

OUTLOOK FOR CRUDE OIL AND NATURAL GAS MARKETS: UPGRADED FROM CRITICAL TO STABLE

May 5, 2015

Data and closing prices as of May 1, 2015

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CANADIAN OIL AND GAS EQUITIES – OFF THE CRITICAL LIST

- Canadian oil weighted equities down 24% from 2014 peak and up 8% since start of 2015; finished 2014 down 14%.
- Canadian gas weighted equities down 28% from 2014 peak and up 9% since start of 2015; finished 2014 down 17%.
- Recovery in oil prices has lifted the sector, but can it be sustained and will natural gas prices act as a drag?

FCC Can. Gas-Weighted Equity Index



Source: FirstEnergy Capital Corp., Bloomberg

FCC Can. Oil-Weighted Equity Index



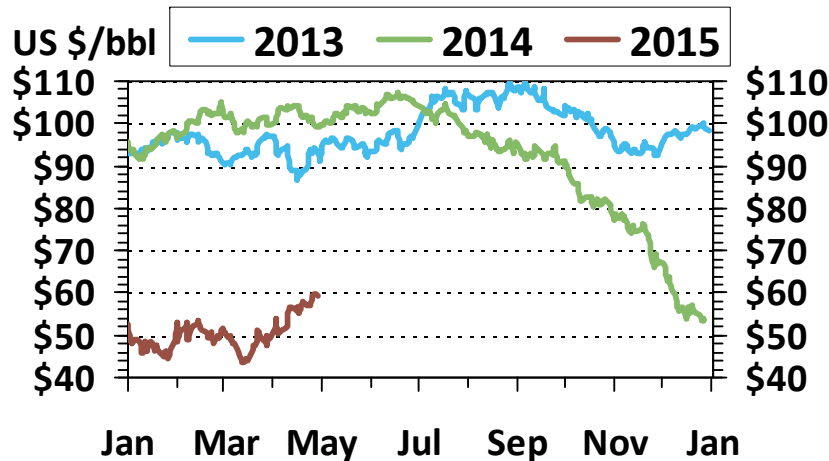
Source: FirstEnergy Capital Corp., Bloomberg

CRUDE OIL MARKETS

**THE PATIENT IS ON THE SLOW ROAD TO
RECOVERY**

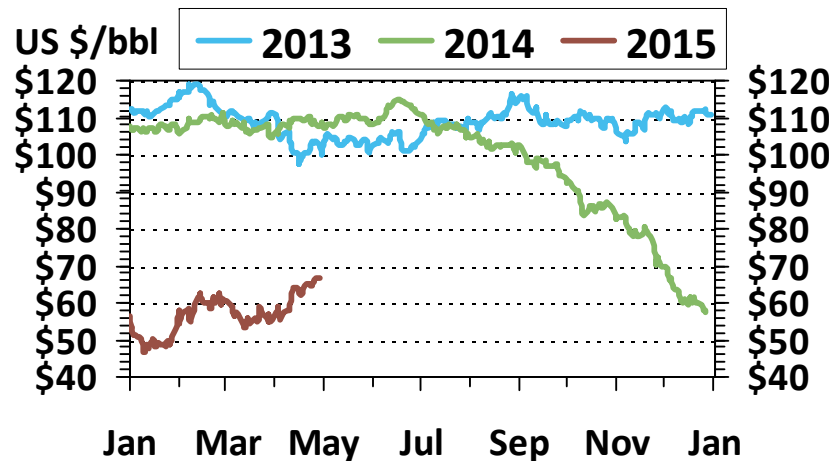
LATEST CRUDE OIL PRICES AND FORECAST

Nymex WTI Near Month Crude Oil Prices



Source: FirstEnergy Capital Corp., Bloomberg.

ICE Brent Near Month Crude Oil Prices



Source: FirstEnergy Capital Corp., Bloomberg.

	Nymex WTI - US\$/bbl			
	History	Forecast	Strip	Diff.
Jan 2015	\$47.33			
Feb 2015	\$50.72			
Mar 2015	\$47.85			
Apr 2015	\$54.63	\$48.00		-12%
May 2015		\$50.00	\$55.26	-10%
Jun 2015		\$52.00	\$59.15	-12%
Jul 2015		\$53.00	\$60.36	-12%
Aug 2015		\$52.00	\$61.06	-15%
Sep 2015		\$54.10	\$61.58	-12%
Oct 2015		\$56.25	\$62.04	-9%
Nov 2015		\$57.00	\$62.51	-9%
Dec 2015		\$57.25	\$62.94	-9%
Avg. 2015		\$52.32	\$57.12	-8%
Jan 2016		\$60.00	\$63.28	-5%
Feb 2016		\$60.00	\$63.51	-6%
Mar 2016		\$60.00	\$63.67	-6%
Apr 2016		\$65.00	\$63.82	2%
May 2016		\$65.00	\$63.96	2%
Jun 2016		\$65.00	\$64.12	1%
Jul 2016		\$70.00	\$64.21	9%
Aug 2016		\$70.00	\$64.31	9%
Sep 2016		\$70.00	\$64.44	9%
Oct 2016		\$73.00	\$64.58	13%
Nov 2016		\$74.00	\$64.75	14%
Dec 2016		\$75.00	\$64.92	16%
Avg. 2016		\$67.25	\$64.13	5%
Jan 2017		\$75.00	\$64.95	15%
Feb 2017		\$73.00	\$64.98	12%
Mar 2017		\$71.00	\$65.04	9%
Apr 2017		\$71.00	\$65.11	9%
May 2017		\$73.00	\$65.18	12%
Jun 2017		\$75.00	\$65.26	15%
Jul 2017		\$75.00	\$65.26	15%
Aug 2017		\$75.00	\$65.33	15%
Sep 2017		\$75.00	\$65.42	15%
Oct 2017		\$76.00	\$65.52	16%
Nov 2017		\$77.00	\$65.62	17%
Dec 2017		\$78.00	\$65.74	19%
Avg. 2017		\$74.50	\$65.28	14%

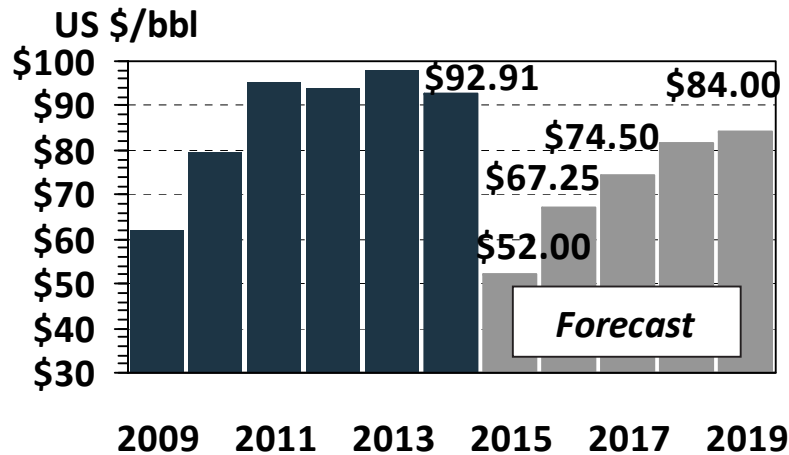
Strip as of May 1, 2015.

Source: FirstEnergy Capital Corp., Bloomberg.

	ICE Brent - US\$/bbl			
	History	Forecast	Strip	Diff.
Jan 2015	\$49.76			
Feb 2015	\$58.80			
Mar 2015	\$56.94			
Apr 2015	\$61.14	\$55.00		-10%
May 2015		\$57.00	\$60.32	-6%
Jun 2015		\$59.00	\$66.46	-11%
Jul 2015		\$60.00	\$67.23	-11%
Aug 2015		\$59.00	\$67.79	-13%
Sep 2015		\$61.10	\$68.30	-11%
Oct 2015		\$62.25	\$68.73	-9%
Nov 2015		\$63.00	\$69.16	-9%
Dec 2015		\$63.25	\$69.54	-9%
Avg. 2015		\$58.94	\$63.68	-7%
Jan 2016		\$65.00	\$69.86	-7%
Feb 2016		\$65.00	\$70.12	-7%
Mar 2016		\$65.00	\$70.32	-8%
Apr 2016		\$70.00	\$70.54	-1%
May 2016		\$70.00	\$70.73	-1%
Jun 2016		\$70.00	\$70.93	-1%
Jul 2016		\$75.00	\$71.13	5%
Aug 2016		\$75.00	\$71.33	5%
Sep 2016		\$75.00	\$71.52	5%
Oct 2016		\$78.00	\$71.72	9%
Nov 2016		\$79.00	\$71.92	10%
Dec 2016		\$80.00	\$72.11	11%
Avg. 2016		\$72.25	\$71.02	2%
Jan 2017		\$80.00	\$72.29	11%
Feb 2017		\$78.00	\$72.45	8%
Mar 2017		\$76.00	\$72.60	5%
Apr 2017		\$76.00	\$72.78	4%
May 2017		\$78.00	\$72.91	7%
Jun 2017		\$80.00	\$72.97	10%
Jul 2017		\$80.00	\$73.03	10%
Aug 2017		\$80.00	\$73.09	9%
Sep 2017		\$80.00	\$73.15	9%
Oct 2017		\$81.00	\$73.21	11%
Nov 2017		\$82.00	\$73.26	12%
Dec 2017		\$83.00	\$73.31	13%
Avg. 2017		\$79.50	\$72.92	9%

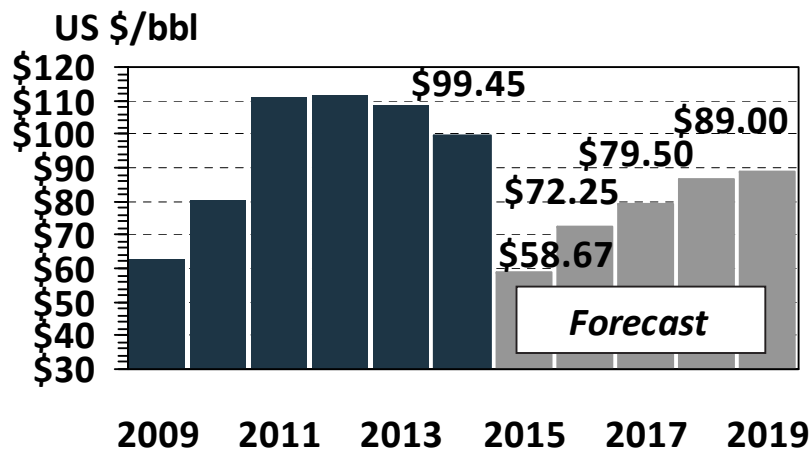
FIRSTENERGY CRUDE OIL PRICE FORECAST

Nymex WTI Price Outlook



Source: FirstEnergy Capital Corp., Bloomberg.

ICE Brent Price Outlook



Source: FirstEnergy Capital Corp., Bloomberg.

