

THE MORNING ENERGY UPDATE

MICHAEL ROTHMAN

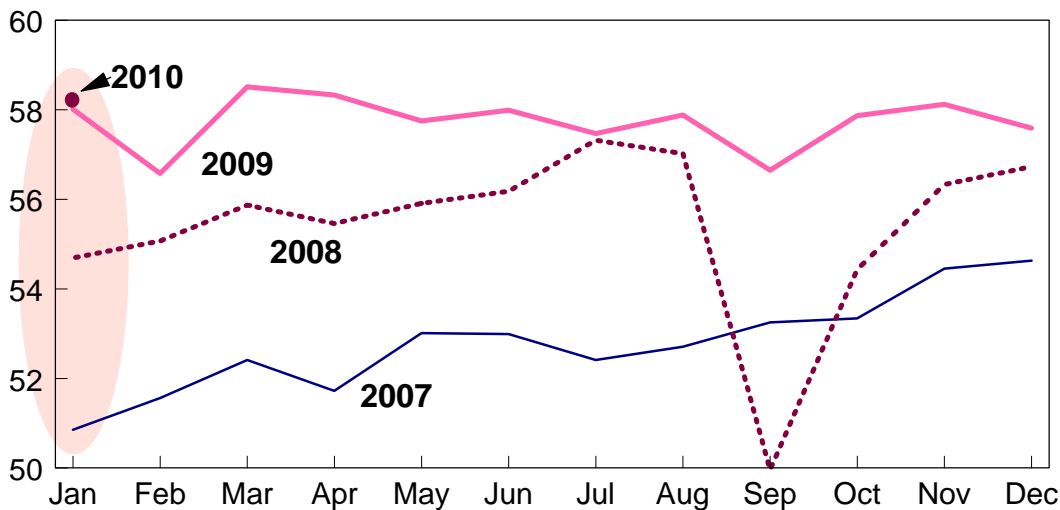
+1 908-573-5870

MIKE@THECORNERSTONE.US.COM

US NATURAL GAS SUPPLY FIGURES REVISED HIGHER

US Natural Gas Production

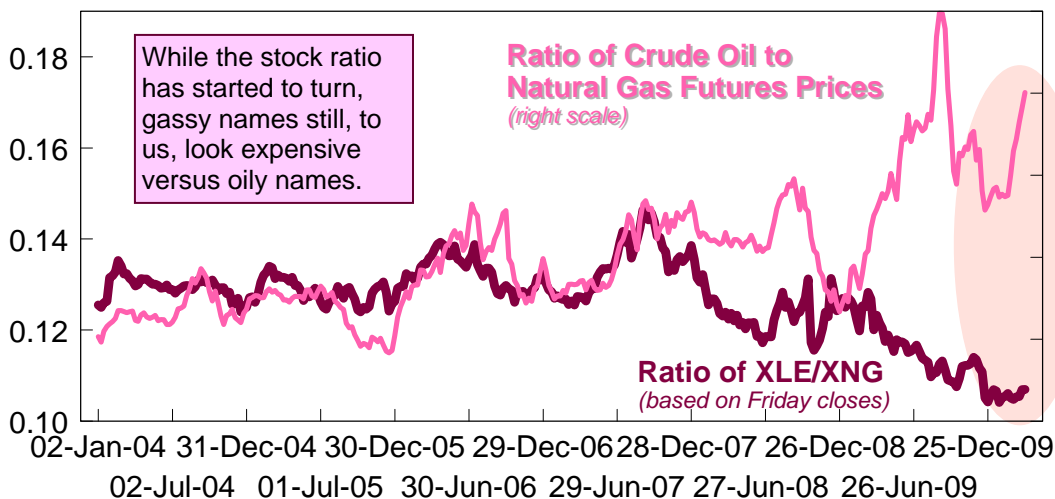
Billion Cubic Feet per Day



The *Natural Gas Monthly* (sometimes referred to as 914 data) from the DOE showed January production at 58.3 billion cubic feet/day (BCF/d). This figure stands 300 MM CF/d above the respective year-ago level and about 700 MM CF/d above an upwardly revised December '09 figure – in fact, all of the monthly figures for '09 were revised higher which seems at odds with the assertions of some pundits that output would be revised down.

