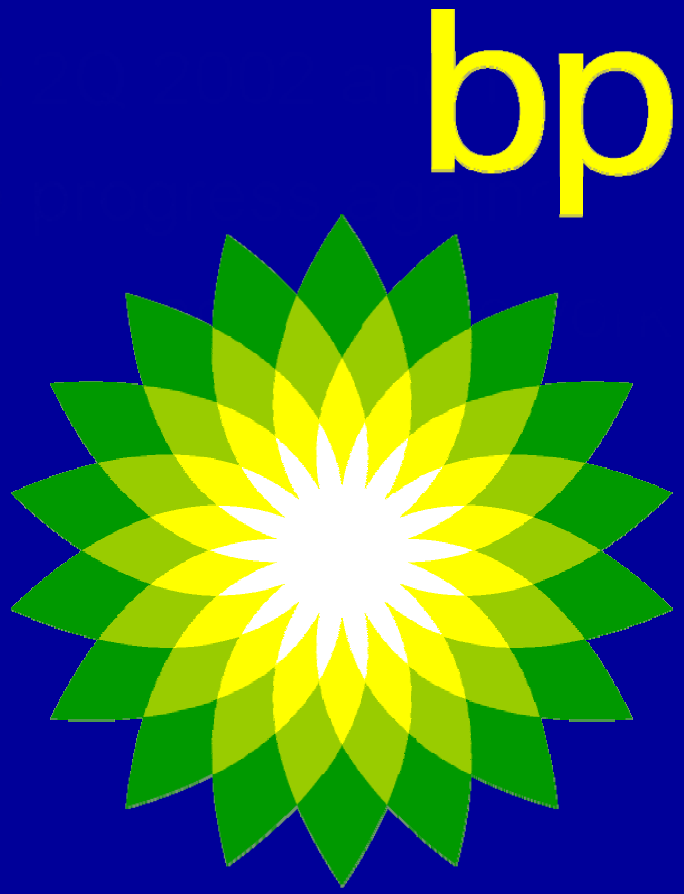


Natural Gas Markets and Long Term Pricing

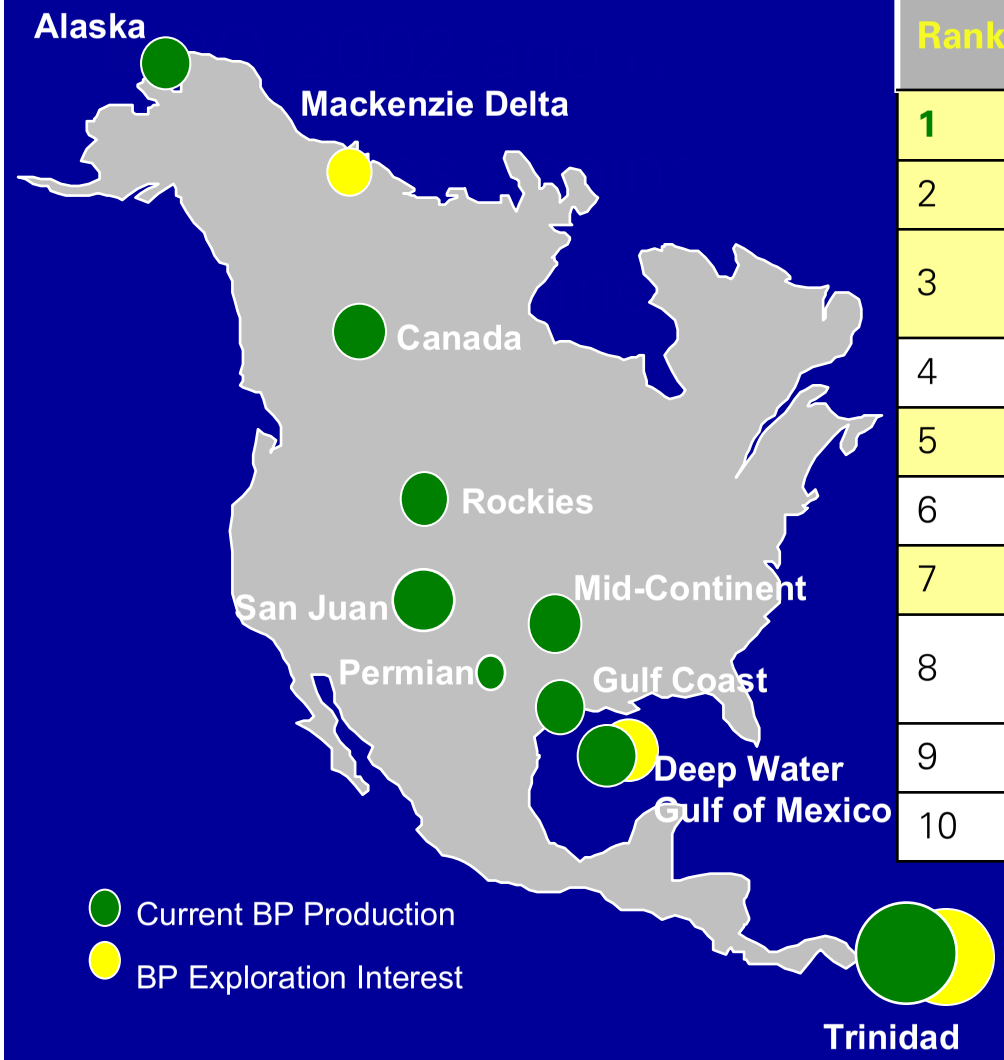
Rick Couvillon

Director Natural Gas Marketing Mid Continent Region

BP North America Gas & Power

July 2006

BP in North America



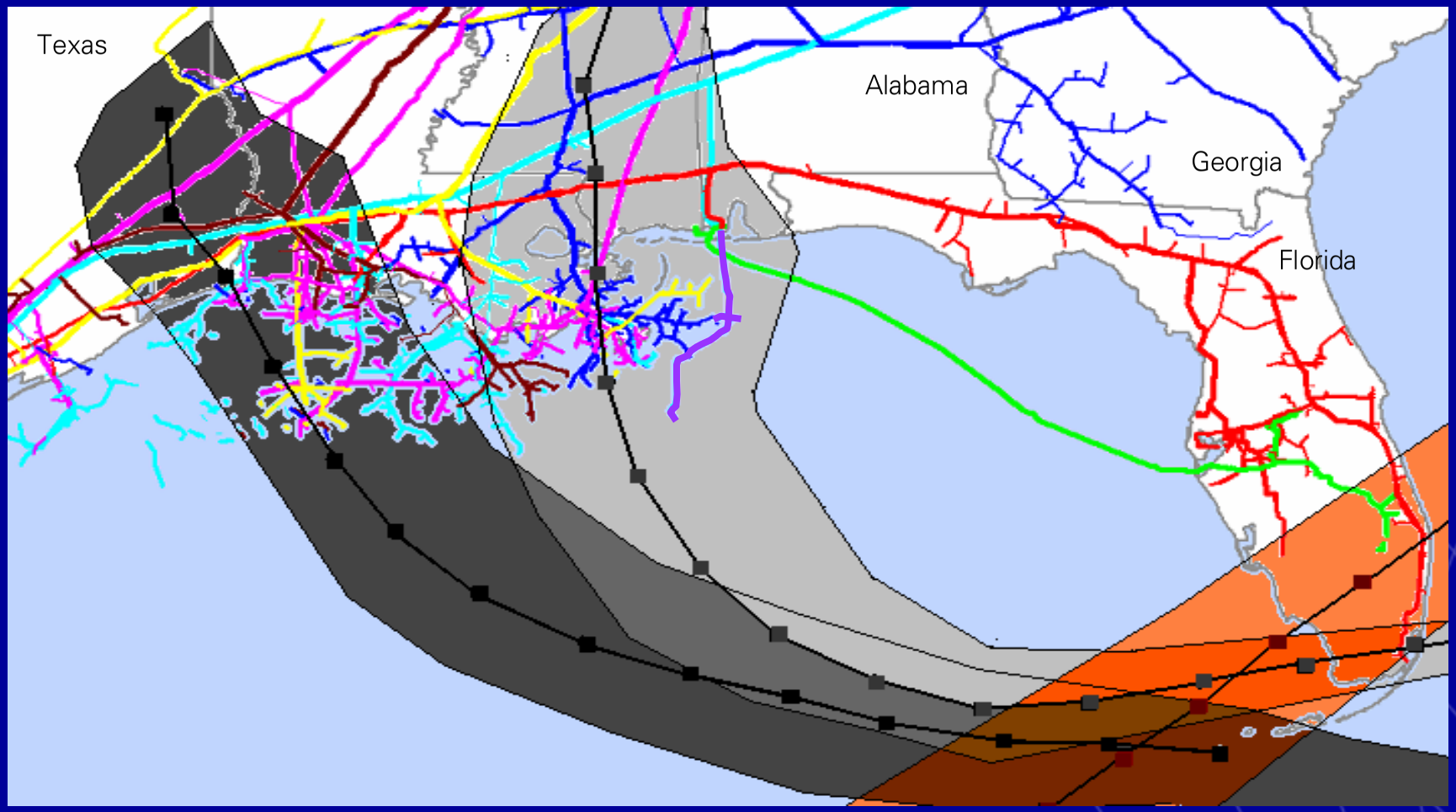
Rank	Company	S&P Rating	4Q05	4Q04
1	**BP**	**AA+**	**26.3**	**24.5**
2	ConocoPhillips	A-	11.8	10.8
3	Coral (RD Shell)	AA	11.0	9.6
4	Sempra	BBB+	9.6	9.6
5	Chevron	AA	6.2	4.7
6	Constellation	BBB+	5.6	n/a
7	Nexen	BBB-	5.1	5.1
8	Louis Dreyfus E.S.	Not Rated	4.4	3.7
9	Cinergy	BBB+	4.2	4.6
10	Tenaska	Not Rated	4.1	3.7