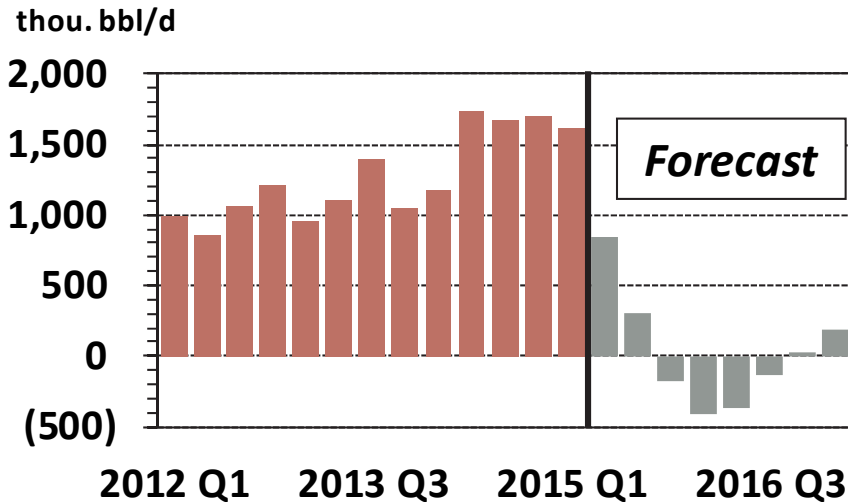
FirstEnergy Crude Oil Price Outlook

Year	US \$/bbl	West Texas		Brent	
		<i>Old</i>	<i>NEW</i>	<i>Old</i>	<i>NEW</i>
2014	Average	\$92.91	\$92.91	\$99.45	\$99.45
2015	Q1 est.	\$50.00	\$48.15	\$54.00	\$54.81
	Q2 est.	\$54.00	\$50.00	\$58.00	\$57.00
	Q3 est.	\$56.00	\$53.03	\$61.00	\$60.03
	Q4 est.	<u>\$58.00</u>	<u>\$56.83</u>	<u>\$63.00</u>	<u>\$62.83</u>
	Average est.	\$54.50	\$52.00	\$59.00	\$58.67
2016	Q1 est.	\$60.00	\$60.00	\$65.00	\$65.00
	Q2 est.	\$65.00	\$65.00	\$70.00	\$70.00
	Q3 est.	\$70.00	\$70.00	\$75.00	\$75.00
	Q4 est.	<u>\$74.00</u>	<u>\$74.00</u>	<u>\$79.00</u>	<u>\$79.00</u>
	Average est.	\$67.25	\$67.25	\$72.25	\$72.25
2017	Average est.	\$74.50	\$74.50	\$79.50	\$79.50
2018	Average est.	\$81.50	\$81.50	\$86.50	\$86.50

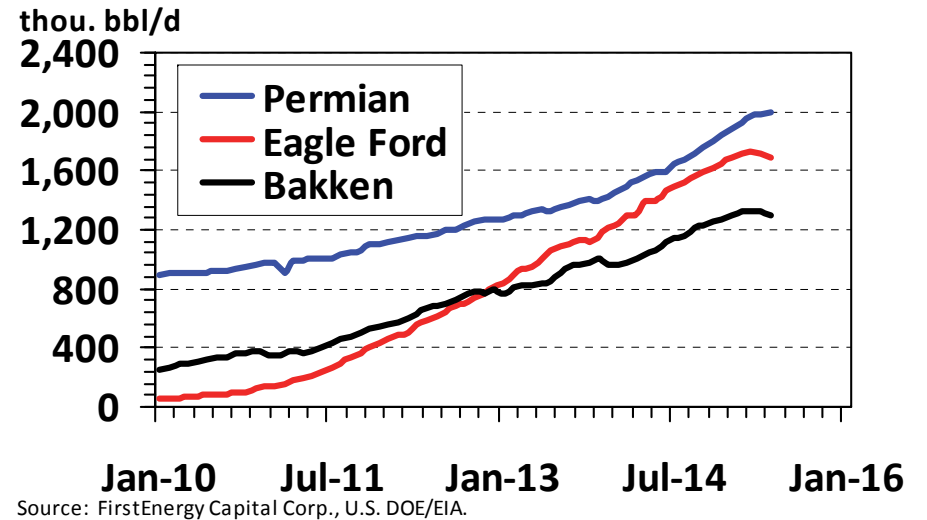
Notes: All historical averages computed using weekday data only.

Source: FirstEnergy Capital Corp., Bloomberg; est. refers to forecasted value.

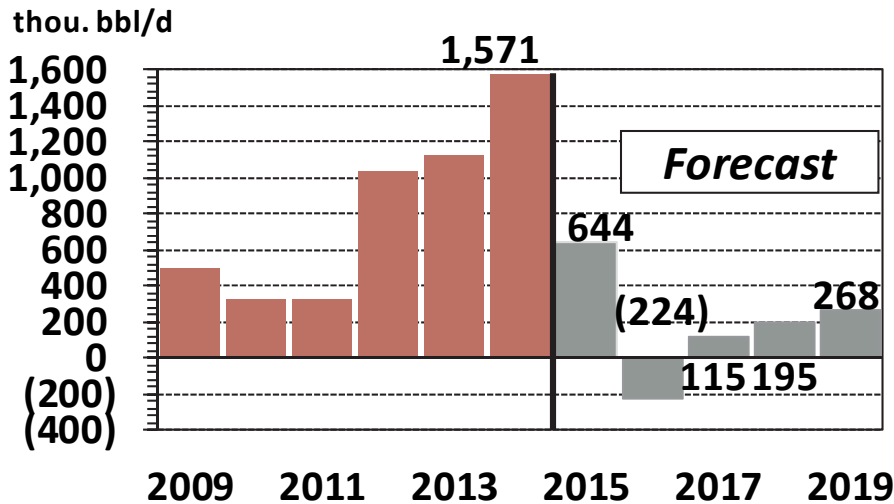
U.S. YoY Supply Change by Quarter



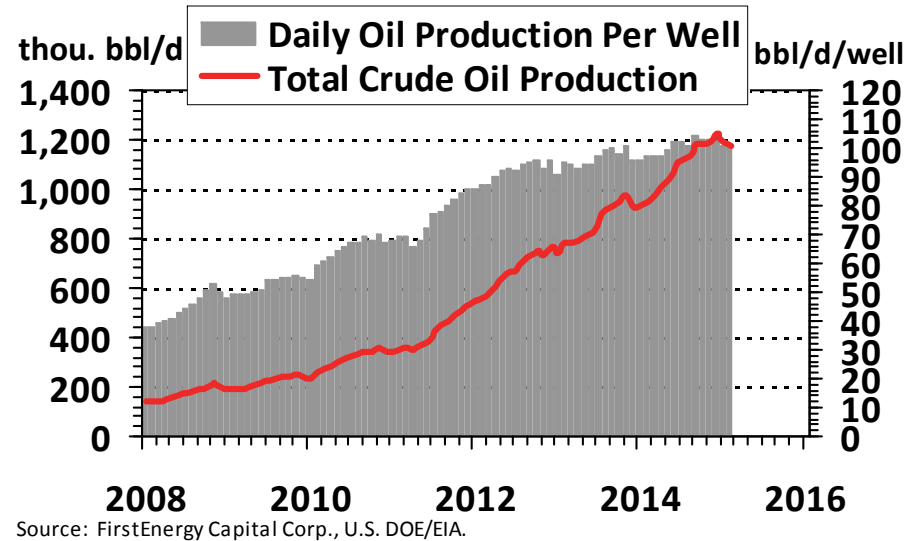
Permian/Eagle Ford/Bakken Liquids Production



U.S. Crude Oil Supply Growth



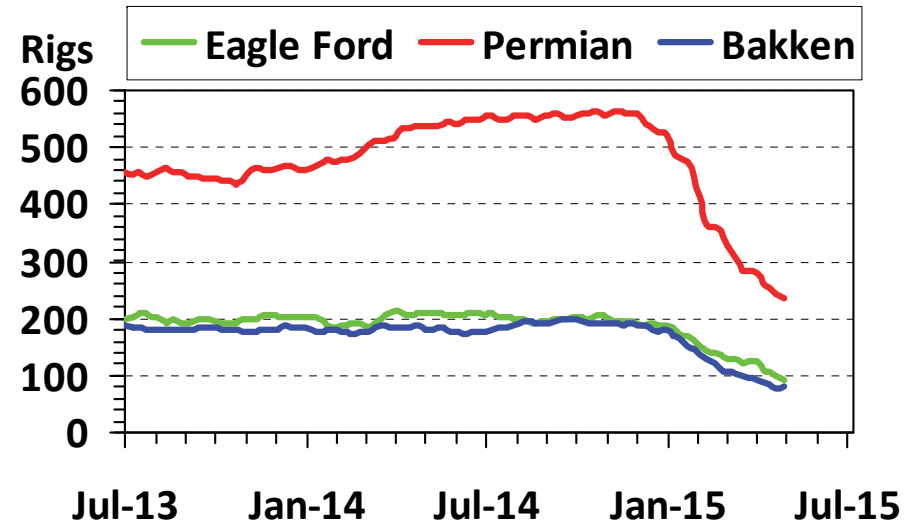
North Dakota Crude Oil Production



U.S. CRUDE OIL DRILLING

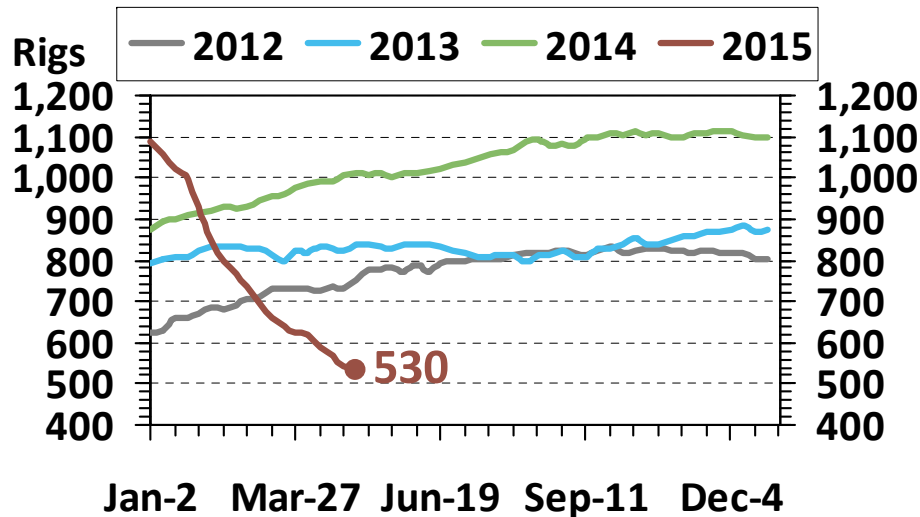
- Significant reduction in oil drilling activity since the start of 2015.
- Majority of the drop has been in the all important horizontal category.
- Drop in horizontals may help to undermine rig/well productivities.
- Producers looking carefully at economics and hedges for 2016 with recent price rally.

U.S. Oil Rig Count by Basin



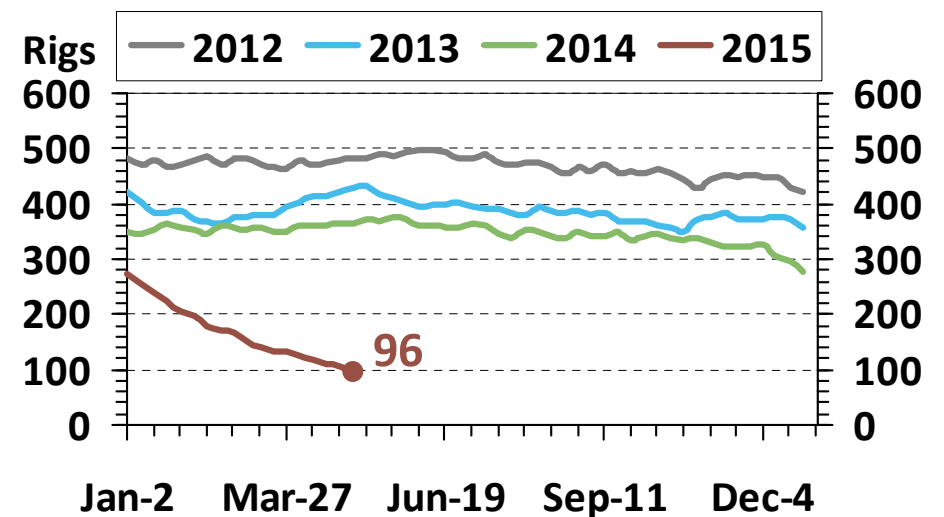
Source: FirstEnergy Capital Corp., Baker Hughes.

U.S. Crude Oil Horizontal Rig Count



Source: FirstEnergy Capital Corp., Baker-Hughes.

U.S. Crude Oil Vertical Rig Count

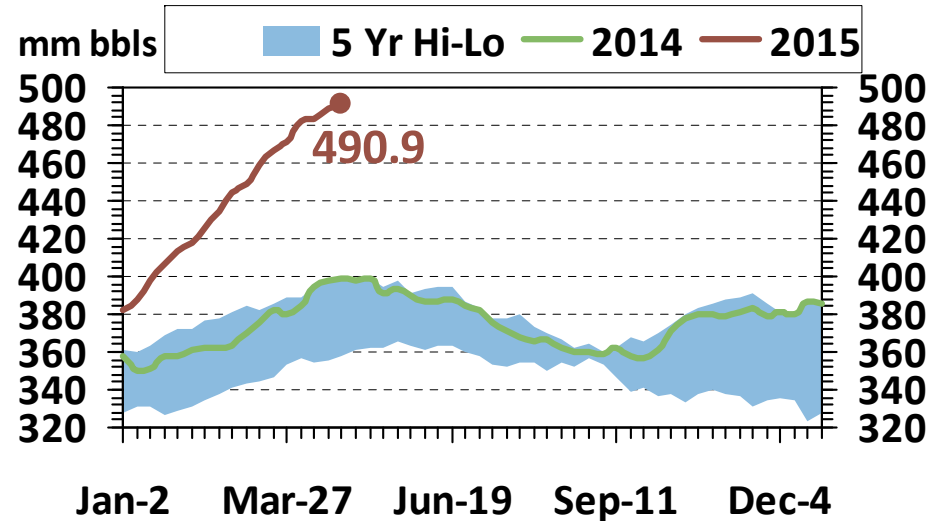


Source: FirstEnergy Capital Corp., Baker-Hughes.

