



# America's "New" Natural Gas

## Changing Supply and Price Dynamics

Larry Nichols, Chairman and CEO

October 5, 2009



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**WHAT'S YOUR  
EUREKA MOMENT?**



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## Changing Supply and Price Dynamics

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# Natural Gas Supply Example

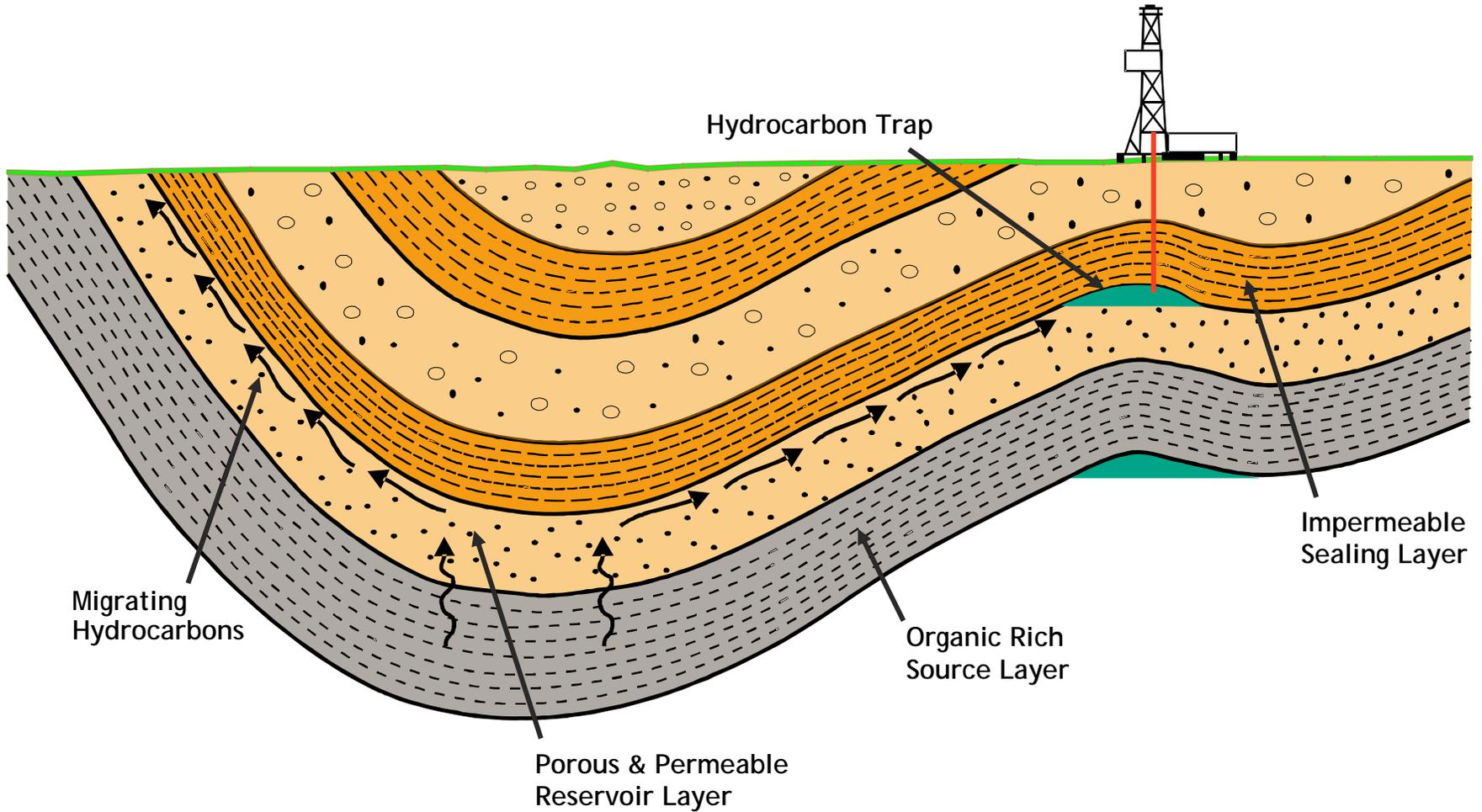
- Near-Term Supply Impact
- Long-Term Supply Stability