Source: Gas Daily

In Bcfd

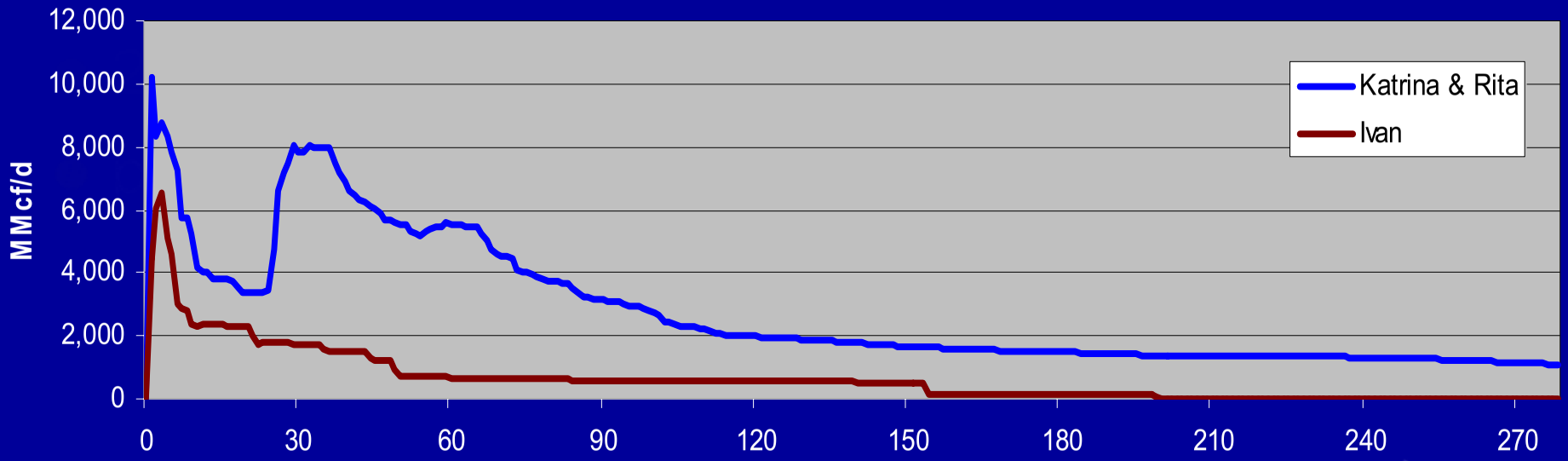
Producer

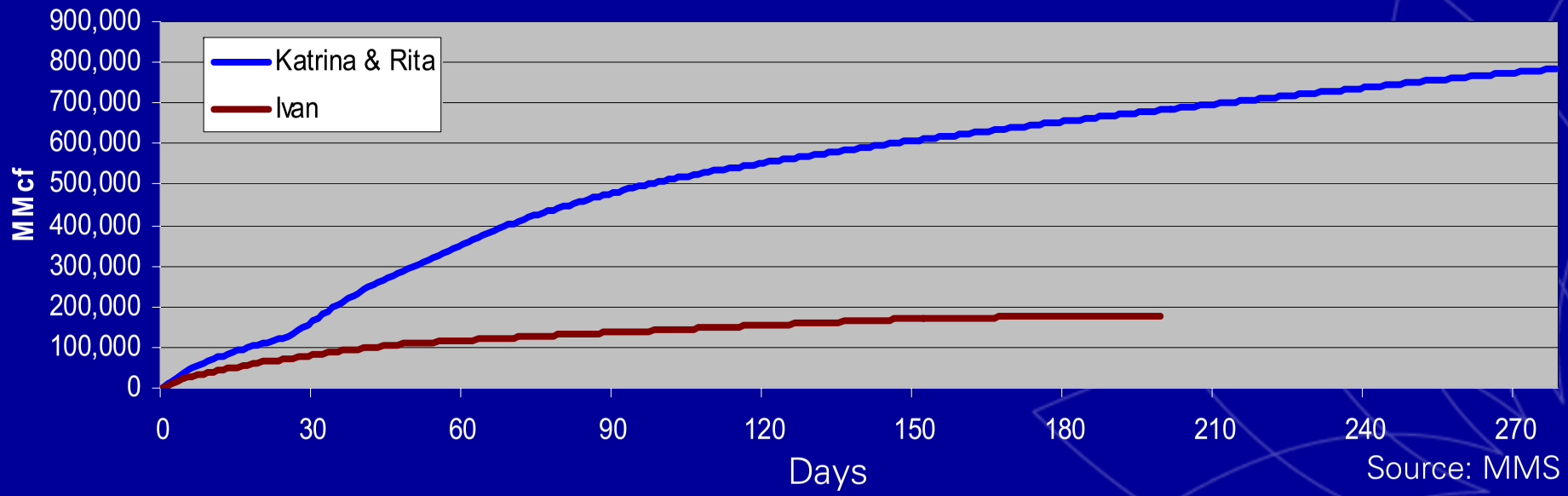
Hurricane Paths: Katrina, Rita & Wilma



- Hurricane Force Winds – Katrina
- Hurricane Force Winds – Rita
- Hurricane Force Winds – Wilma
- Path of Hurricane Eye
- Florida Gas Transmission Co
- Gulfstream Natural Gas System LLC
- Southern Natural Gas Co
- Tennessee Gas Pipeline Co
- Texas Eastern Transmission LP
- Transcontinental Gas Pipeline Corp
- Trunkline Gas Co LLC
- Destin Pipeline Company LLC