PRICES HAVE PARTIALLY RECOVERED, BUT WHAT NOW?

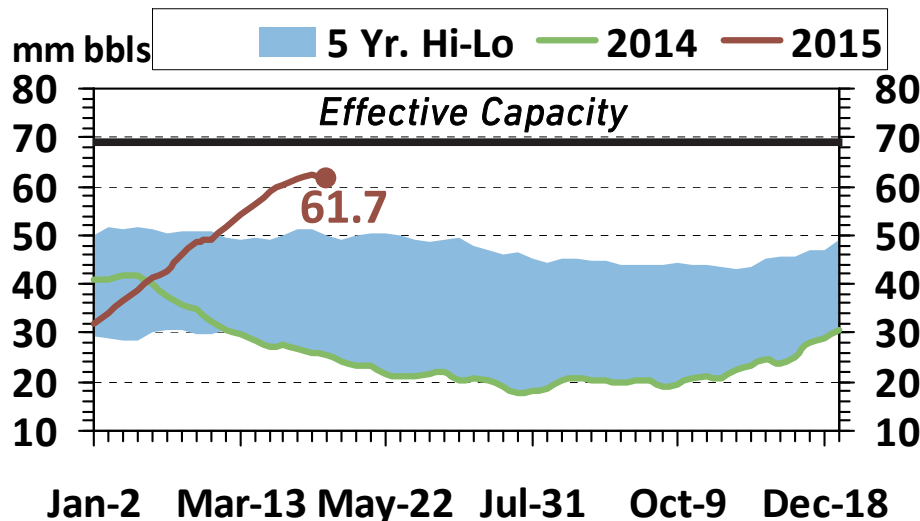
- Last 7 months of price pain have begun to yield results: inventories are finally flattening out and set to decline and U.S. supply appears to be rolling over.
- Prices need to consolidate recent gains as part of an effort to work through massive inventory overhang.
- Price recovery is for real, but fragile.

U.S. Crude Oil Inventories



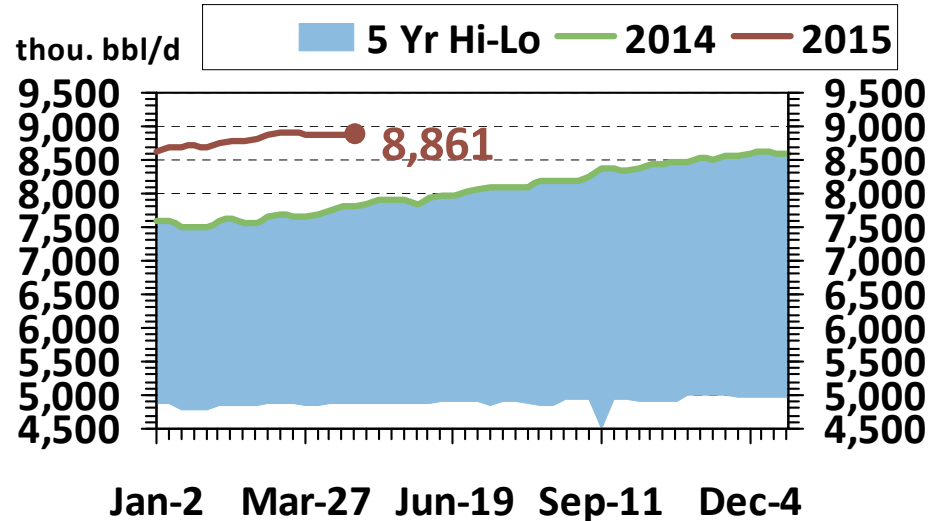
Source: FirstEnergy Capital Corp., US DOE/EIA.

U.S. Crude Oil Stocks at Cushing, OK.



Source: FirstEnergy Capital Corp., US DOE/EIA.

U.S. Lower 48 Crude Oil Production

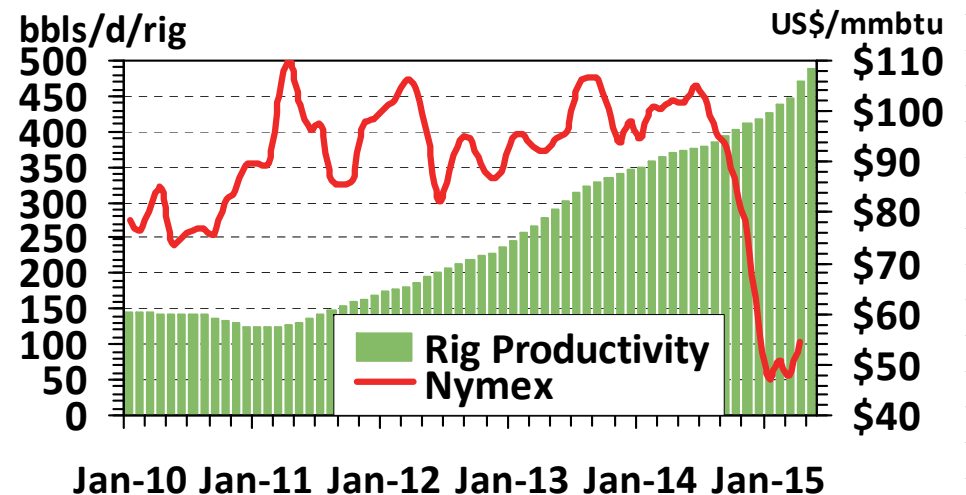


Source: FirstEnergy Capital Corp., US DOE/EIA.

BUT THE MARKET HAS TO BE CAREFUL – BEWARE THE FRACKLOG!

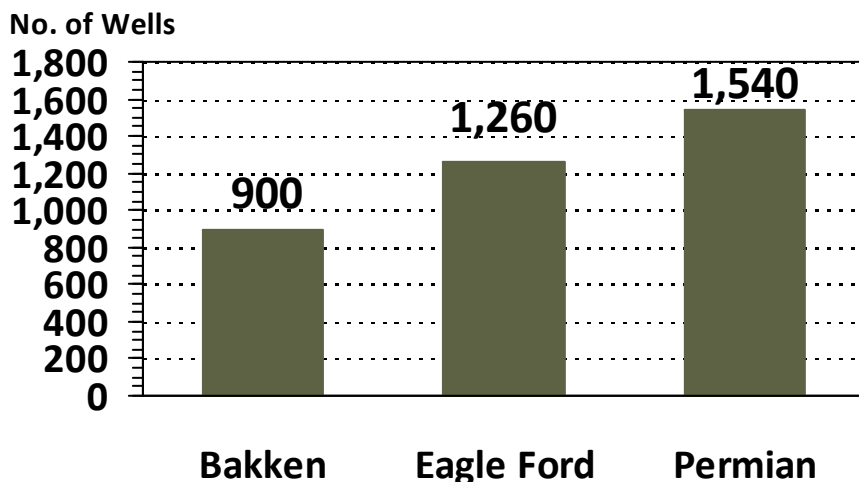
- U.S. physical oil supplies may be rolling over, but there is still plenty of dry powder for when prices recover.
- Assuming field costs are down 25%, then breakevens for all major plays are now under US\$50; allow for 20%+ IRR, then US\$60 could be return price.
- Producers have been locking in prices a great deal in recent weeks.
- Supply upside could be fast and large.

U.S. Oil Rig Productivity vs. Oil Price



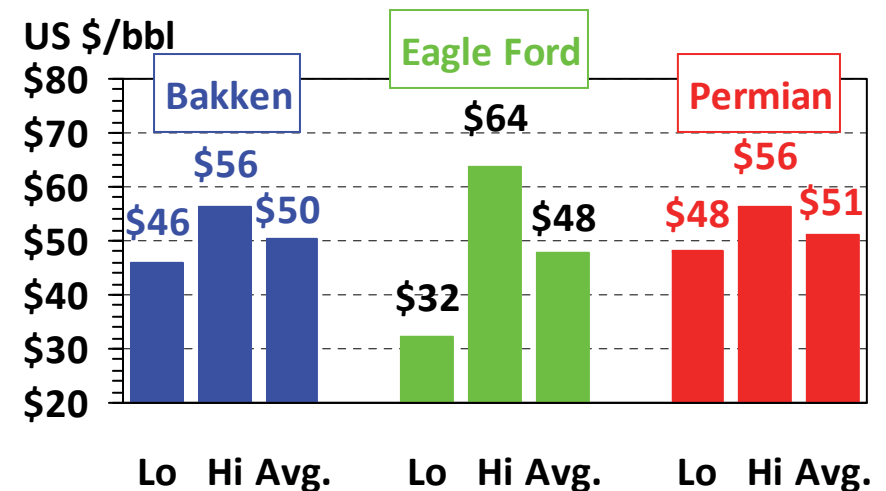
Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

Backlog of Drilled but Uncompleted Oil Wells



Source: ND Industrial Commission, Bloomberg.

U.S. Breakevens: Eagle Ford/Permian/Bakken

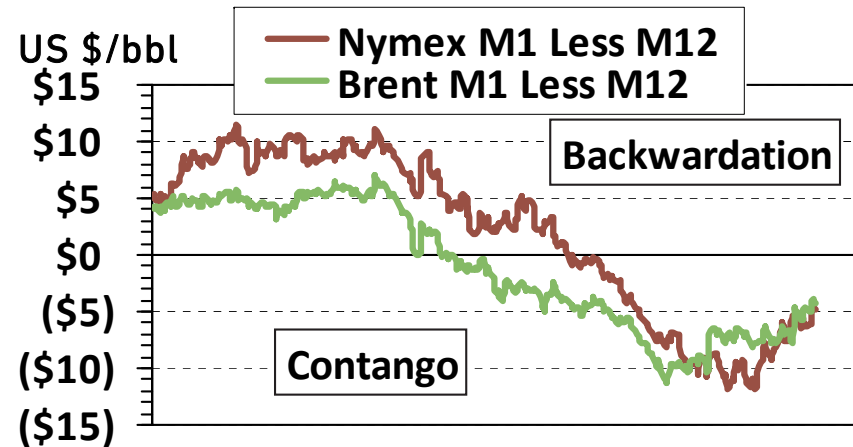


Source: Reuters, assumes 25% reduction in service costs.

GLOBAL SUPPLIES STILL HEALTHY, BUT TIGHTENING IS COMING

- Supplies outside of North America are suffering even more than in the U.S. and have little momentum behind them (other than in Brazil).
- These declines will help to tighten Asian markets, which will feed back to Atlantic Basin cargoes.
- Flattening of forward curves suggests that tightening is well underway.

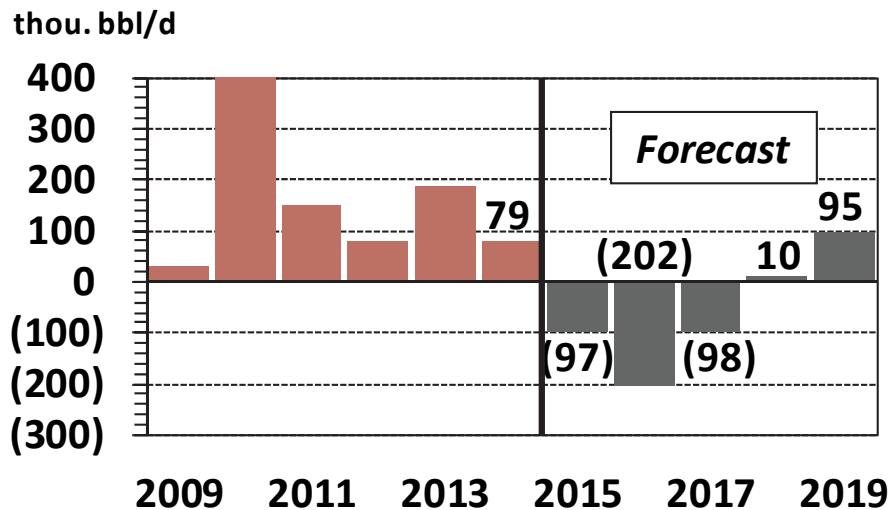
Nymex & Brent Contango/Backwardation



Jan-14 May-14 Sep-14 Jan-15 May-15

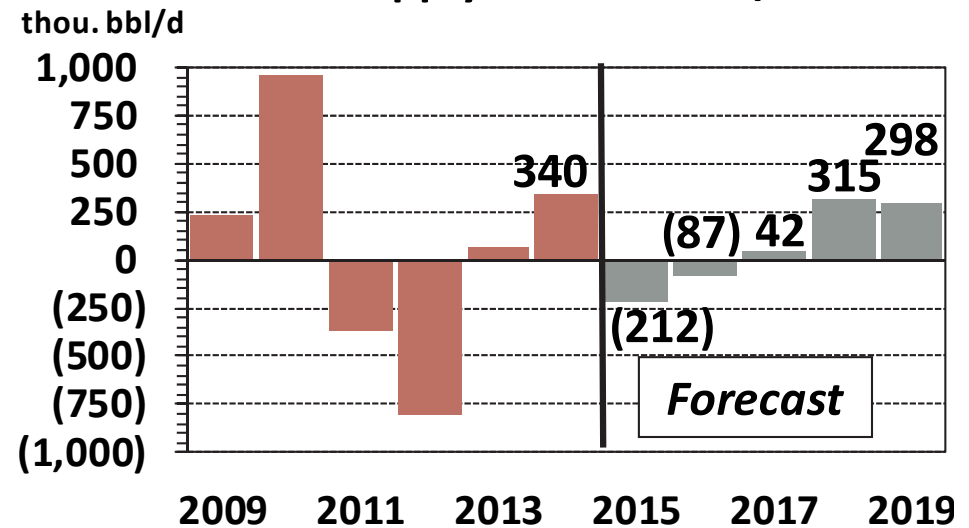
Source: FirstEnergy Capital Corp., Bloomberg.