Crude Oil to Natural Gas Ratios

Equities and commodity prices, Weekly

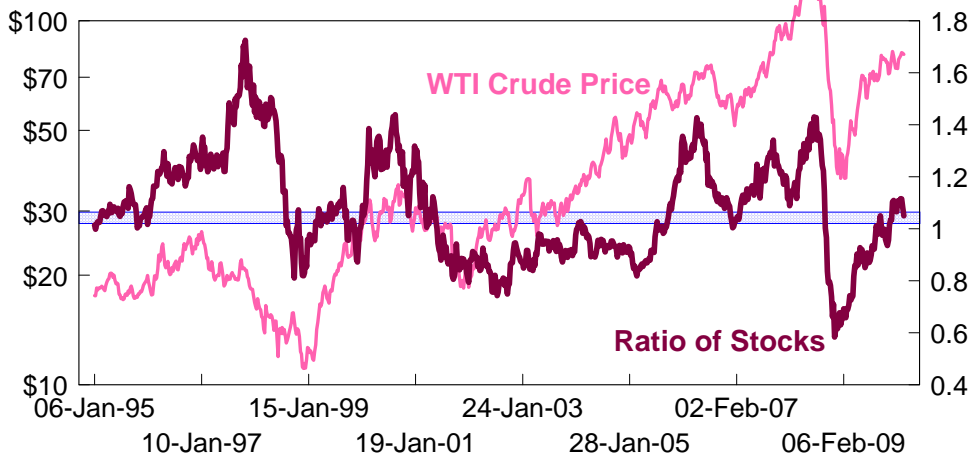


25 As a separate note, the bearish trend of supply data has stood sharply in contrast with the price behavior of natural gas equities vis-à-vis oil names. As seen to the left, the ratio of oily-to-gassy equities stands at a level today which is equivalent to a oil/gas commodity ratio of about 3 (or \$27 natural gas based on today's \$82 crude price).

EQUITY SCORECARD

Services relative to Integrated

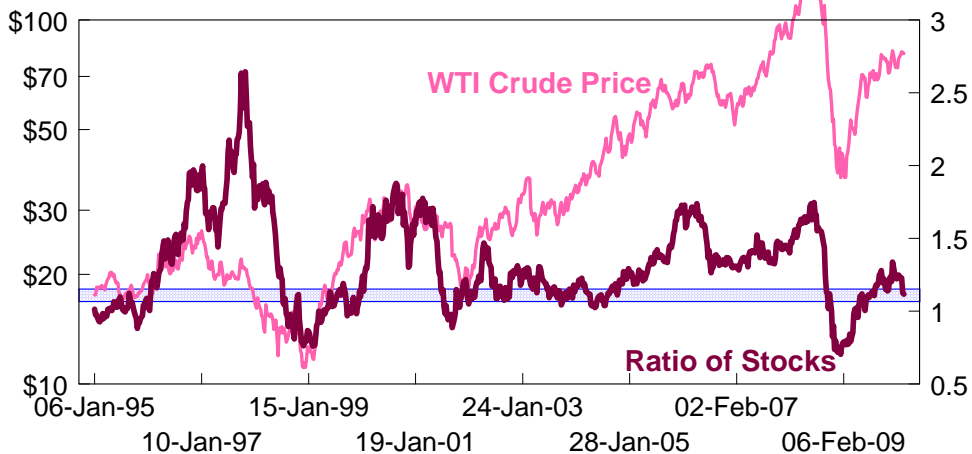
Weekly, 1995 to 26 Mar 2010



There are three particular energy equity pair trades we tend to write about. Two of these pairs (long Services/short Integrated and long Drillers/short Integrated) have pulled back modestly of late. We still like the long side of both these pairs having initiated the positions back in January 2009.