Gulf Supply Impacts





Source: MMS

Outlook for 2006 Hurricane Season

bp

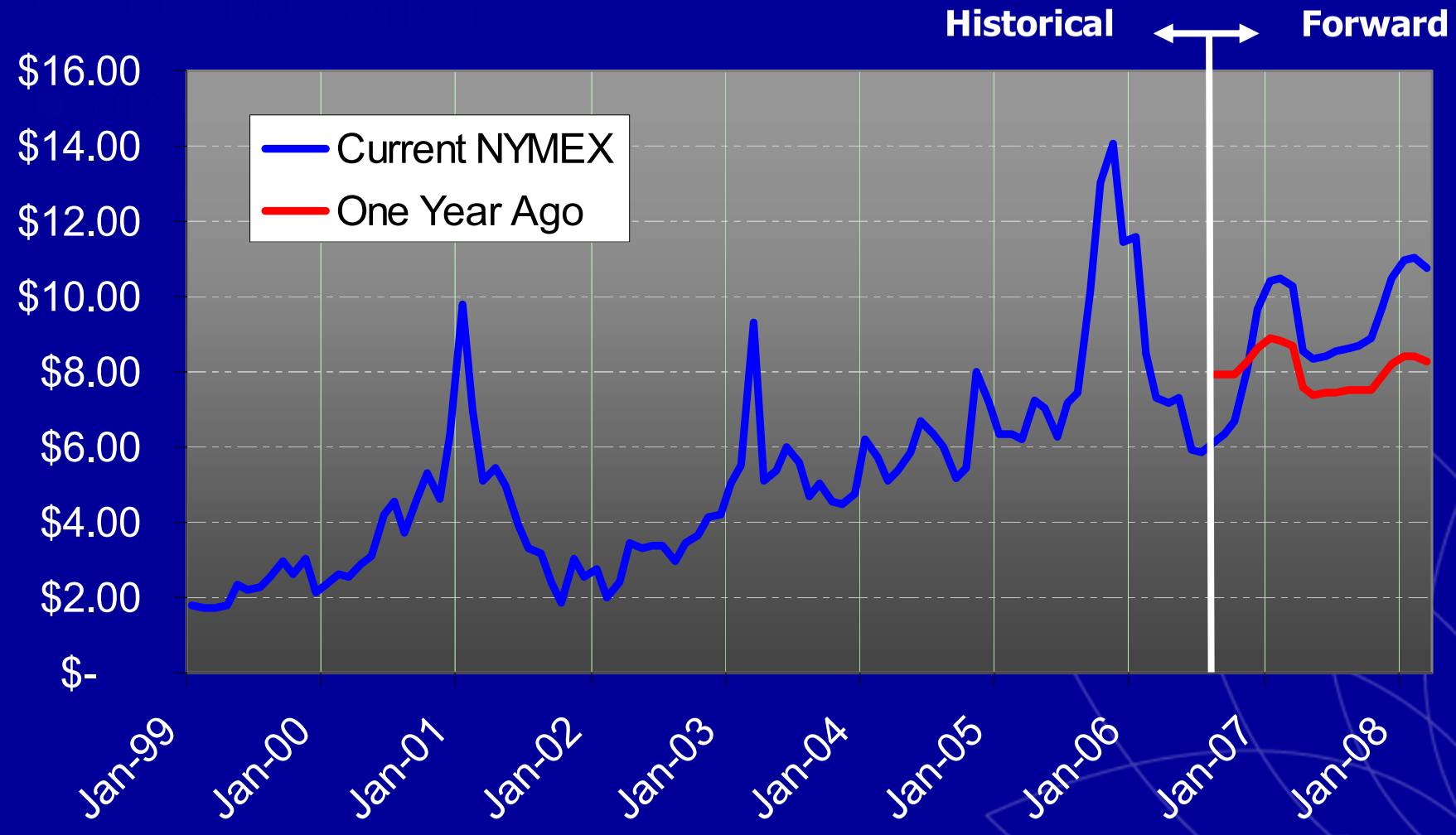
	2005 Forecast	2005	Normal	2006 Forecast
Named Storms	13	27	9.6	17
Named Storm Days	65	125	49.1	85
Hurricanes	7	15	5.9	9
Hurricane Days	35	51	24.5	45
Major Hurricanes	3	7	2.3	5
Major Hurricane Days	7	16.75	5.1	13
Overall Activity	135%	275%	100%	195%