Russia Crude Oil Supply



Source: FirstEnergy Capital Corp., IEA.

Non-OPEC Supply Excl. Canada/U.S.



Source: FirstEnergy Capital Corp., IEA.

WHAT HAS OPEC BEEN UP TO?

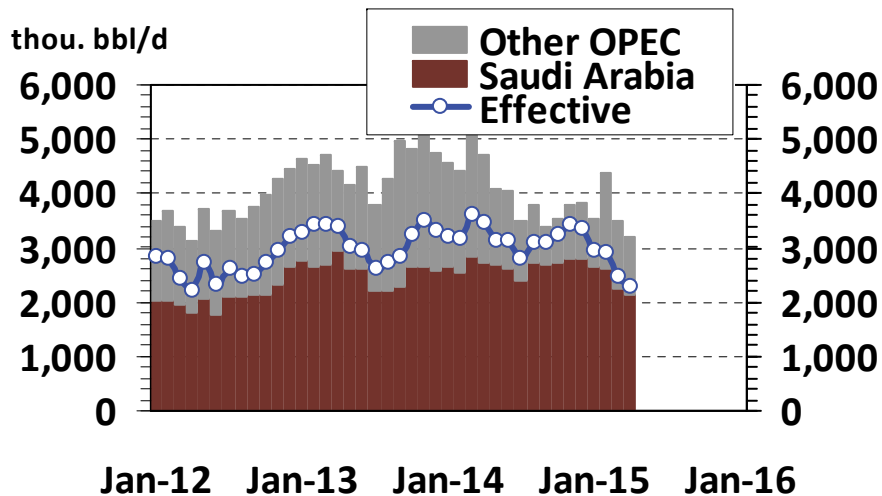
OPEC Crude Oil Supply by Country

mm bbls/d	2013	2014	2015e	2016e
Algeria	1.15	1.12	1.12	1.11
Angola	1.72	1.66	1.76	1.83
Ecuador	0.52	0.55	0.55	0.55
Iran	2.68	2.81	2.84	3.10
Iraq	3.08	3.33	3.56	3.70
Kuwait	2.81	2.80	2.81	2.78
Libya	0.90	0.46	0.43	0.48
Nigeria	1.95	1.90	1.89	1.95
Qatar	0.73	0.71	0.68	0.70
Saudi Arabia	9.66	9.72	9.98	9.88
UAE	2.76	2.76	2.82	2.78
Venezuela	<u>2.50</u>	<u>2.46</u>	<u>2.38</u>	<u>2.31</u>
Total	30.46	30.28	30.81	31.14

- Still no change in policy ahead of June 5 ministerial meeting; as far as we know, no cuts still means no cuts.
- Recent Saudi cabinet moves have generated speculation about change in production policy, but Saudis will not make any rash moves.
- Saudis at 10+ mm bbl/d would appear to indicate that maintaining or increasing market share remains top priority.

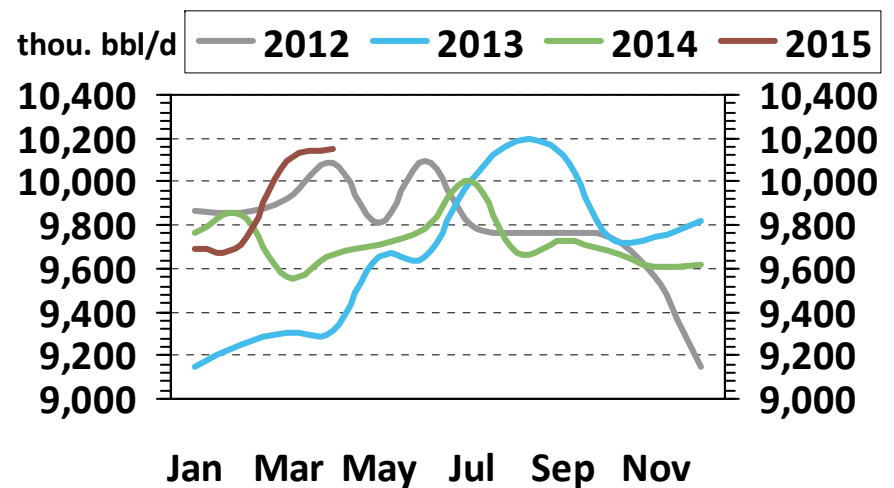
Source: FirstEnergy Capital Corp., IEA.

OPEC Notional and Effective Spare Capacity



Source: FirstEnergy Capital Corp., IEA.

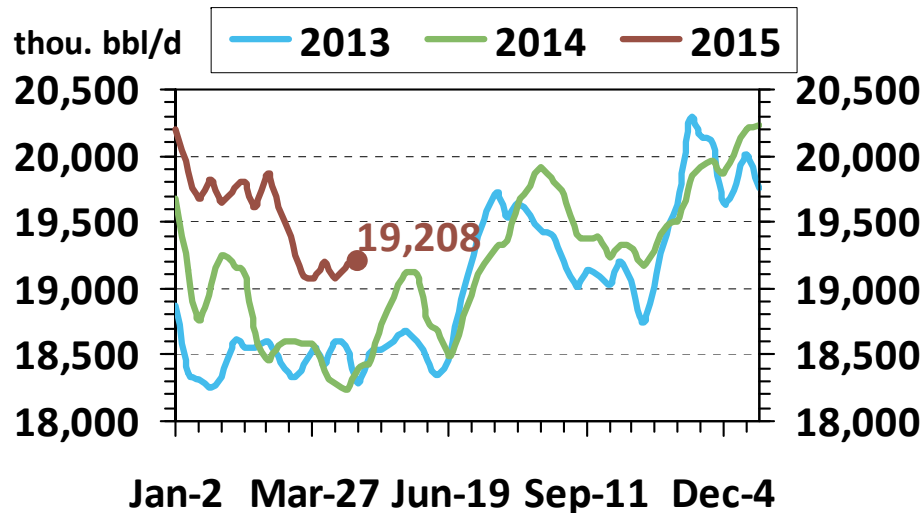
Saudi Arabia Crude Oil Supply



Source: FirstEnergy Capital Corp., IEA.

DEMAND SEEMS TO BE FINALLY RESPONDING

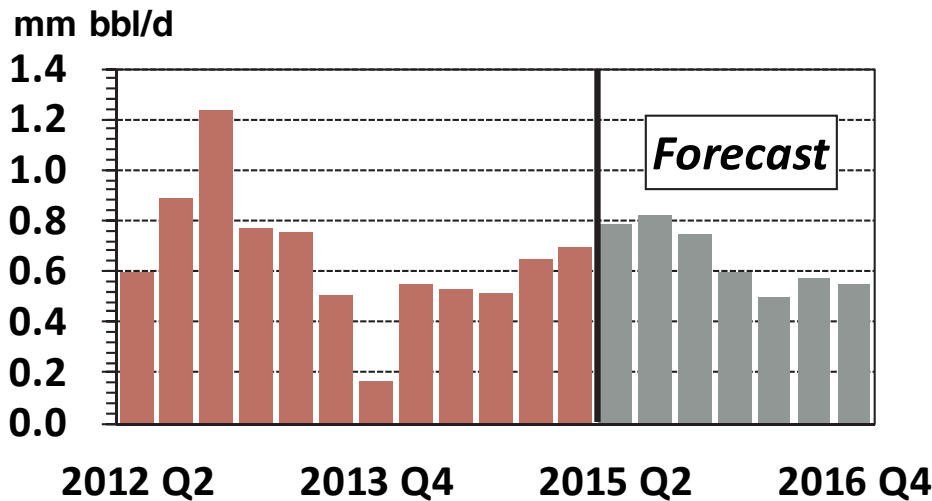
U.S. Weekly Implied Oil Demand



Source: FirstEnergy Capital Corp., US DOE/EIA.

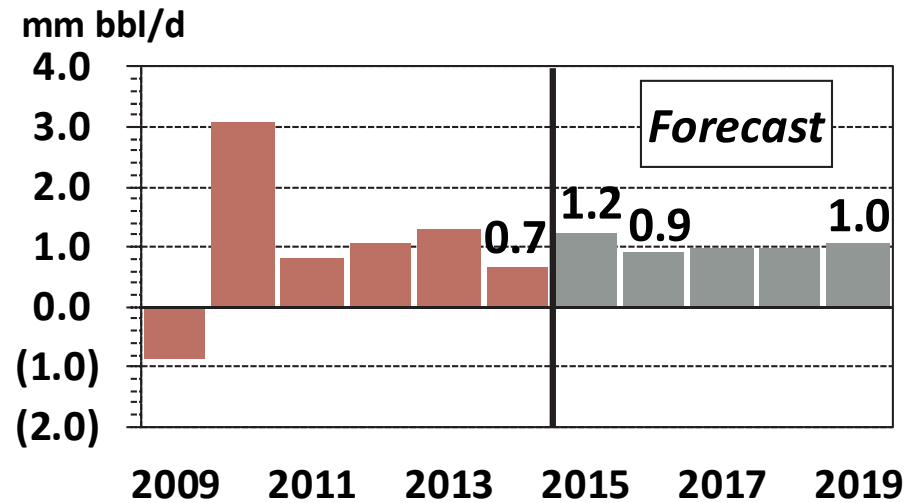
- U.S. demand has led the way higher in late 2014 and into 2015; driving season strength looks to be excellent on back of solid economy.
- Emerging market demand picking up a bit faster than expected.
- Have revised up 2015 global outlook; could be more added to 2016/17.
- Faster clean up of the oversupply.

Emerging Economy Oil Demand Growth



Source: FirstEnergy Capital Corp., IEA.

World Oil Demand Growth

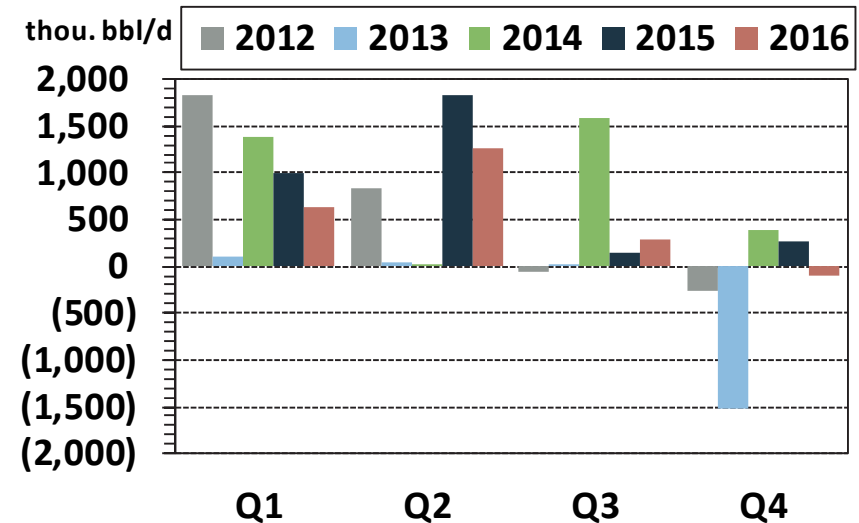


Source: FirstEnergy Capital Corp., IEA.