Barnett Shale

Ft. Worth Basin Texas

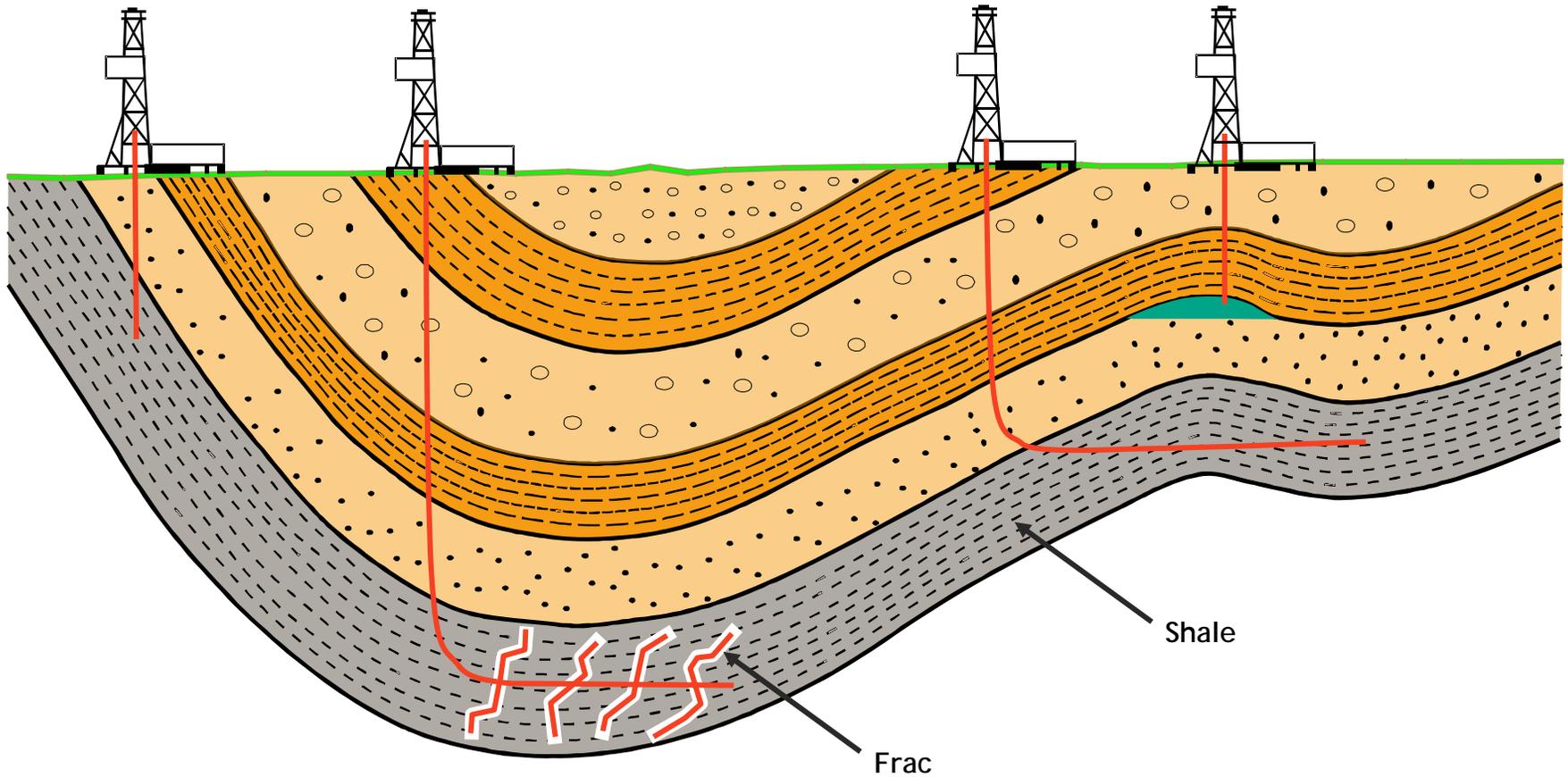
# Natural Gas

## Traps vs. Shales



# Natural Gas

## Traps vs. Shales



# Barnett Shale Regional Setting

## Largest Gas Field in Texas



Covers 10 counties

Play-wide production:  $\approx 5.1$  BCFD

> 11,600 producing wells

Note: From PI/Dwight's as of April 2009.

# Unlocking the Potential

## Barnett Shale Example

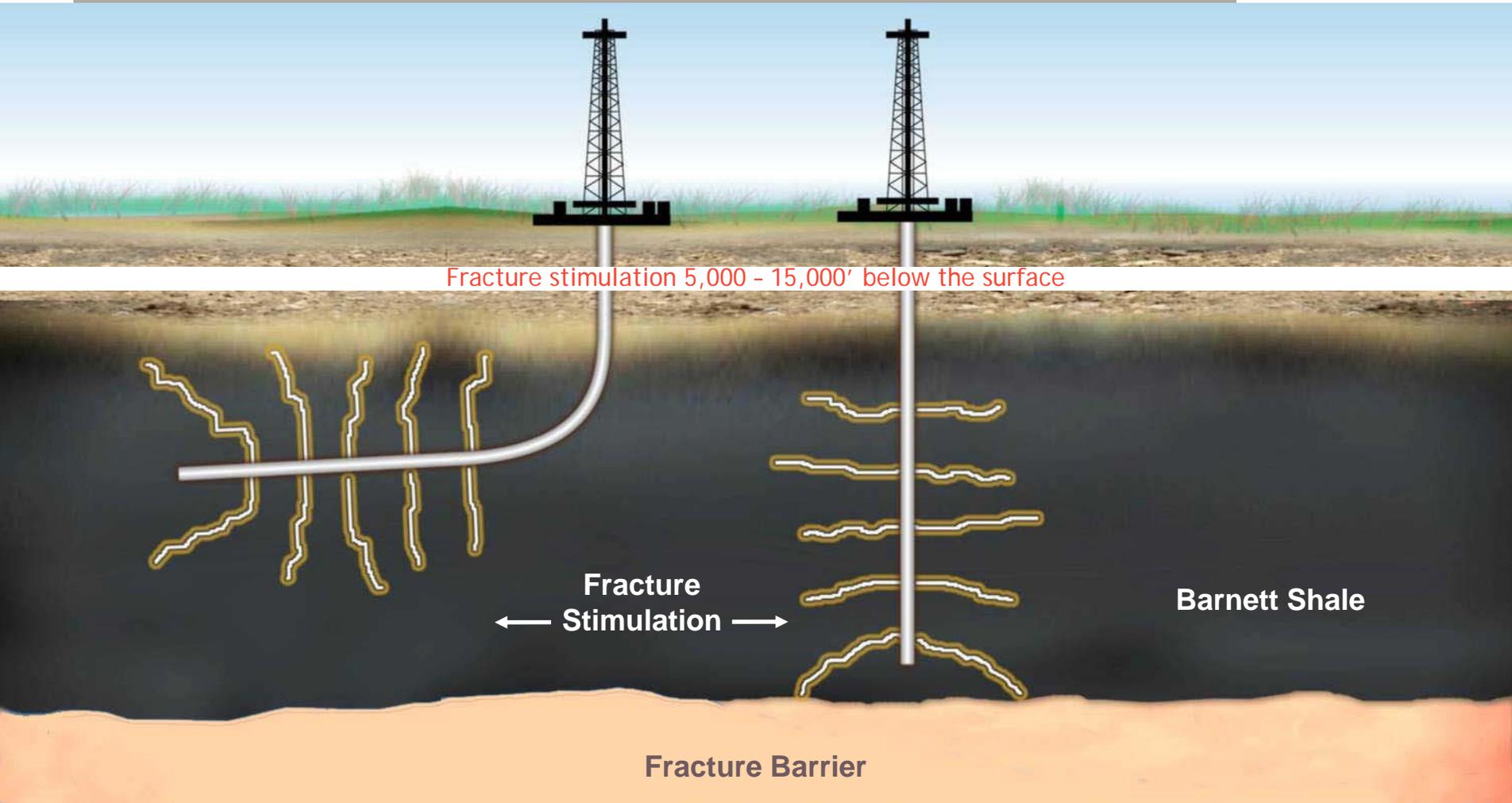
- Devon entered the play in 2002 through the Mitchell acquisition
- We believed that the Barnett had tremendous opportunity
- We also realized that new and existing technologies were the key to unlock this potential