Source: Colorado State University

Natural Gas Prices: Historical and Forward Market

bp

US$/MMBtu

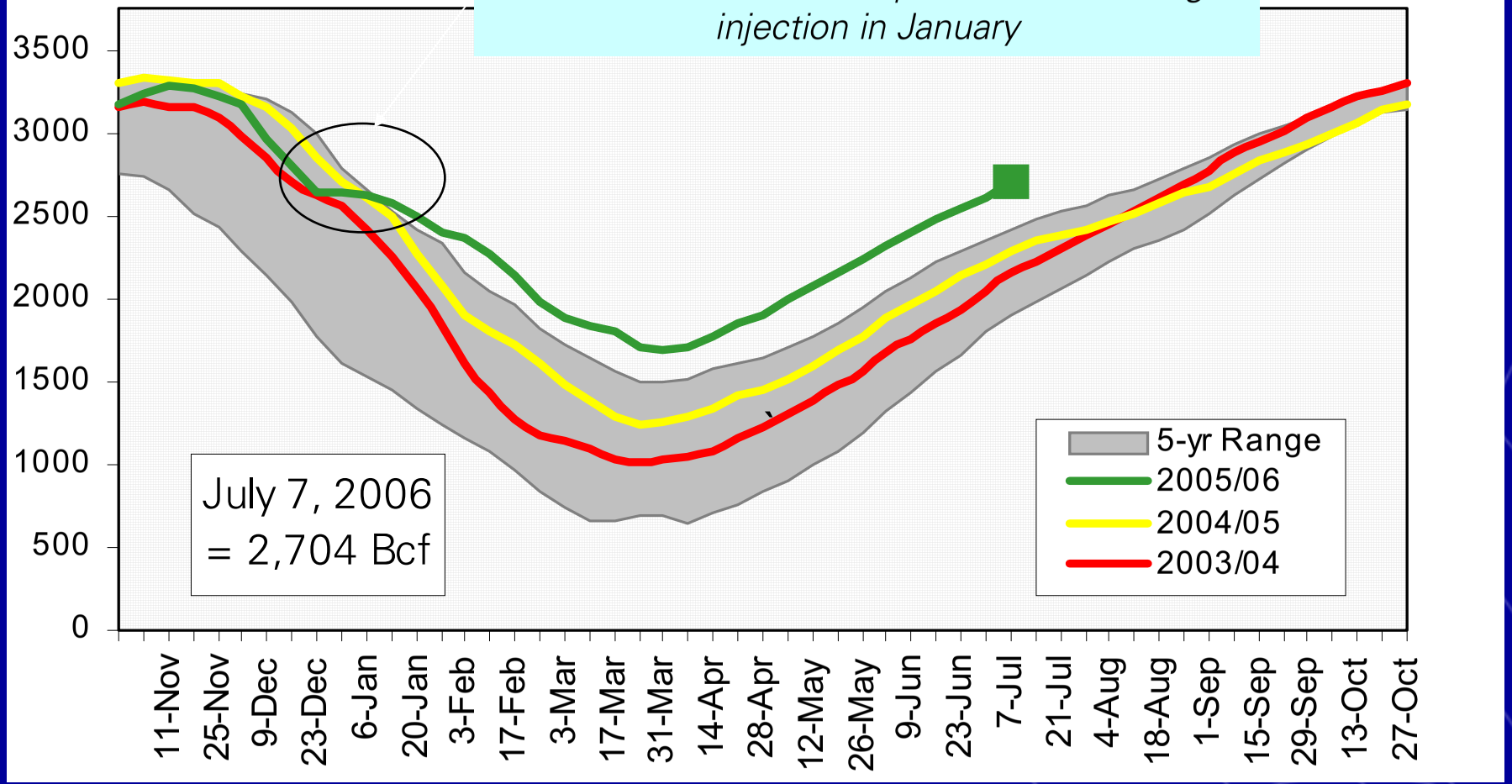


Source: NYMEX

Prices as of July 13, 2006

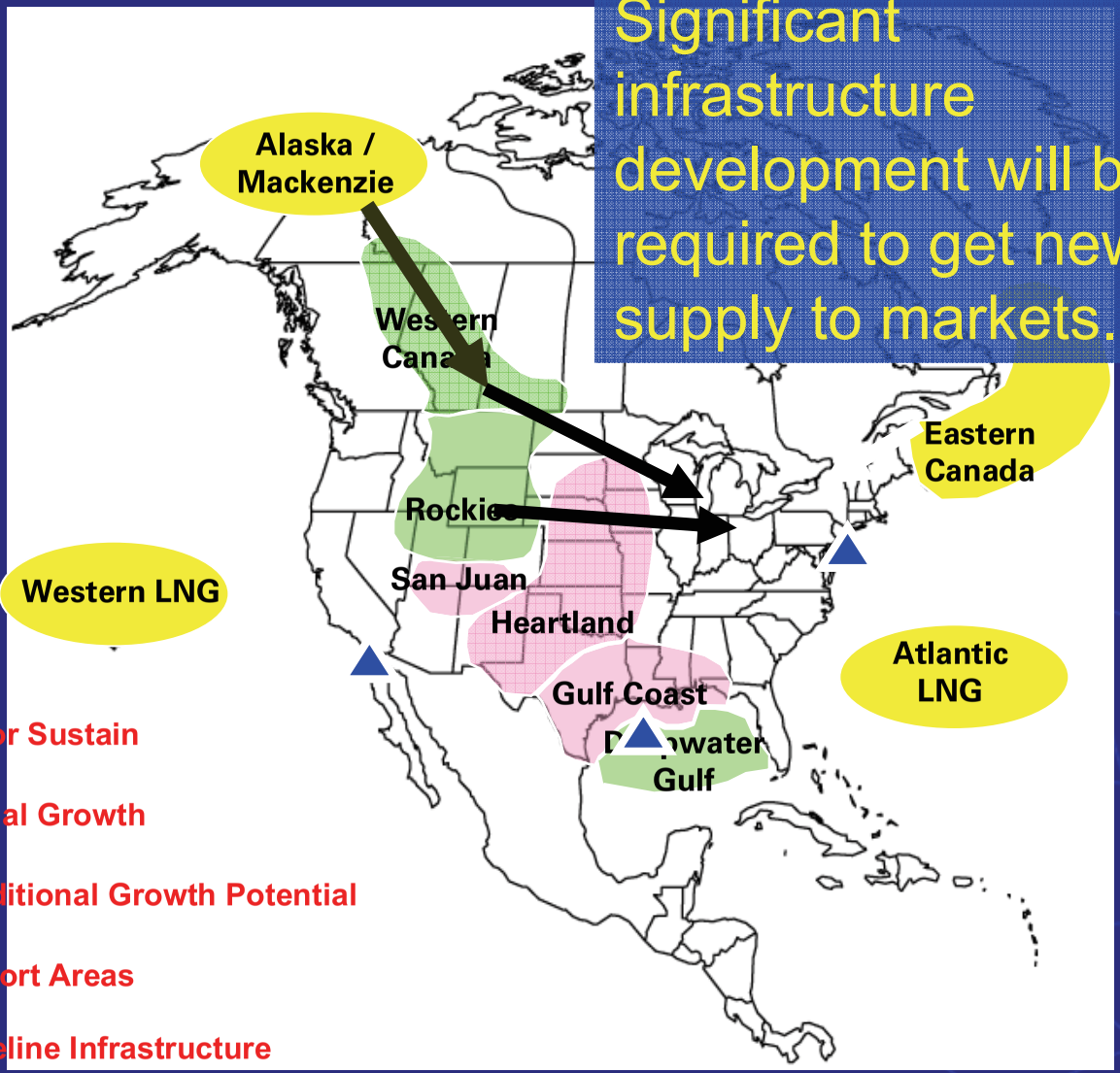
U.S. Storage Inventories