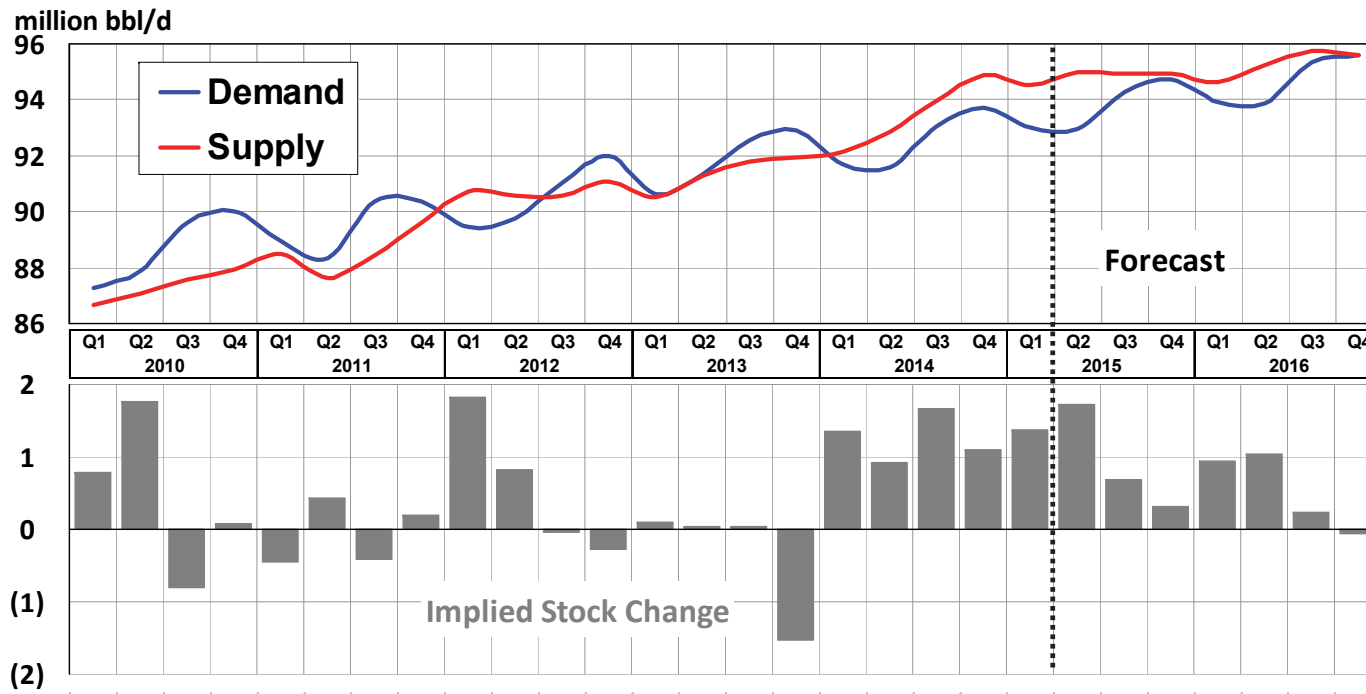
THE MARKET IS STARTING TO FIND SOME BALANCE

- Oversupply still looks to be large in 2Q15, but the market seems to be looking right through to better balances in 2H15.
- 2016 oversupply looks smaller than 2015 and very dependent on speed of Iran return (if any) and upside in demand.
- Suggests price stability near current levels or even more upside in 2H15.
- Recall price cap may be set by U.S. supply!

Global Inventory Swing by Quarter

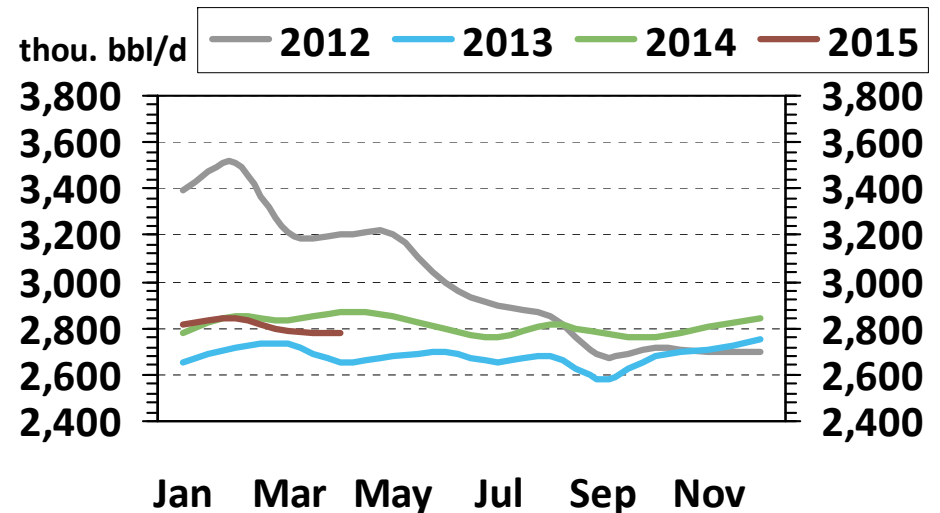


Source: FirstEnergy Capital Corp., IEA.



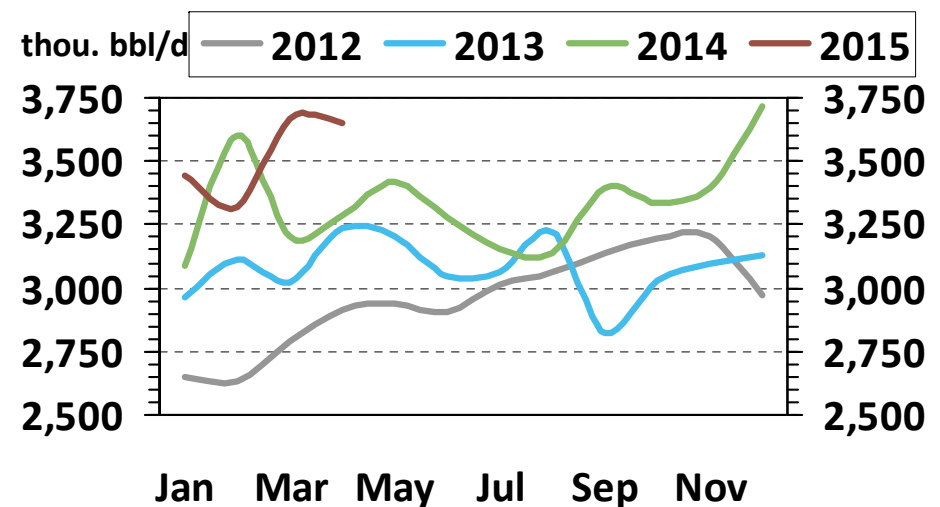
- There is still plenty of news flow, mostly of a price bearish variety, that could upend a gradual price recovery.
- Tentative framework deal appears to be in place with Iran, with a more detailed agreement deadline by June 30 (or thereabouts).
- Good possibility that a deal will be done, but the removal of banking and oil sanctions will likely be phased in; both sides want a deal, but verification of compliance is the stumbling block.
- Iraq still fighting ISIS insurgency, but so far it has made little impact on supplies; deal with Kurds mean more supply upside.
- Libya? Who is in charge? Who knows. Supply will be very erratic.
- Russia/Ukraine – any end in sight?

Iran Crude Oil Supply



Source: FirstEnergy Capital Corp, IEA.

Iraq Crude Oil Supply

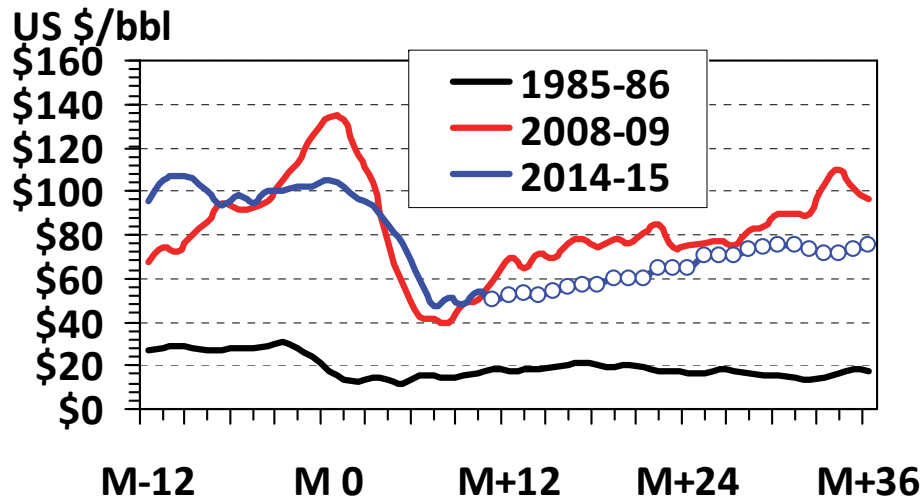


Source: FirstEnergy Capital Corp, IEA.

THE END RESULT IS A SLOW AND STEADY PRICE IMPROVEMENT

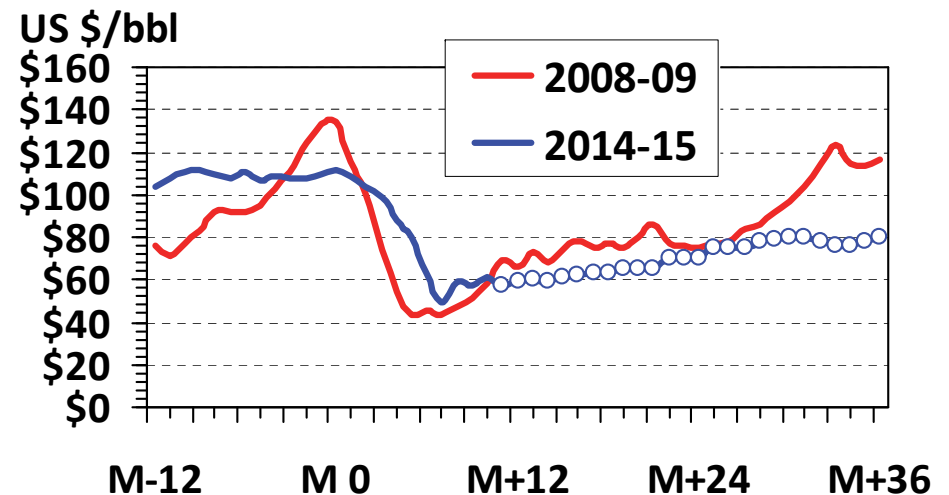
- We are still of the view that this price cycle will be more unique in terms of a lower and slower recovery.
- Inventory overhang is significant in the U.S. and overseas.
- There is no OPEC action that will help to balance out global markets.
- U.S. supplies can act as a price cap for WTI and a partial cap for Brent prices.
- Demand recovery being held in check by emerging market governments imposing new fuel taxes and eliminating price subsidies, blunting retail price declines.
- Return of Iran is likely and will add to global supplies, perhaps quickly.

WTI Price Crashes and Recoveries



Source: FirstEnergy Capital Corp., Bloomberg.

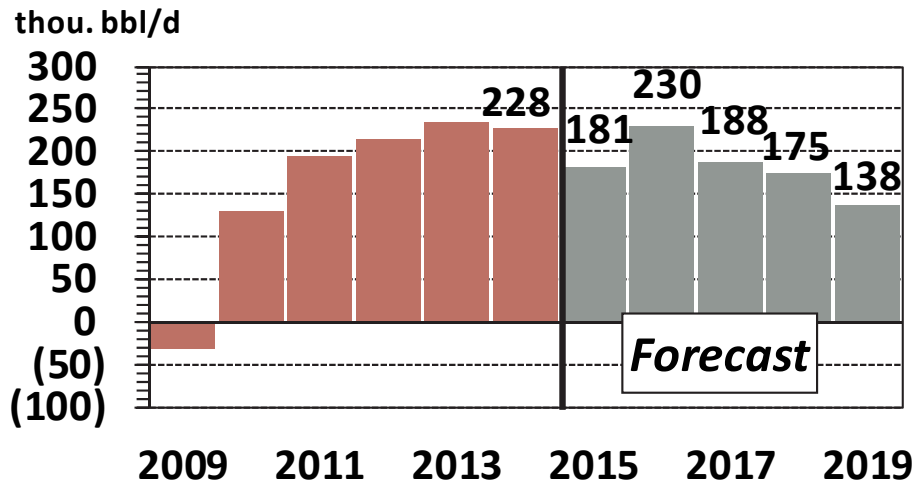
Brent Price Crashes and Recoveries



Source: FirstEnergy Capital Corp., Bloomberg.