Example of technology:

- Light sand frac technology
- Directional and horizontal drilling

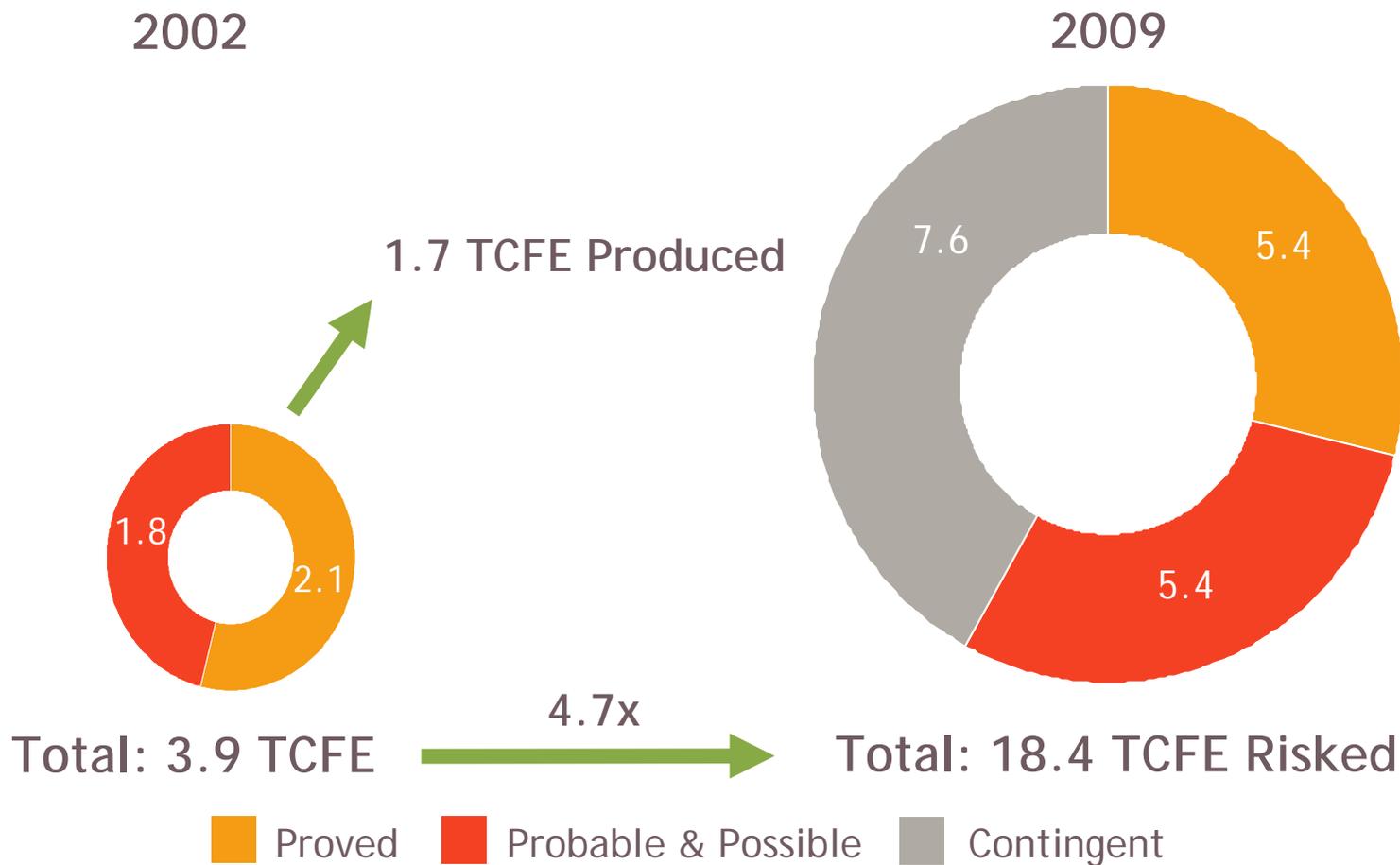
# Unlocking the Potential

## Technology's Role



# Devon's Barnett Resources

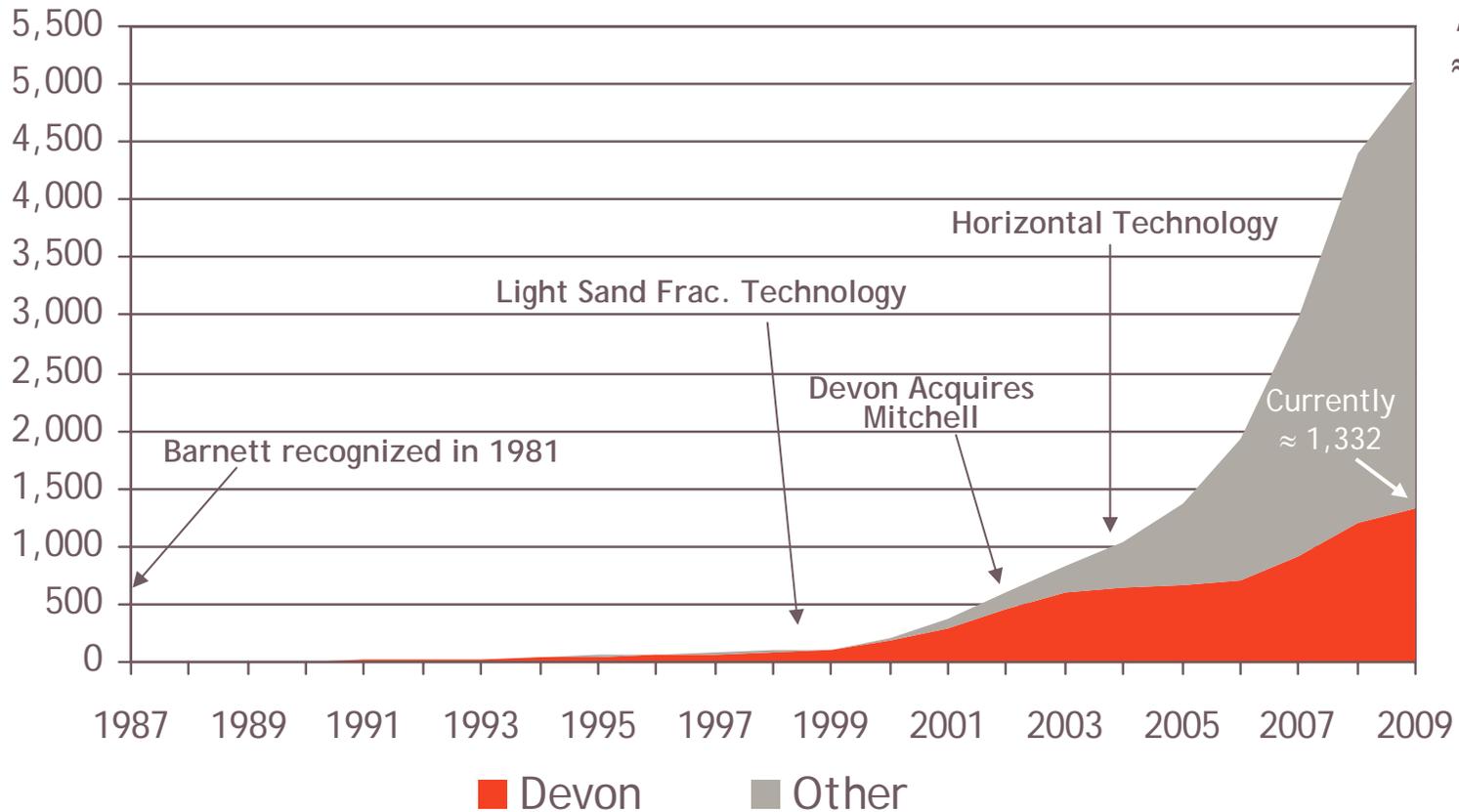