Demand response to strong prices coupled with the warmest January temperatures on record contributed to unprecedented storage injection in January



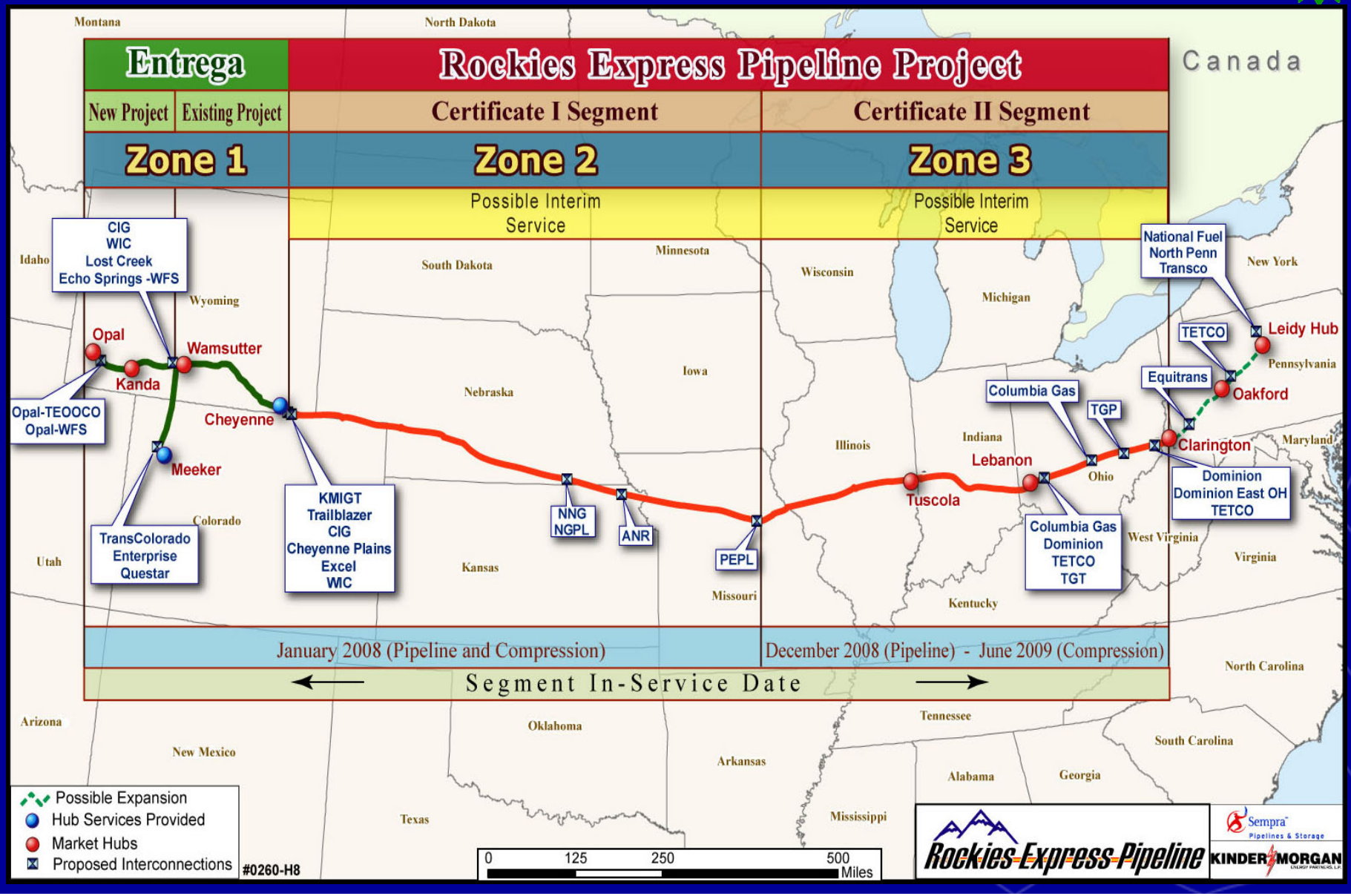
Source: EIA

Traditional & Non-Traditional Supply



Significant infrastructure development will be required to get new supply to markets.