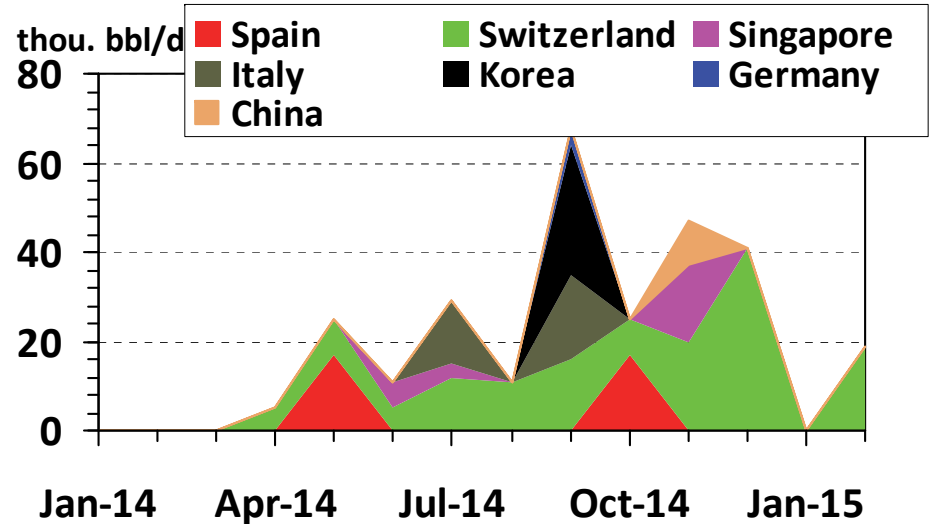
CANADA'S SUPPLY ROLE IS SET TO EXPAND FURTHER

Canadian Crude Oil Supply Growth



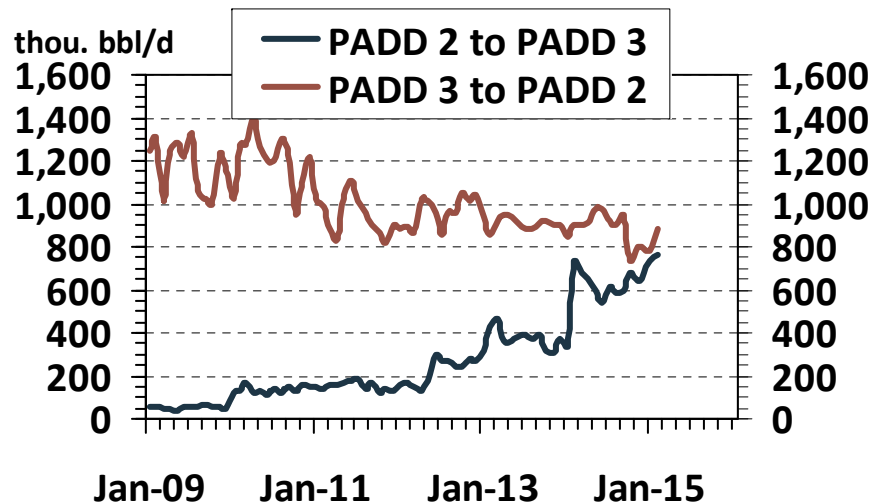
Source: FirstEnergy Capital Corp., IEA.

Canadian Exports of Crude Oil via U.S. GOM



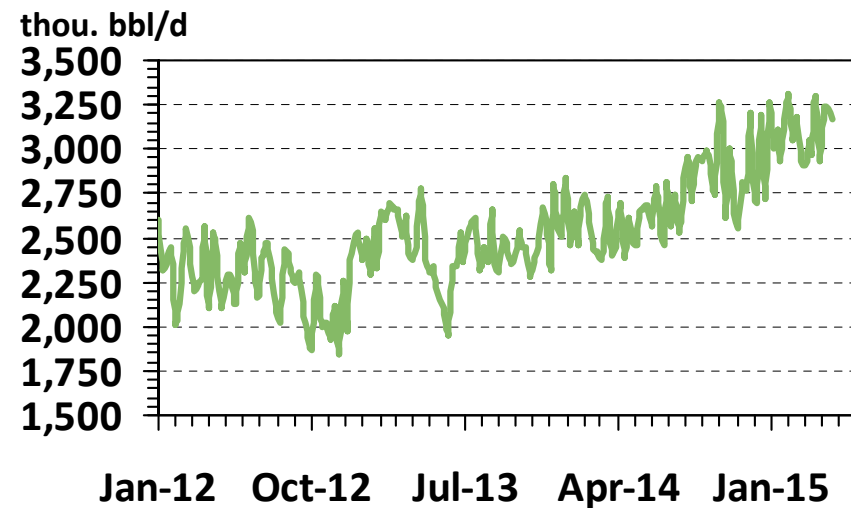
Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

Crude Movements: PADD 3/PADD 2



Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

U.S. Crude Oil Imports from Canada

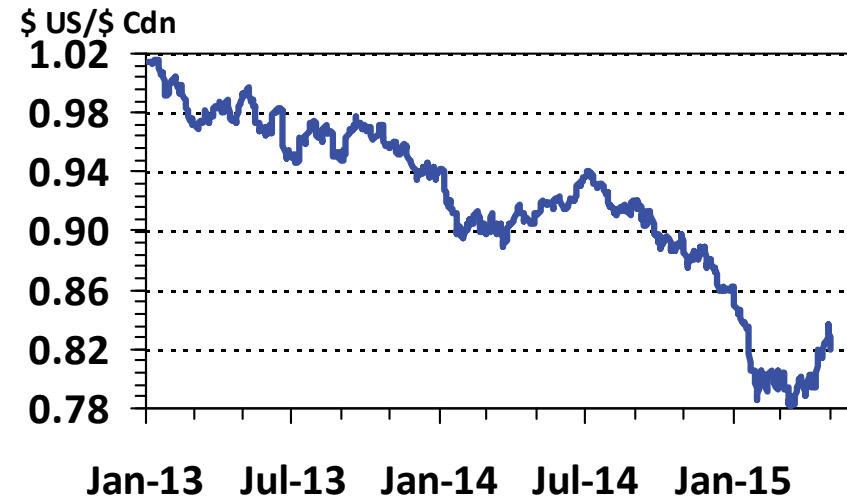


Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

CANADIAN CRUDE OIL PRICES

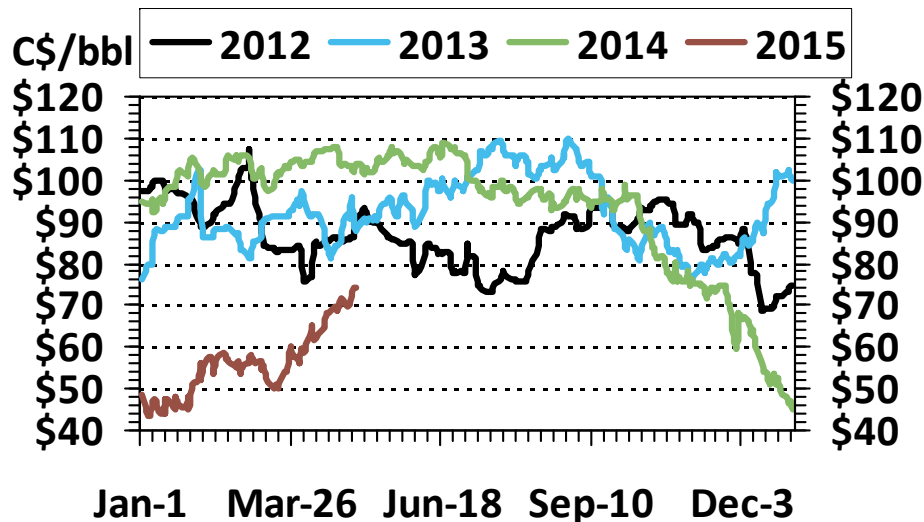
- Decline in the exchange value of the Canadian dollar has made a tremendous difference (upside) to the Canadian dollar value of crude.
- The decline from parity to US\$0.80 has been worth about C\$15/bbl to the Canadian dollar price of crude.
- Oil price/FX remain closely linked.

Canada-U.S. Dollar Exchange Rate



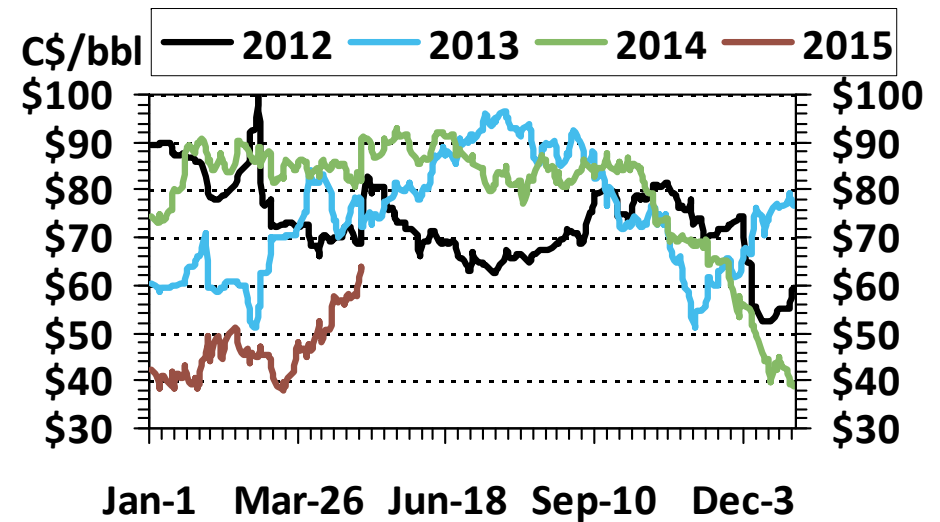
Source: Pacific Exchange Rate Center

Edmonton Light Crude Oil Price



Source: FirstEnergy Capital Corp., Bloomberg.

Western Canada Select Crude Oil Price

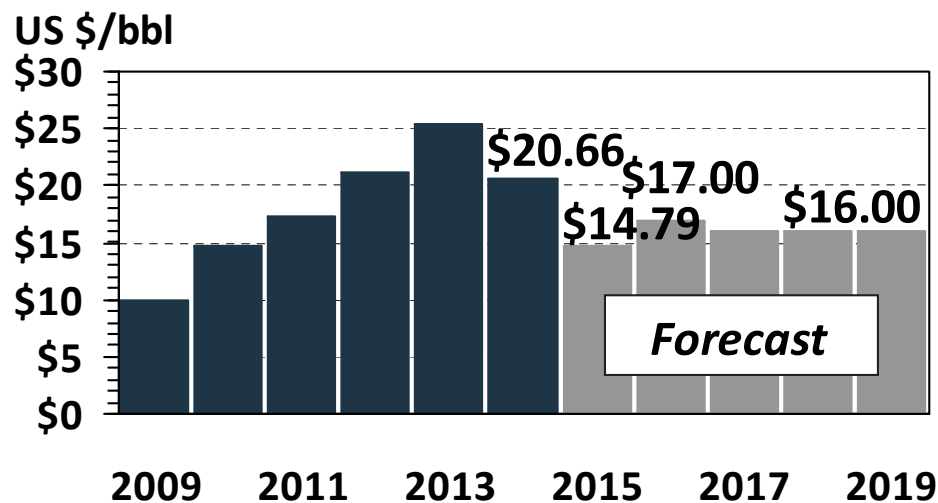


Source: FirstEnergy Capital Corp., Bloomberg.

CANADIAN CRUDE PRICE DIFFERENTIALS

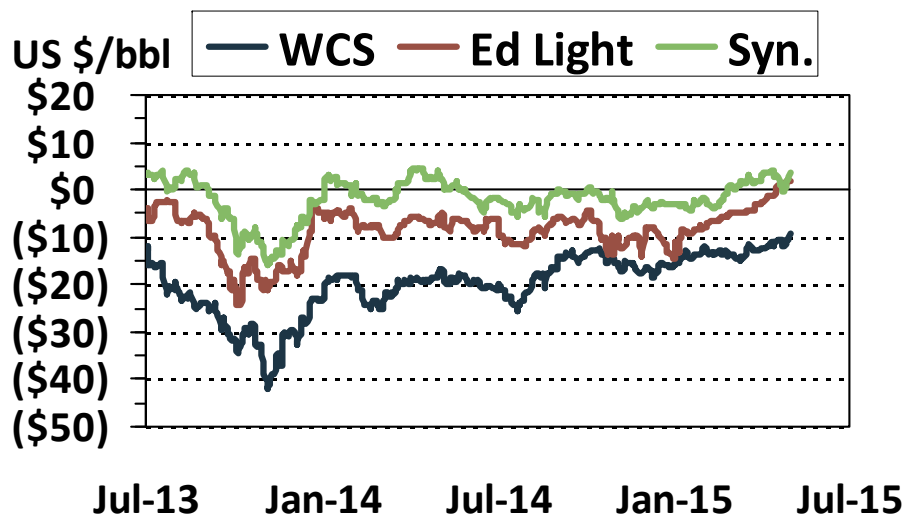
- Despite high inventories in Canada and the U.S. and some pipeline curtailments, upgrader maintenance and general upswing in refinery activity has tightened differentials beyond our expectations.
- Upside to diffs is still capped by blended cost of rail and pipeline costs.
- More competition with Maya should keep WCS diffs generally tight.