Drillers relative to Integrated

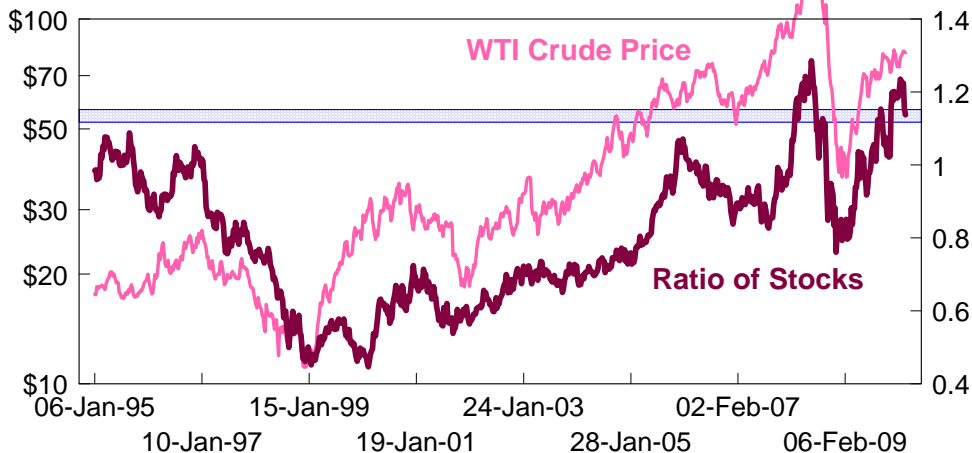
Weekly, 1995 to 26 Mar 2010



The other pair we have focused on is the short E&Ps/long Integrated which looked to us like it had become much too expensive (or high) – in fact, the ratio have been only higher when the price of crude oil had neared the \$150 mark. That ratio has made a move lower which we think has more room to go.

E&Ps relative to Integrated

Weekly, 1995 to 19 Feb 2010



BECAUSE IT'S "GOOD FOR YOU"

House Panel Seeks Hike in US Gasoline Tax

Oil Daily - The House Transportation and Infrastructure Committee is proposing a hike in the federal gasoline tax to sustain funding for US roadways as part of the next six-year surface transportation bill that lawmakers hope to pass this year.

Committee Chairman James Oberstar (D-Minnesota) is seeking a 10¢ to 15¢ increase in the federal motor fuel tax -- also called the "user fee" -- as part of legislation he has introduced in the House.

Members of the House panel said their tax proposal is largely in line with recommendations from two US Transportation Department panels.

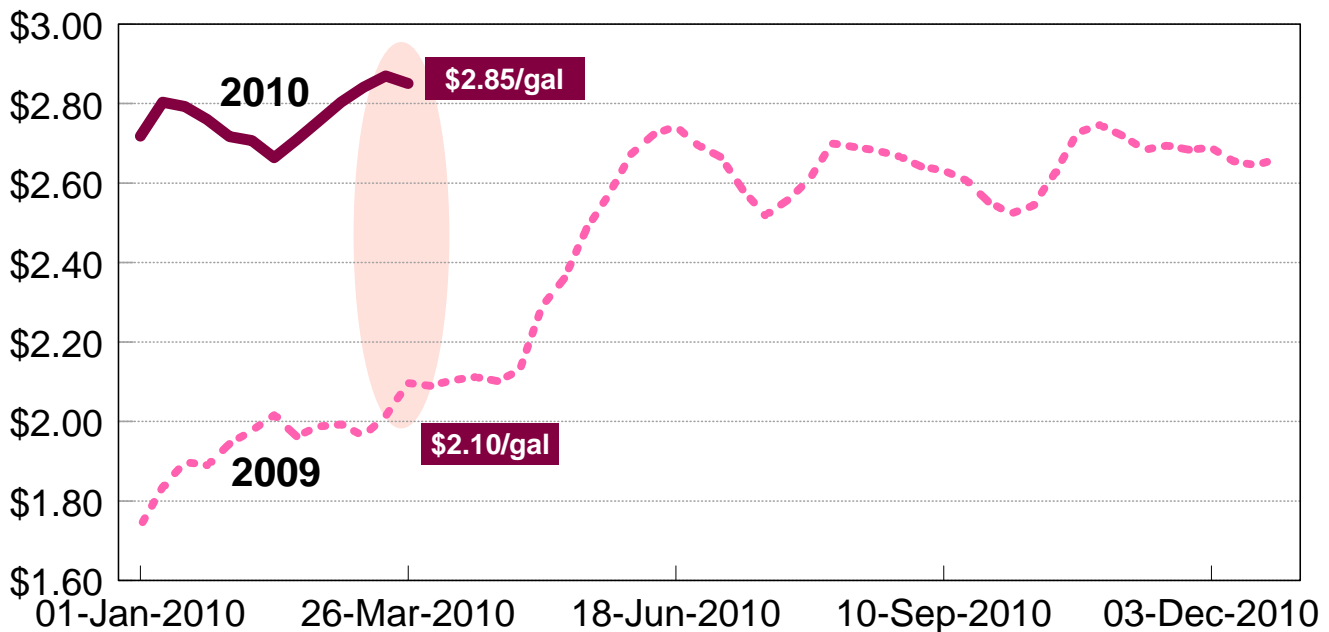
The National Surface Transportation financing and policy commissions have suggested a 10¢ or more increase in the gasoline tax, from 18.4¢ per gallon at present to 28.4¢ per gallon. They also proposed a 12¢ to 15¢ increase in the diesel fuel tax.