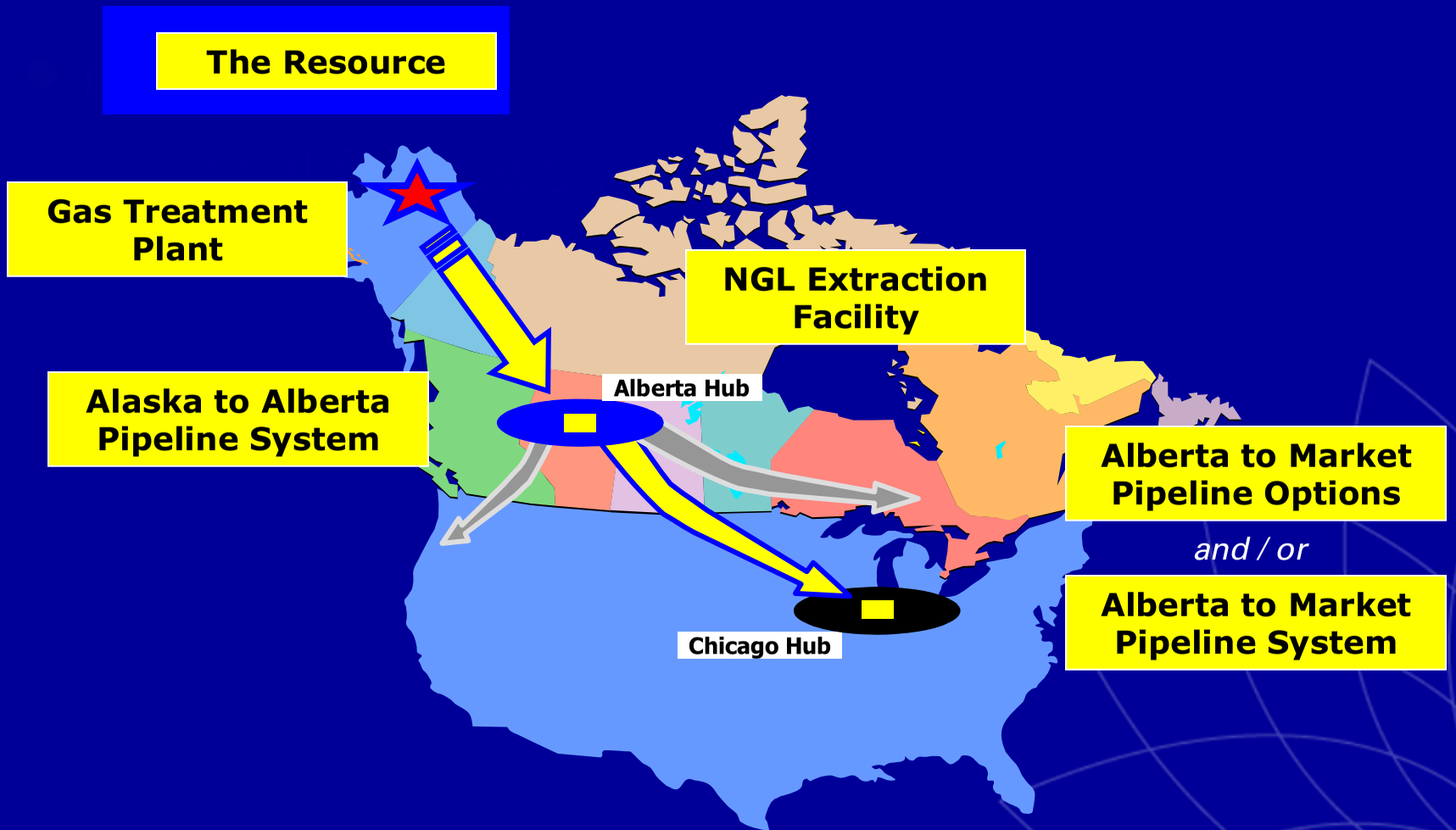
Rockies Express



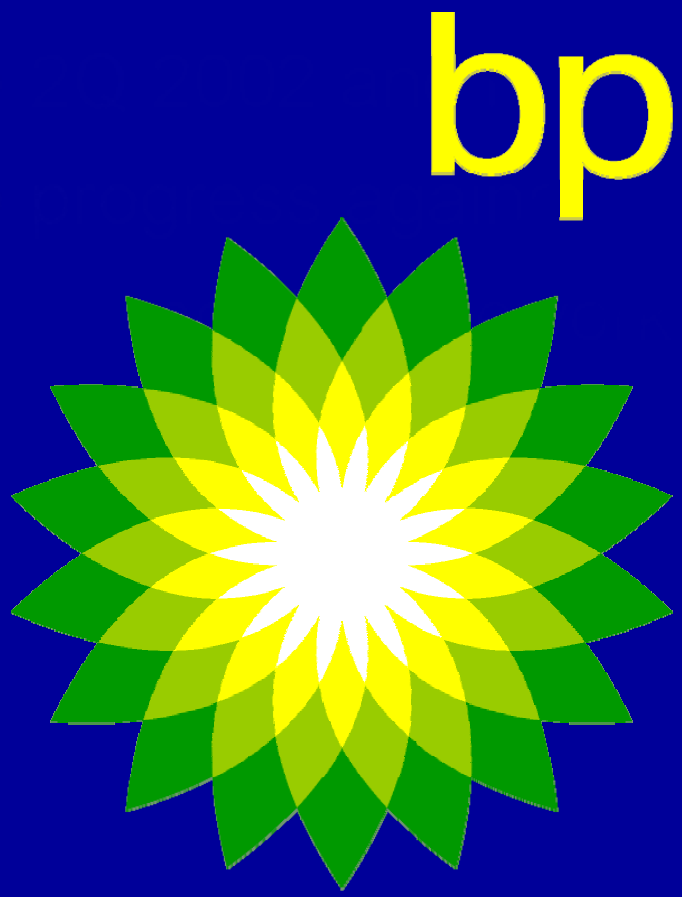
Alaska Gas Can Help Close the Prospective Supply Gap

bp

The Alaska Gas Pipeline is the key basin-opening infrastructure



Total investment ~ $20 billion ($2001)