## History of Growth



# Unlocking the Potential

## Barnett Shale Rapid Growth

### Barnett Shale Average Annual (MMCFD)



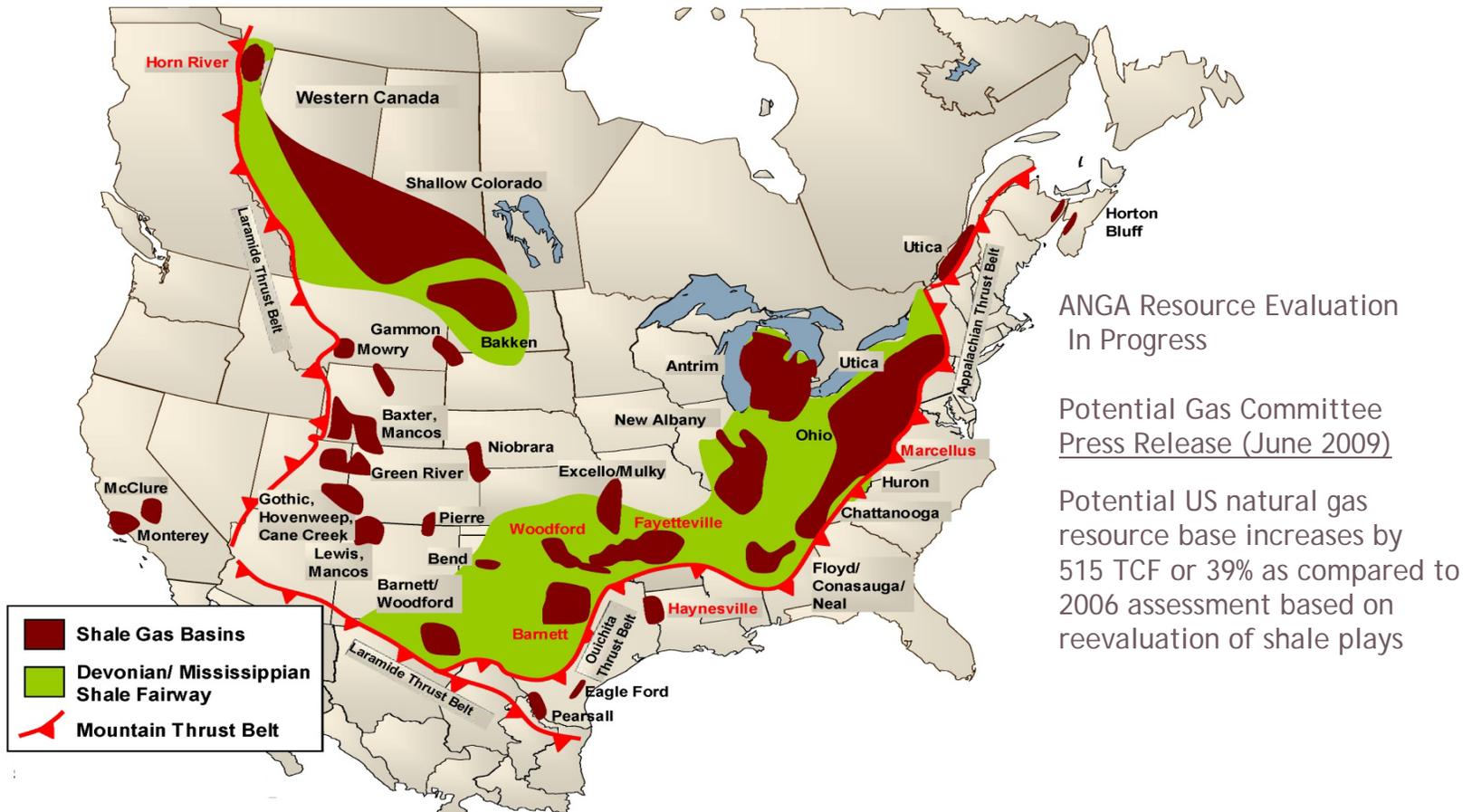
Total Field Production  
April 2009  
 $\approx 5.1$  BCFD

Source: IHS Energy. Gross wellhead production by operator.