WTI-WCS Price Differential



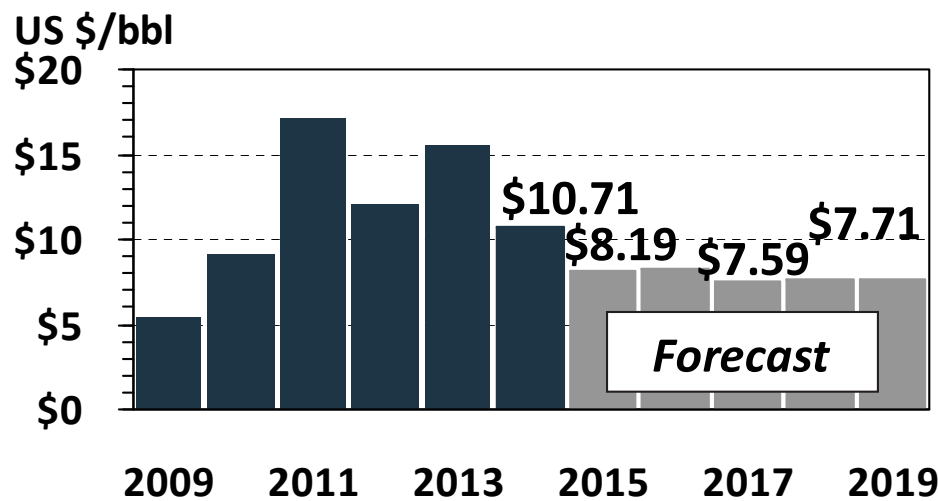
Source: FirstEnergy Capital Corp., Bloomberg.

WTI vs. Canadian Crude Oil Prices



Source: FirstEnergy Capital Corp., Bloomberg.

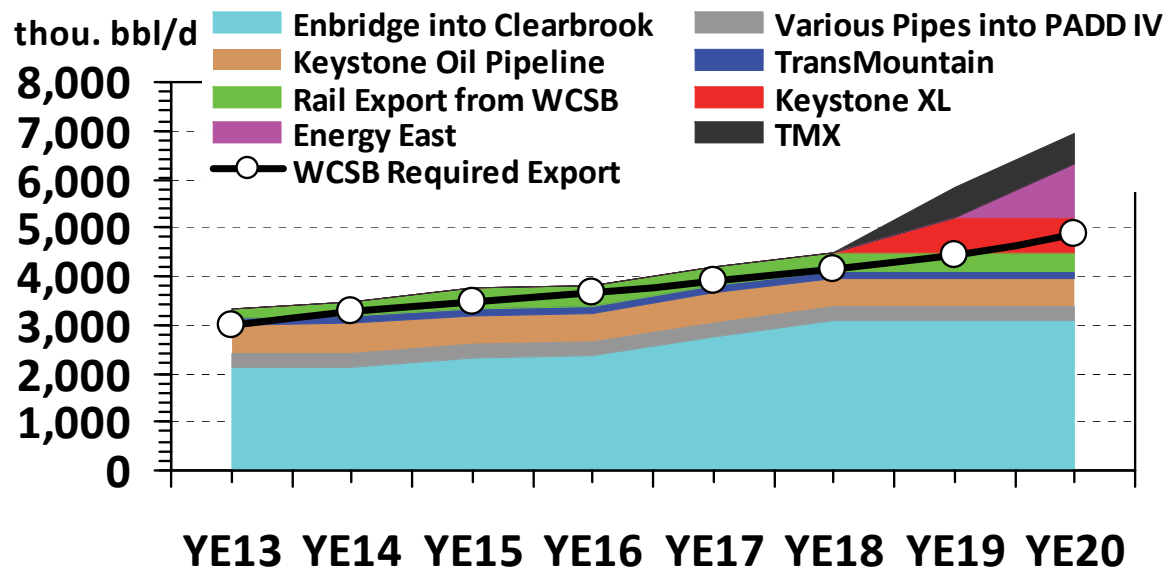
WTI-Ed Light Price Differential



Source: FirstEnergy Capital Corp., Bloomberg.

- Longer term global demand growth remains a function of income, population growth, and fuel efficiencies, but primarily geared to emerging markets; still no large scale viable alternatives for oil based fuels in road transportation.
- U.S. supplies can be a balancing mechanism against OPEC supplies at the right price and allowing for a removal of the crude oil export ban.
- OPEC spare capacity to tighten further in next few years.
- Canada needs to diversify its delivery options; growing volumes to leave North America via Gulf Coast and backing out of Colombian and Venezuelan barrels.

Canadian Export Capacity vs. Required



Source: FirstEnergy Capital Corp.

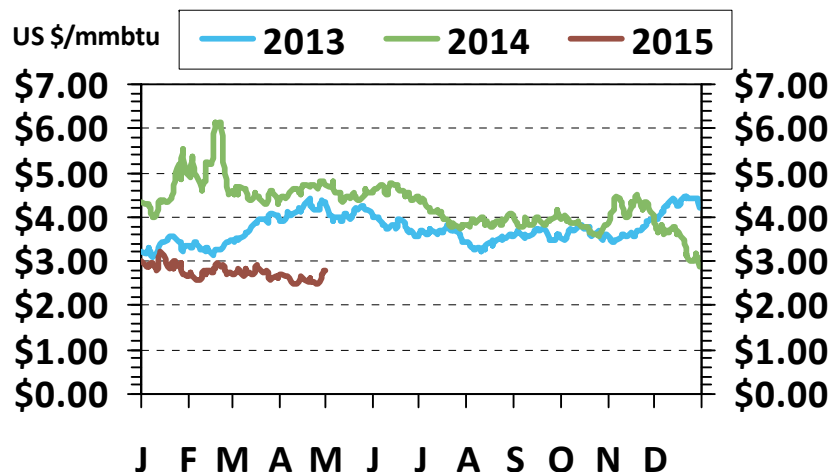
- Price crash reached true bottom in January (small relapse in March), but the worst is now behind us; gradual rebalancing is emerging in U.S. market and globally, and pricing around current levels is looking more sustainable.
- Inventory overhang will hold back any major price upside from current levels, as will potential for rapid turnaround in U.S. supplies, if prices rise too quickly.
- OPEC likely to stand firm on no production response at next meeting (June 5); little long term benefit from curtailing supplies now.
- Demand starting to pick up seasonally and structurally after very soft 2014; longer term prospects still bright in emerging economies.
- Inventory overhang should slowly be whittled away in the U.S. but could take well into 2016/17 before returning closer to historic average levels.
- Price recovery to be lower and slower than in past price cycles; negative wildcards from Iran, Iraq and Libya in 2016/17.
- Canada has unique opportunity to lock in further market share growth in the U.S. AND overseas, but very dependent on regulatory process.
- U.S. supply costs to moderate prices in the long term, but also requires lifting of the oil export ban.

NATURAL GAS MARKETS

**A SOFT 2015 AHEAD, BUT YOUR WORLD
CHANGES IN 2016**

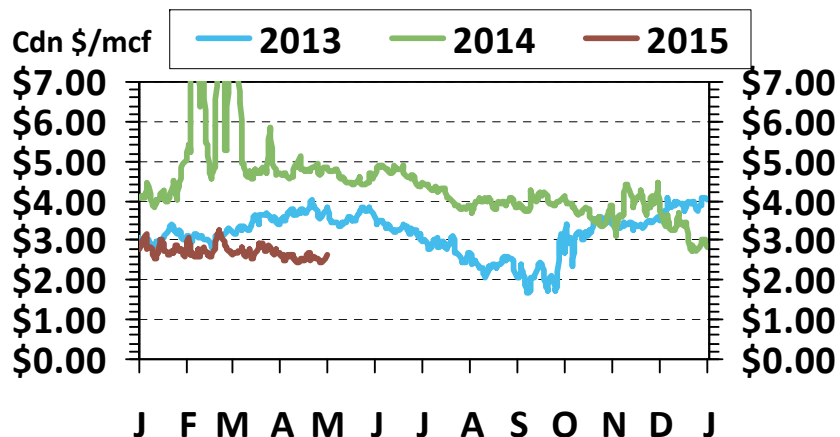
LATEST NATURAL GAS PRICES AND FORECAST

Nymex Near Month Natural Gas Prices



Source: FirstEnergy Capital Corp., Bloomberg.

AECO Daily Natural Gas Price



Source: FirstEnergy Capital Corp., Enerdata.

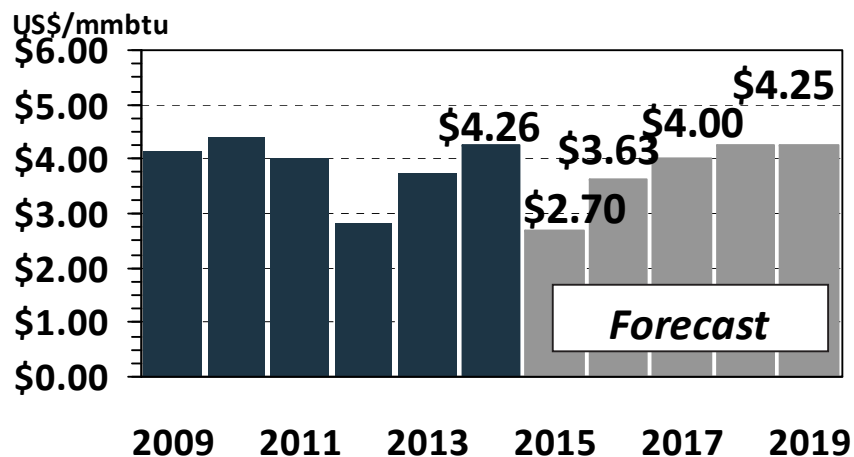
	Nymex NatGas - US\$/mmbtu				NGX AECO - C\$/mcf			
	History	Forecast	Strip	Diff.	History	Forecast	Strip	Diff.
Jan 2015	\$2.93				\$2.78			
Feb 2015	\$2.75				\$2.78			
Mar 2015	\$2.75				\$2.74			
Apr 2015	\$2.59	\$2.50		-4%	\$2.55	\$2.19		-14%
May 2015		\$2.50	\$2.52	-1%		\$2.19	\$2.75	-20%
Jun 2015		\$2.50	\$2.78	-10%		\$2.20	\$2.80	-22%
Jul 2015		\$2.75	\$2.83	-3%		\$2.38	\$2.80	-15%
Aug 2015		\$2.75	\$2.85	-3%		\$2.38	\$2.81	-16%
Sep 2015		\$2.75	\$2.86	-4%		\$2.36	\$2.81	-16%
Oct 2015		\$2.50	\$2.89	-14%		\$2.16	\$2.88	-25%
Nov 2015		\$2.75	\$2.99	-8%		\$2.47	\$3.02	-18%
Dec 2015		\$3.00	\$3.16	-5%		\$2.78	\$3.10	-10%
Avg. 2015		\$2.69	\$2.82	-5%		\$2.46	\$2.82	-13%
Jan 2016		\$3.50	\$3.26	7%		\$3.37	\$3.19	6%
Feb 2016		\$3.25	\$3.25	0%		\$3.07	\$3.17	-3%
Mar 2016		\$3.00	\$3.19	-6%		\$2.74	\$3.10	-12%
Apr 2016		\$3.00	\$3.03	-1%		\$2.68	\$2.92	-8%
May 2016		\$3.25	\$3.04	7%		\$2.97	\$2.90	3%
Jun 2016		\$3.50	\$3.07	14%		\$3.27	\$2.92	12%
Jul 2016		\$3.50	\$3.10	13%		\$3.27	\$2.93	12%
Aug 2016		\$3.75	\$3.11	20%		\$3.55	\$2.93	21%
Sep 2016		\$4.00	\$3.11	29%		\$3.86	\$2.94	31%
Oct 2016		\$4.00	\$3.14	27%		\$3.89	\$3.06	27%
Nov 2016		\$4.25	\$3.22	32%		\$4.19	\$3.19	31%
Dec 2016		\$4.50	\$3.40	32%		\$4.49	\$3.37	33%
Avg. 2016		\$3.63	\$3.16	15%		\$3.45	\$3.05	13%
Jan 2017		\$4.50	\$3.26	38%		\$4.49	\$3.44	31%
Feb 2017		\$4.25	\$3.25	31%		\$4.17	\$3.43	22%
Mar 2017		\$4.00	\$3.19	25%		\$3.87	\$3.37	15%
Apr 2017		\$3.75	\$3.03	24%		\$3.51	\$3.11	13%
May 2017		\$3.75	\$3.04	23%		\$3.51	\$3.08	14%
Jun 2017		\$3.75	\$3.07	22%		\$3.51	\$3.12	12%
Jul 2017		\$4.00	\$3.10	29%		\$3.79	\$3.14	21%
Aug 2017		\$4.00	\$3.11	28%		\$3.79	\$3.15	20%
Sep 2017		\$4.00	\$3.11	29%		\$3.79	\$3.17	19%
Oct 2017		\$3.75	\$3.14	19%		\$3.54	\$3.18	11%
Nov 2017		\$4.00	\$3.22	24%		\$3.83	\$3.41	12%
Dec 2017		\$4.25	\$3.40	25%		\$4.13	\$3.57	16%
Avg. 2017		\$4.00	\$3.16	27%		\$3.83	\$3.27	17%

Strip as of May 1, 2015.