Long Term Pricing

Strategy for Execution

- Develop a hedging philosophy in a non crisis period, documenting strategy and working with your PUC on tactics
- While your philosophy should remain constant, keep a flexible strategy as market conditions and fundamentals shift.
- Once the philosophy has been set, a strategy for execution must be agreed upon, followed through with rigor, and NOT second guessed!
- Hedged volumes will be high or low relative to the current "Market"

Hedge Example: 3-Year Rolling Purchase Plan

	% Hedged				
	Cal 2007	Cal 2008	Cal 2009	Cal 2010	Cal 2011
By End of Month:					
June-2006	100%	50%	25%	0%	
June-2007		100%	50%	25%	0%
June-2008			100%	50%	25%

15 Year Price Offering

July 12, 2006 quote

Public Energy Authority of Kentucky Transaction

- 10 year Transaction
  - Prepaid Natural Gas Contract worth over $1 Billion
  - 170 BCF (46,575 MMBtu/day)
  - BP will be providing variable monthly baseload volumes on four intrastate pipelines in the production pools for PEAK
  - BP is one of the few suppliers in the market with the expertise to execute long-term prepaid transactions and a credit rating to support a contract of this size.

Other Long Term Fixed Price Deals

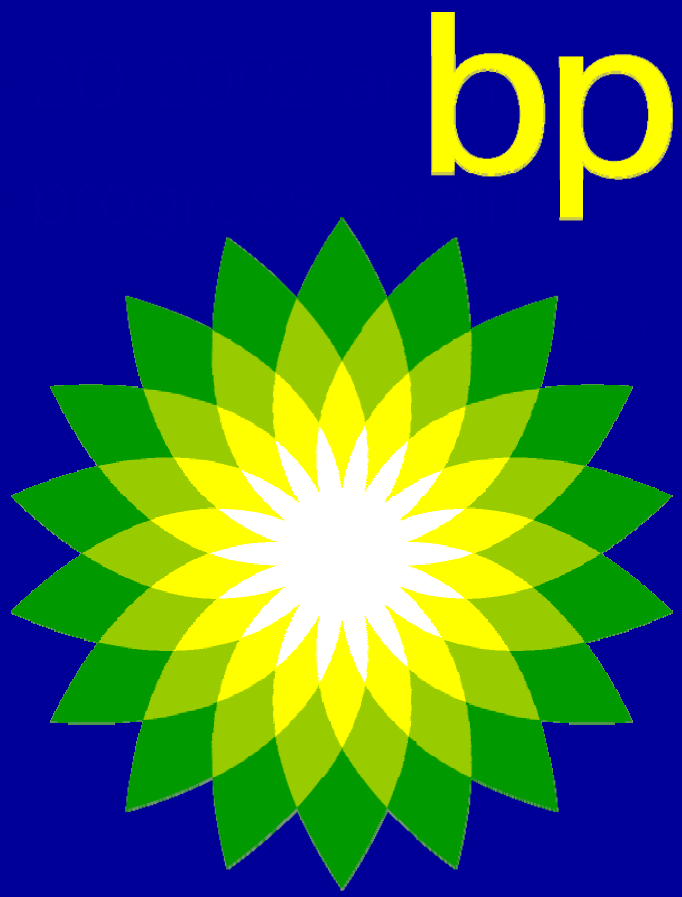
- Mid Continent Electric Utility
  - Credit Rating BBB
  - High Summer Demand Baseload Requirement
  - Baseload Natural Gas Fired Cogeneration Power Units
- BP Sold – 6 Year Transaction
  - 32,000 MMBtu/day
  - 2008 – 2013, June – August
  - Production Pool Delivery Point
  - Nymex Less Basis Fixed price Transaction
  - Weighted Average Price

Other Long Term Fixed Price Deals

- Mid Continent Gas and Electric Utility
  - Credit Rating BBB+
  - Annual Citygate Baseload Utility and Storage Injection Requirement
- BP Sold – 3 Year Transaction
  - 11,500 MMBtu/day
  - 2008 – 2011
  - BP Processing Plant Delivery into Primary FT Location
  - Basis Transaction
  - Later the Utility Locked in Fixed Nymex Price for the Term of the Transaction

Conclusions

- Fixed Price Natural Gas Procurement should be a portion of your portfolio, meeting your strategic objectives and applied consistently
- Volatility in the market will remain for the foreseeable future
- A strategic plan to manage natural gas costs should include some level of term fixed pricing
- A fixed price hedging strategy will NOT guarantee the lowest price, it will provide price stabilization and budgetary targets



Questions?