# North American Shale Gas Plays

## Impact of Shale Gas Plays

- Since 2000, US L-48 production has grown by 12 BCFD or 30%, reaching 53 BCFD during Q1 '09



# Appalachian Shale Gas Potential

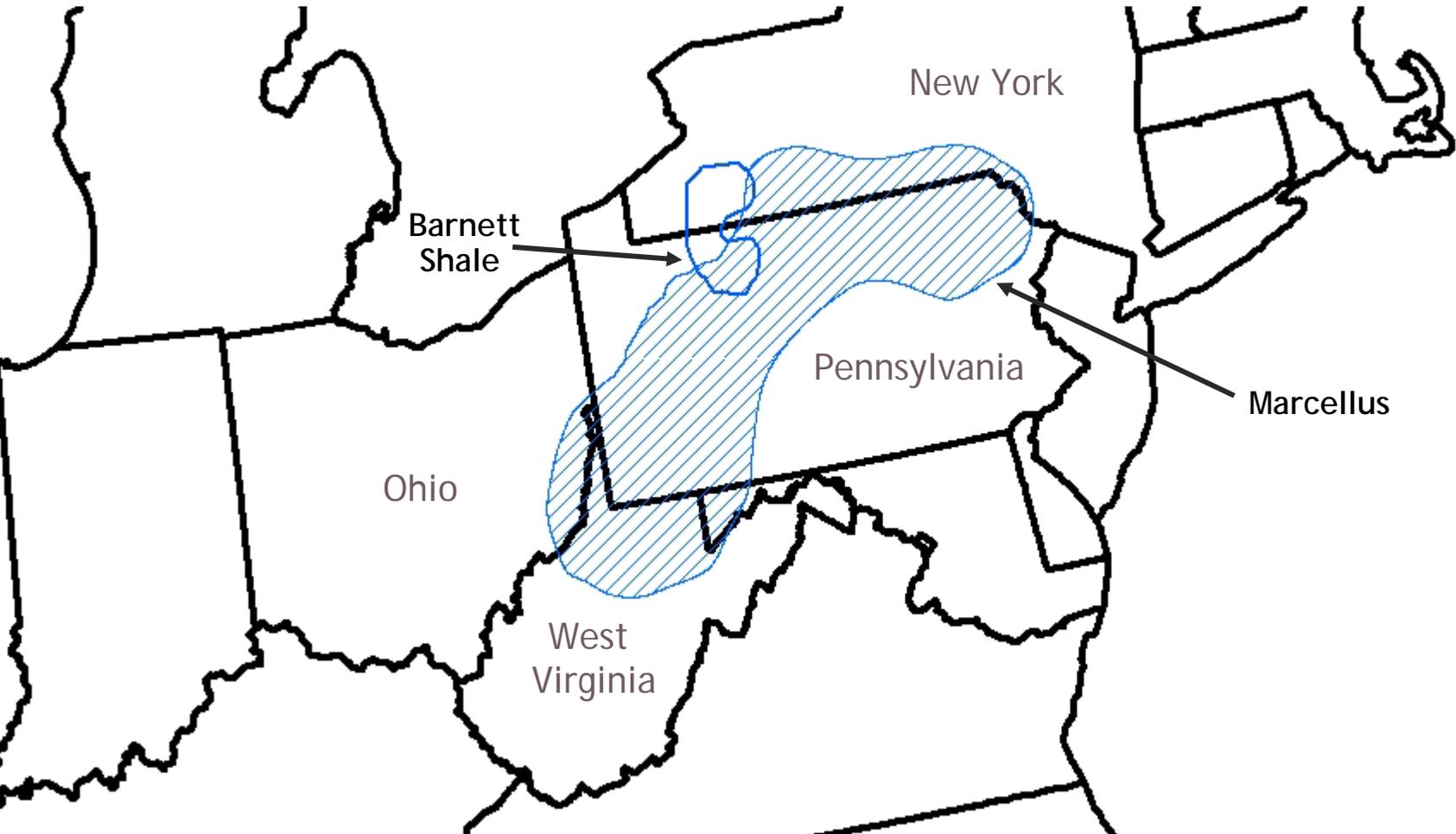


# Barnett Shale

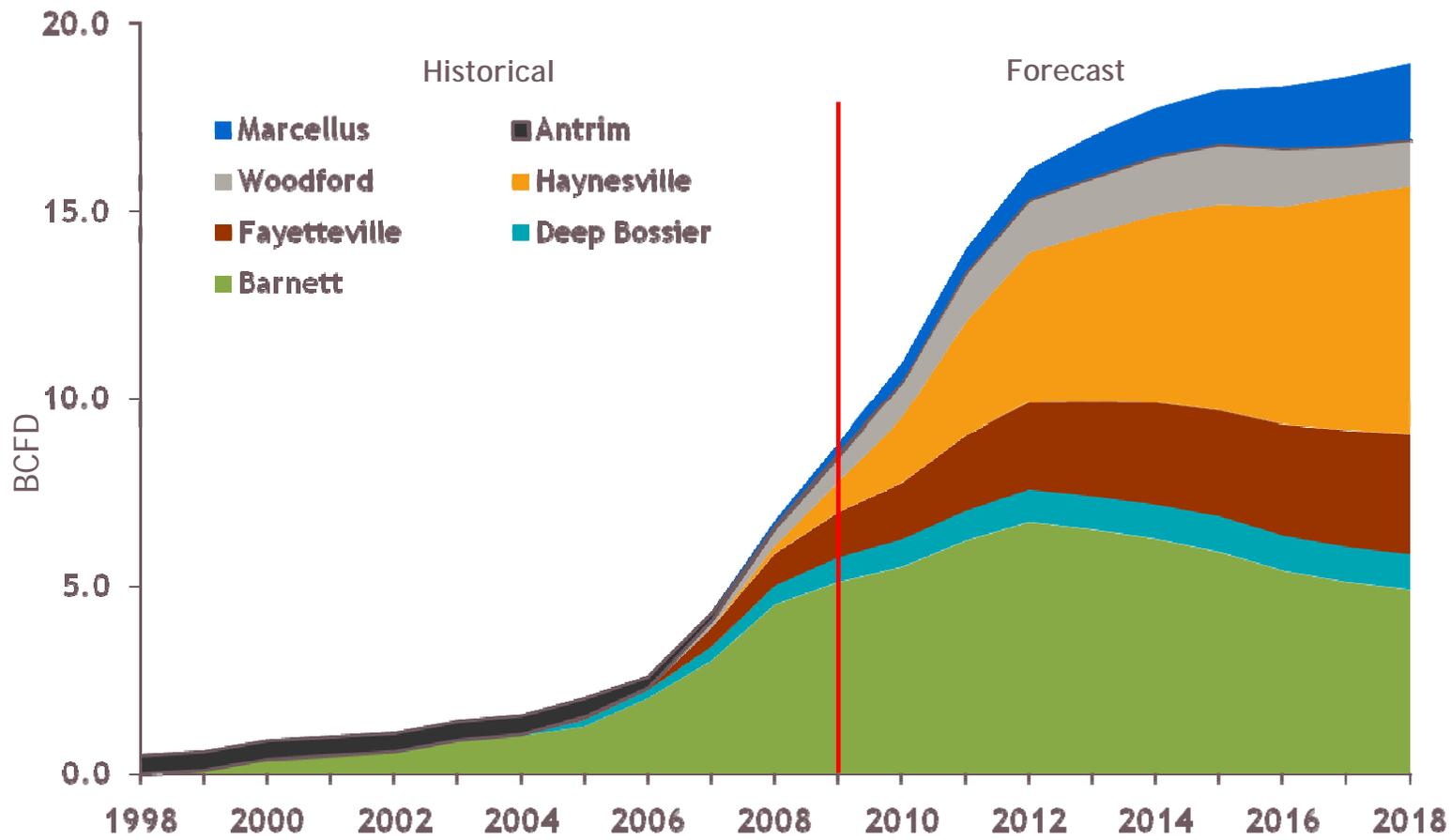
## Area Comparison



# Potential of the Marcellus Sale Gas Play



# U.S. Shale Gas Production Potential



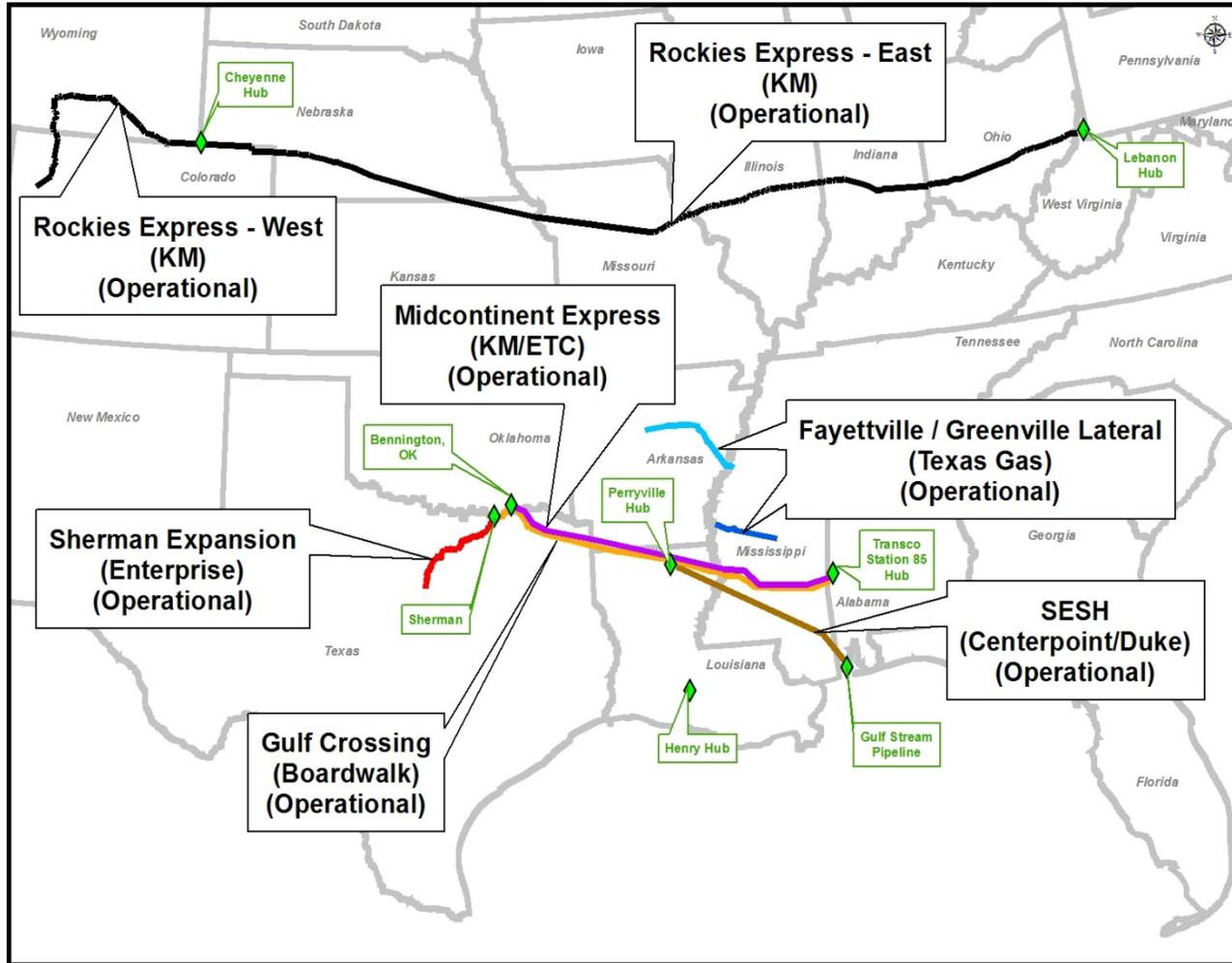
Source: Tristone Capital

# Pipeline Infrastructure

## Utility Benefits

1. Pipeline additions reduce supply risk by accessing multiple onshore gas supply regions