At a recent hearing of his committee, Oberstar said the hike should be used to help pay for \$450 billion in investments in roads and other infrastructure in coming years...

The national average price of gasoline "at the pump" rose to \$2.85/gallon last week or 75¢ more than the respective year-ago level. This means consumers are shelling out about \$105 billion in additional fueling costs (annualized) which, we think, has been partially offset by lower prices for natural gas home heating. The clipping to the left is about a new tax being proposed which would add another 10-15¢ to the existing federal fuel tax. This is somewhat small compared with a few of the measures being considered that range up to a new \$1/gallon tax to help promote fuel conservation.

Weekly US Average Retail Gasoline Prices

Dollars per gallon



NOTABLES

First Drilling Contracts for Rumaila

EIG - BP and partner China National Petroleum Corp. (CNPC) have awarded the first drilling contracts to hike production from the supergiant Rumaila oil field, the largest in Iraq and the first to be handed to international oil companies in the country's historic licensing rounds last year. Industry sources confirmed that the Rumaila Field Operating Co. -- the joint management unit established by BP, CNPC and Iraq's state South Oil Co. (SOC) to run the \$15 billion expansion -- has inked three deals for rigs, drilling and electrical submersible pumps for an initial 49 wells. Under the terms of the 20-year Rumaila service contract, the BP-led consortium's goal is quickly to expand production by 10%, at which point the partners can start to recover their costs and get paid \$2 per barrel for their services. From an initial 1.066 million barrels per day at handover, the partners pledged to lift Rumaila's production to 2.85 million b/d within seven years...

Contracts have started to be awarded to begin workovers at Rumaila – a field which straddles the border with Kuwait. The structure was “over-drilled” by Iraq’s national oil company during the last year’s of Saddam’s rule, according to private sources, in order to have provided exports for the UN’s crude-for-food deal. Sources have previously indicated that that drilling produced water coning in the field – water from the underlying aquifer protrudes into the oil bearing strata. Iraq has virtually no water separation equipment for its oil based on private indications. Time will tell how successful this BP-led work progresses.

Amid the deals being shaped in D.C. to cut greenhouse gas emissions is a push for trucks to be converted from diesel to compressed natural gas (CNG). This article in *Motor Trend* magazine highlighted GM’s planned production of new CNG vehicles which will include full-size trucks. Some of the work we have seen about an expanded truck fleet using CNG project that demand could be the equivalent of 6-7 BCF/day in 10 years – 12% or so of current US natural gas demand.

General Motors Planning New CNG-Powered Trucks

Motor Trend - In roughly two years, General Motors will introduce a new range of full-size trucks, chassis cabs and vans capable of running on compressed natural gas, according to a recent *Automotive News* report. “A number of fleet operators want to present a green presence to the public,” Rick Spina, GM’s vehicle line executive for full-size trucks, told *Automotive News*. “They want to be known as green companies, especially those on the retail side.” AT&T is one such company -- the telecommunications firm reportedly just ordered 8000 Ford E-250 vans, which will be converted to CNG. GM still isn’t sure if it will perform the CNG conversion in-house, or subcontract it out to its usual conversion firm, Roush Enterprises. Regardless, the automaker says the conversion requires minimal changes to the existing vehicle. “We have to harden the valves, harden certain things for durability reasons,” said Spina. “Pretty much it is a gasoline engine.” Other engineering factors also come into consideration on these vehicles -- for instance, transmissions need to have their shift points recalibrated, as running an engine on CNG yields a different power curve. Apart from the green image, fleets typically shop for CNG vehicles in a move to reduce costs. Although many companies incur the cost of installing their own CNG fueling station (helping negate the impact of a limited public CNG refueling infrastructure)...