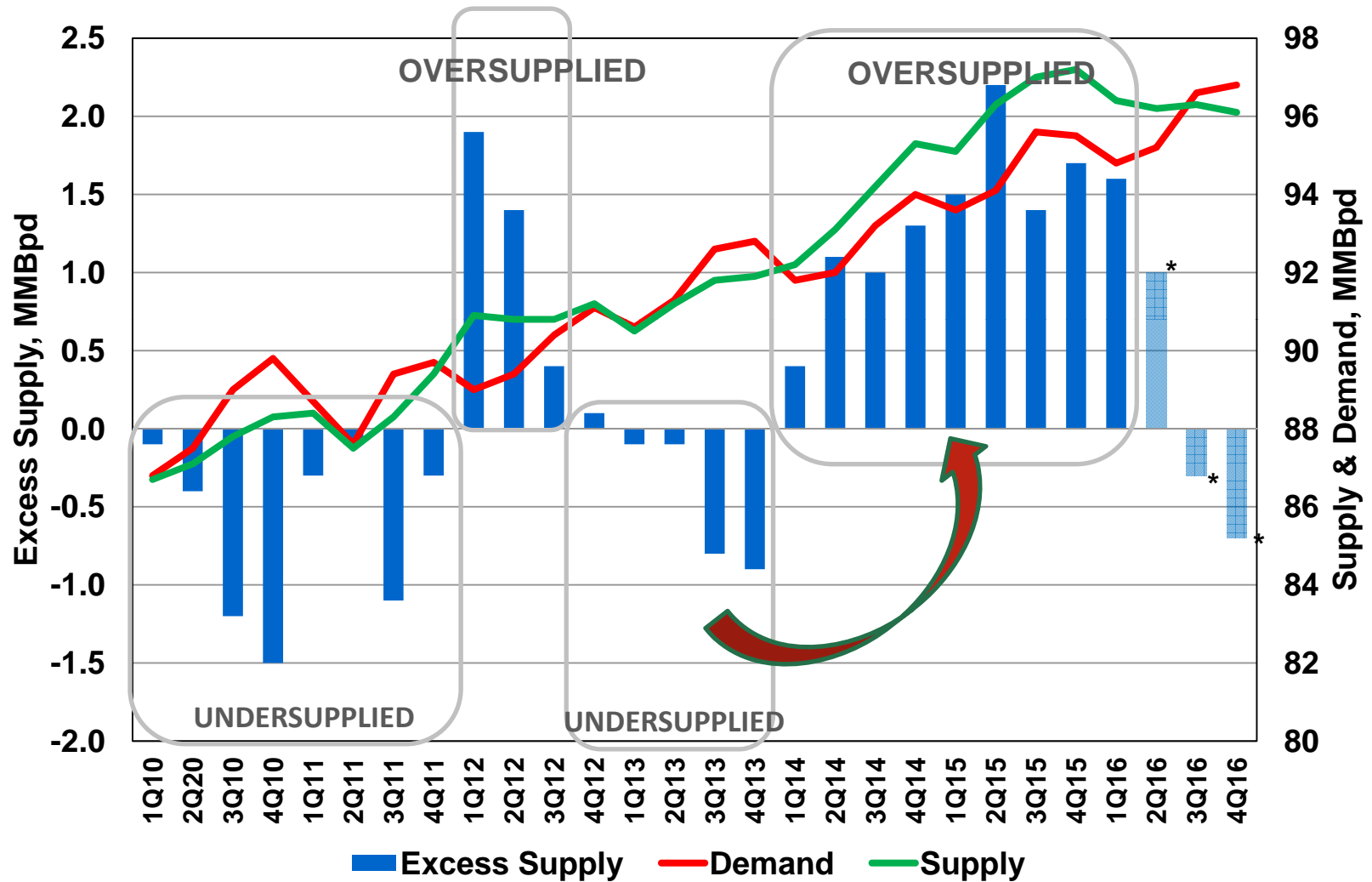
Source: IEA Oil Market Reports

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Global Oil Supply & Demand

Potentially shifting from oversupply to balanced/undersupplied



* Assumes flat OPEC supply

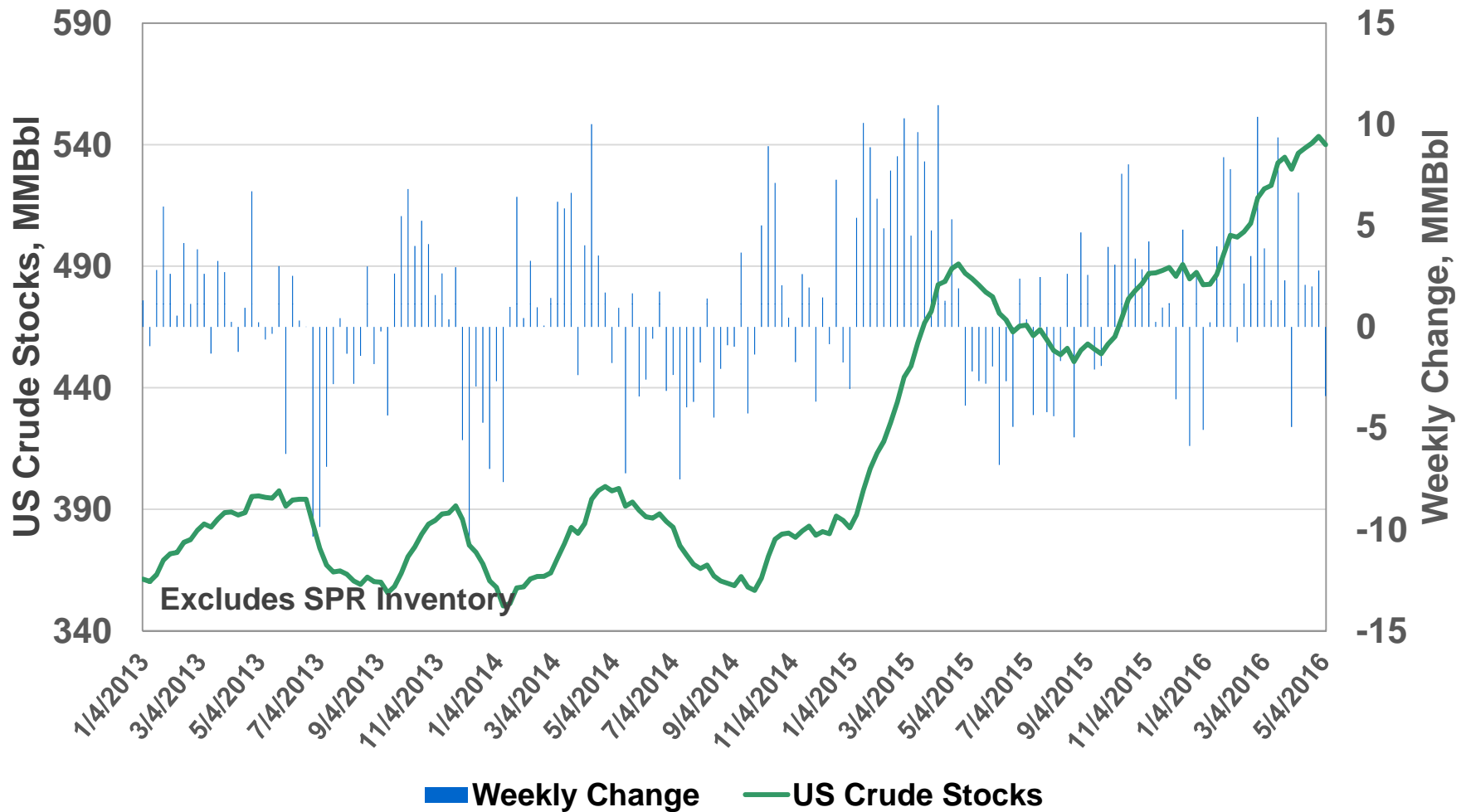
Source: IEA Oil Market Reports

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It's Not Just About Production

US crude inventories have rapidly grown to record levels



Source: EIA

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No Help From Natural Gas

Prices have fallen 60% since early 2014



Source: Macrotrends

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So How Do We Get Out of This Mess?

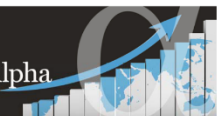
A lot of moving pieces

Corporate

- ▶ **Companies Needed to Immediately Address Financial Issues**
 - ✦ Slash spending to balance with reduced cash flows
 - ✦ Secure cost reductions
 - ✦ Repair balance sheets
- ▶ **Business Models Had to Be Reexamined**
 - ✦ Are investment opportunities viable in a lower price world?
 - ✦ Is the business sustainable stand-alone?
 - ✦ Revise long range plans to fit with new price expectations

Macro

- ▶ **Global Supply/Demand Needs to Achieve Balance**
 - ✦ Supply starting to come down (reduced drilling)
 - ✦ Inventories need to bleed off
 - ✦ Hopefully some help from demand growth



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