2. Pipeline projects, supported by multiple producers in varying locations, increase market liquidity and diversity
3. Long-term shale production profile (shale 50+ years)
4. New pipeline infrastructure with increased supply availability will allow markets to expand natural gas fired generation and/or industrial loads
5. Growing reserve base and increased supply deliverability allows market to expand use for power generation
6. Expanded infrastructure increases supply options for markets, narrowing basis differentials to Henry Hub vs. historical

# Major Pipeline Infrastructure Updates 2008 Forward



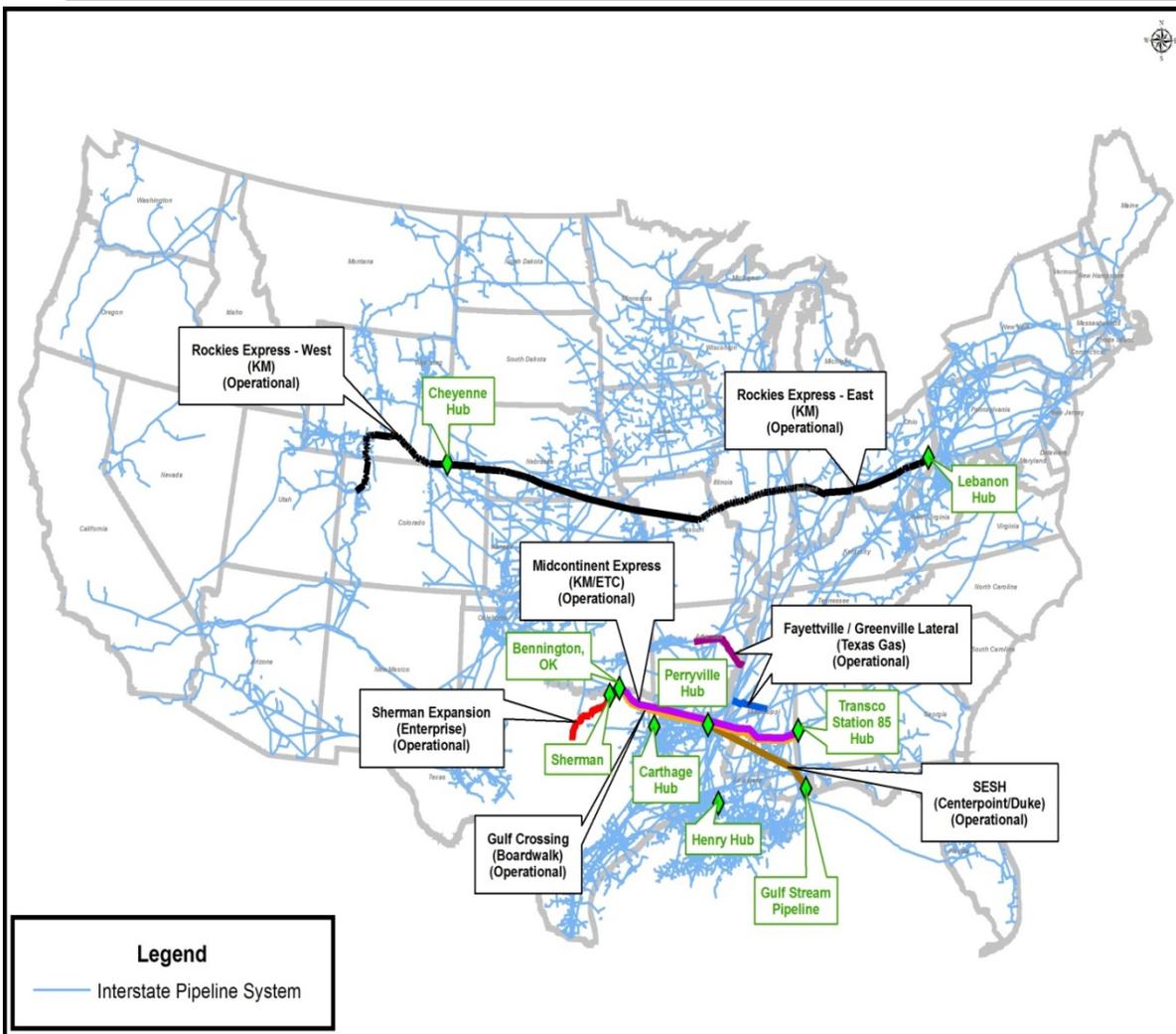
## Recent Capacity Additions (BCFD)

Rockies Express (Q3'09)	1.80
Midcontinent Express (Q3'09)	1.80
Gulf Crossing (Q3'09)	1.70
SESH (Q3'08)	1.00
Fayetteville/Greenville (Q1'09)	<u>1.30</u>
<b>Total</b>	<b>7.60</b>

## Committed Capacity Additions (BCFD)

ETC Tiger (Haynesville)-2011	1.50
Regency (Haynesville)-2009	1.10
Gulf South (Haynesville)-2011	.50
Centerpoint (Haynesville)-2010	.30
Transco (Marcellus)-2012	.75
Texas Eastern (Marcellus)-2010	.45
Tennessee (Marcellus)-2011	.35
Transco (S.E. & Florida Mkts.)-2010	.56
FGT (Florida Markets)-2011	.82
Trans Canada Bison (Rockies)-2010	.48
El Paso Ruby (Rockies)-2011	<u>1.50</u>
<b>Total</b>	<b>8.31</b>

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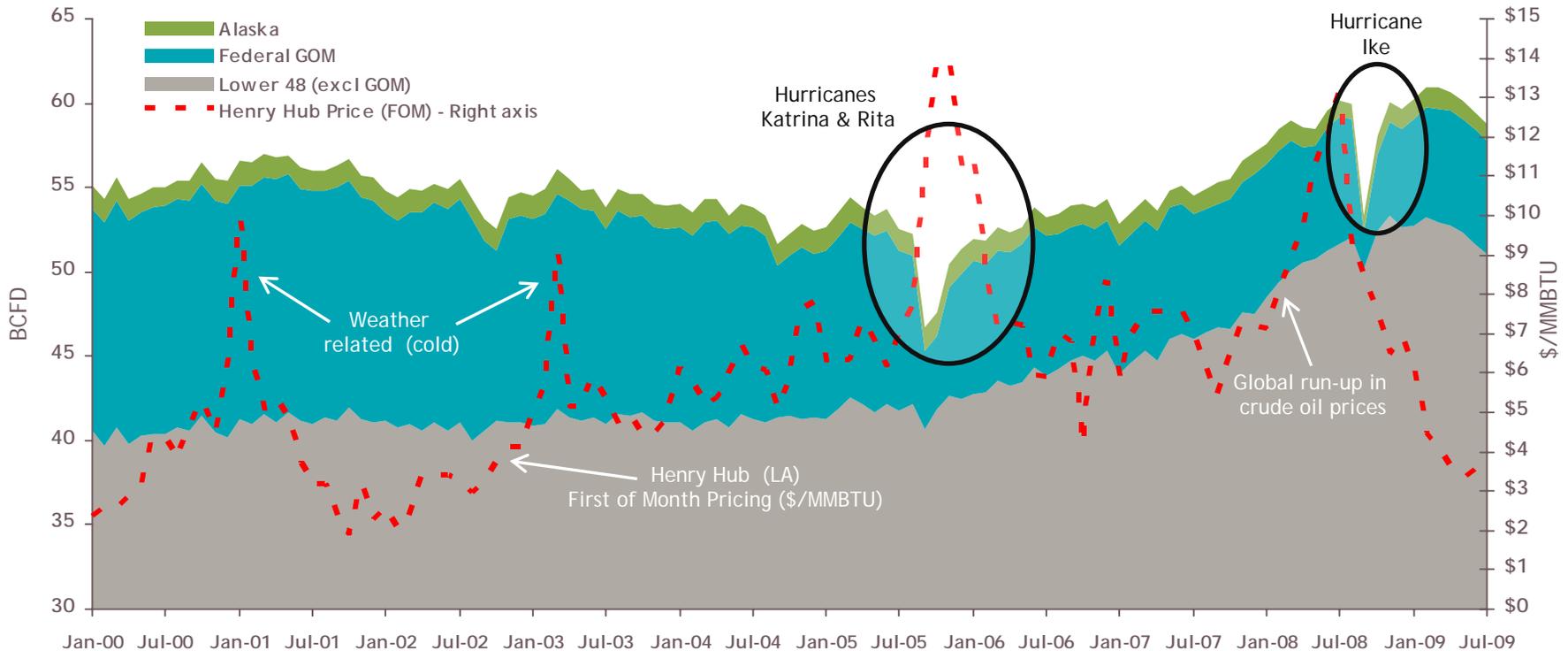
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# US Natural Gas Production vs. Price

## Historical Production (2000 - 2008)

- Shale play development has resulted in reduced US dependency on Federal GOM production, which has fallen by 50% since 2000 from 13.5 BCFD to 6.7 BCFD today
- Hurricane Ike caused GOM supply to fall by some 70% (4.5 BCFD or 7.5% of US production); however, prices did not spike as in previous hurricanes



Source: EIA

# Natural Gas

## The New Paradigm

### 1. Supply Security / Reliability

- Emergence of shale developments across North America provides security of supply to meet long-term U.S. market demand requirements
  - Near-term supply impact
  - Long-term supply stability
- Increased ability to access LNG supplies will supplement North American supply

### 2. Access to Growing Shale Production/Increased Storage Capacity

- Since mid-2008, industry has added in excess of 7.0 BCFD of new U.S. pipeline infrastructure with commitments to add an additional 8+ BCFD within the next 3 years
- Since 2000 industry has added 200+ BCF of new working gas storage capacity with total capacity exceeding 4.0 TCF increasing daily deliverability to meet peak demand requirements

# Natural Gas

## The New Paradigm

### 3. Price Volatility

- Shale developments provide deliverability and reserves for long-term - different than 2 years ago when LNG base load was required
- Worldwide LNG production provides more access to gas supplies
- Expanded pipeline infrastructure allows access to abundant “land based” shale production through an efficient delivery network minimizing affect of supply disruptions such as hurricanes
- Added storage capacity in production/market areas provides enhanced ability for market to meet demand swings
- Transparent market provides hedging tools to balance market portfolios

# What's Next?

- Created America's Natural Gas Alliance
- Launched New Natural Gas Campaign

# America's Natural Gas Alliance

## Sample Ads



Natural gas can now help  
wind and solar energy more  
**EUREKA!**

Clean technologies are growing. And natural gas is the best way to back them up. It's 50% cleaner than coal and whenever the weather isn't perfect, you can rest assured that your power will be. It's America's new way forward. America's clean energy alternative.

**AMERICA'S NEW NATURAL GAS**  
Discover more at [eureka.net](http://eureka.net)

**AMERICA'S HIGH TECH, LOW IMPACT ENERGY TECHNOLOGY**



**AMERICA'S NEW NATURAL GAS**  
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Thank You.