Source: FirstEnergy Capital Corp., Bloomberg, NGX.

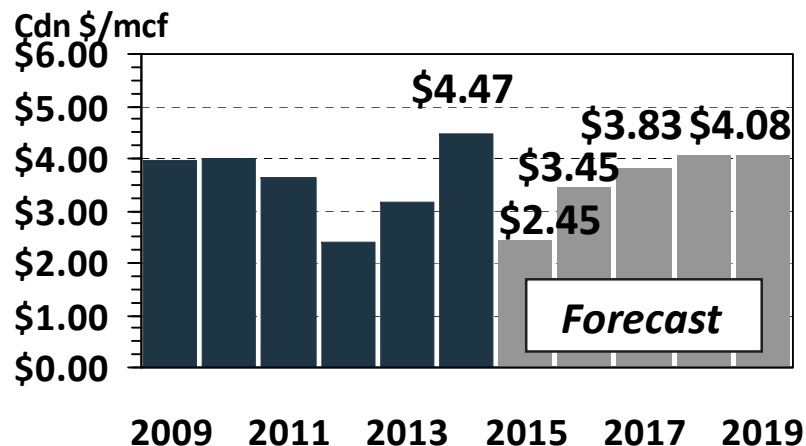
FIRSTENERGY NATURAL GAS PRICE FORECAST

Nymex Natural Gas



Source: FirstEnergy Capital Corp., Bloomberg.

AECO Natural Gas



Source: FirstEnergy Capital Corp., Bloomberg.

FirstEnergy Natural Gas Price Outlook

		Nymex US \$/mmbtu		AECO Cdn \$/mcf	
		<i>Old</i>	<i>NEW</i>	<i>Old</i>	<i>NEW</i>
2014	Average	\$4.27	\$4.26	\$4.52	\$4.51
2015	Q1 est.	\$2.50	\$2.81	\$2.18	\$2.76
	Q2 est.	\$2.53	\$2.50	\$2.10	\$2.19
	Q3 est.	\$2.75	\$2.75	\$2.36	\$2.37
	Q4 est.	<u>\$2.75</u>	<u>\$2.75</u>	<u>\$2.49</u>	<u>\$2.47</u>
	Average est.	\$2.63	\$2.70	\$2.28	\$2.45
2016	Q1 est.	\$3.25	\$3.25	\$3.26	\$3.06
	Q2 est.	\$3.25	\$3.25	\$3.14	\$2.98
	Q3 est.	\$3.75	\$3.75	\$3.73	\$3.56
	Q4 est.	<u>\$4.25</u>	<u>\$4.25</u>	<u>\$4.29</u>	<u>\$4.19</u>
	Average est.	\$3.63	\$3.63	\$3.61	\$3.45
2017	Average est.	\$4.40	\$4.00	\$4.52	\$3.83
2018	Average est.	\$5.00	\$4.25	\$5.21	\$4.08

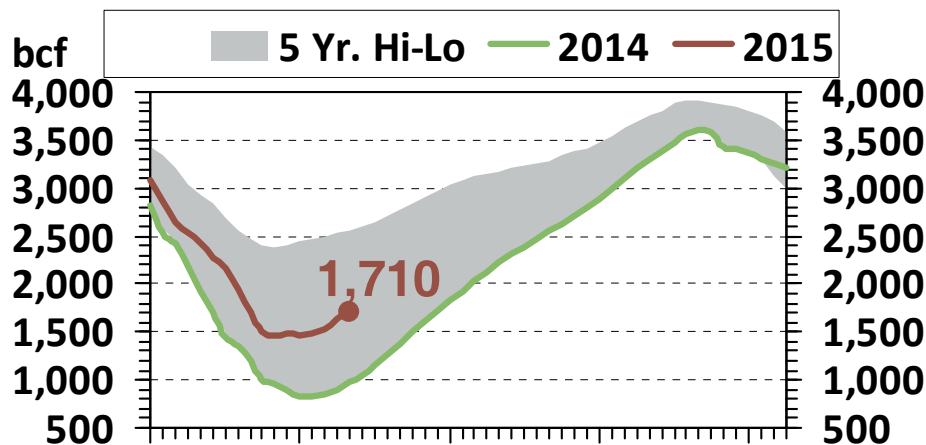
Notes: All historical averages computed using weekday data only.

Source: FirstEnergy Capital Corp., Bloomberg, Enerdata; est. refers to forecasted value.

NATURAL GAS STILL FACING BIG CHALLENGES FOR 2015

- Decent winter heating season starting in January (mostly in the eastern half of North America), helped to drain storage closer to historic average levels.
- However, unlike the crude oil market, U.S. gas supply has still been growing in a low price environment, compounded by additional strong supply growth from Canada.
- Current storage levels are higher almost everywhere and building fast; April on track for a record or near record injection in U.S.
- Storage this year could be headed to record highs by end of October unless corrective action is taken (i.e. lower prices).

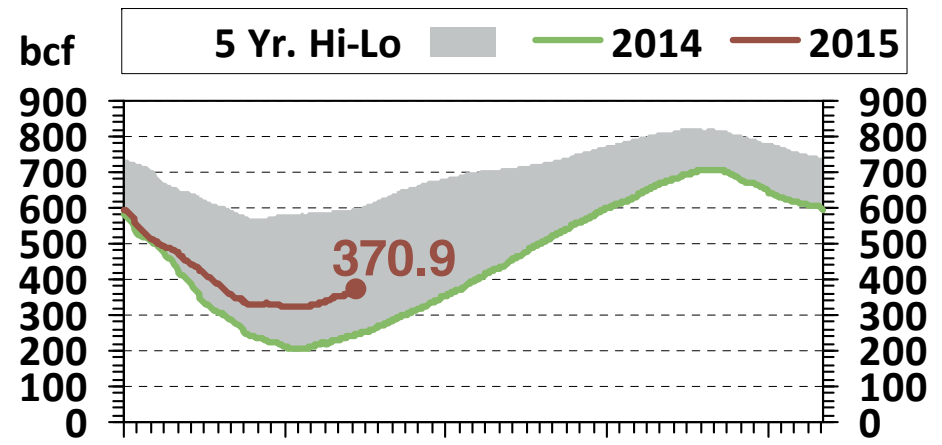
U.S. Working Natural Gas Storage



Jan-2 Mar-27 Jun-19 Sep-11 Dec-4

Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

Canada Working Natural Gas Storage



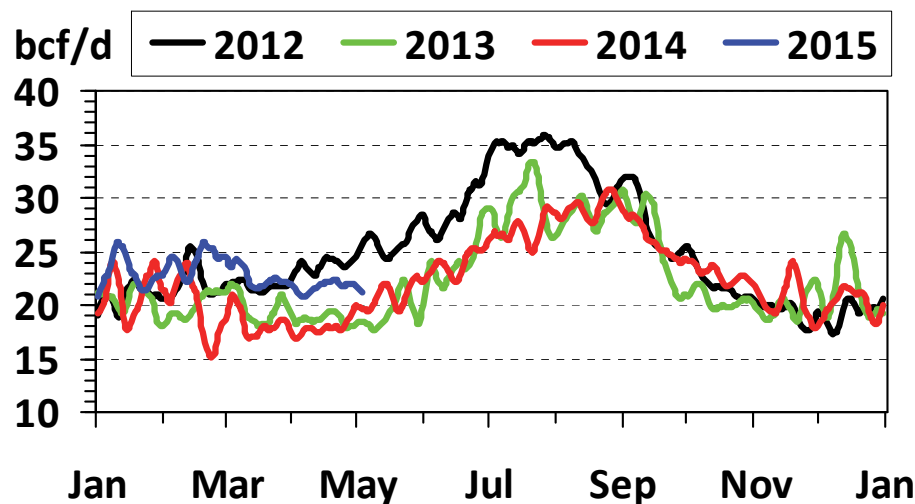
Jan-1 Mar-25 Jun-17 Sep-9 Dec-2

Source: FirstEnergy Capital Corp.

DO WE NEED ANOTHER 2012 PRICING SCENARIO THIS YEAR?

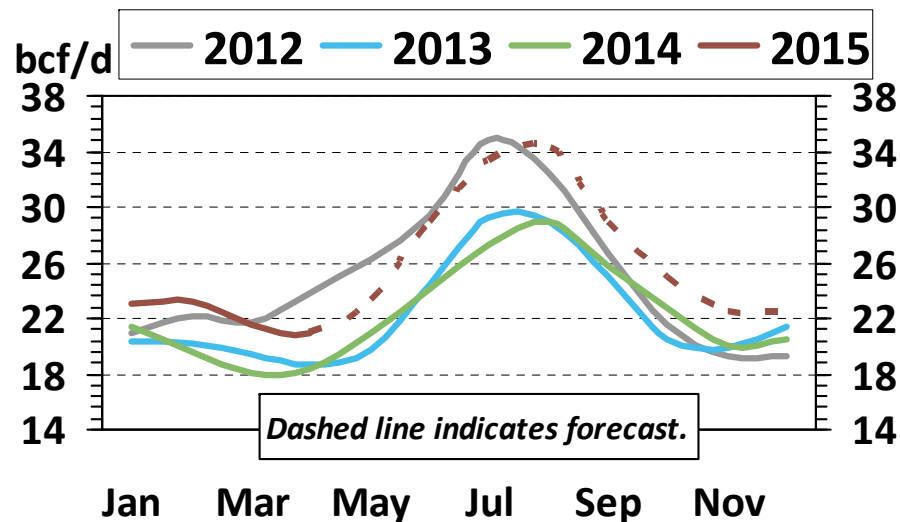
- In 2012, previous winter was exceptionally mild resulting in very high levels of storage entering injection season; result was very low US\$2.00s and even sub-\$2.00s pricing to spur power generation demand.
- This year, storage has exited at close to historic averages, but U.S. domestic supply is very robust; there is insufficient demand growth in the system to absorb all the extra gas supply, unless there is additional large price induced demand growth.
- Pricing may need to remain in the mid to low US \$2.00 range for most of 2015 in order to prevent a storage blowout by the end of October.

U.S. Daily Power Generation Gas Burn



Source: FirstEnergy Capital Corp., Bloomberg.

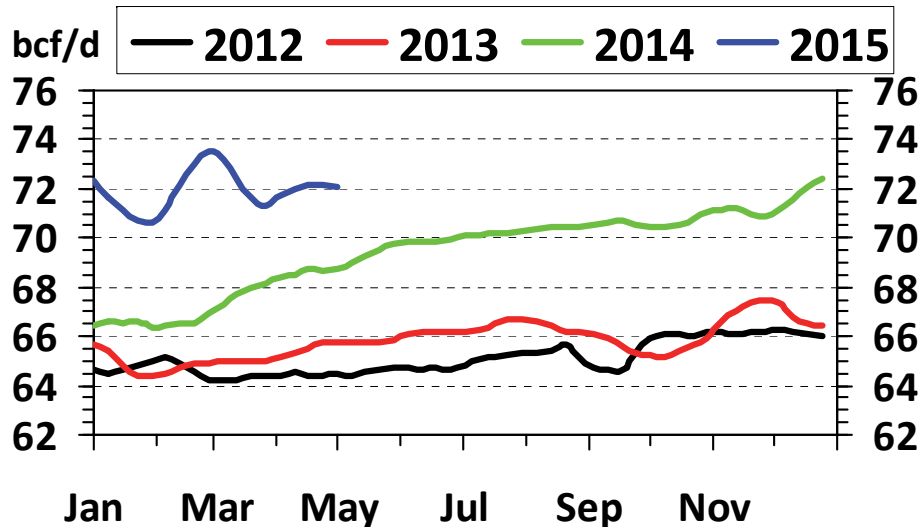
U.S. Power Generation Gas Demand



Source: FirstEnergy Capital Corp., US DOE/EIA.

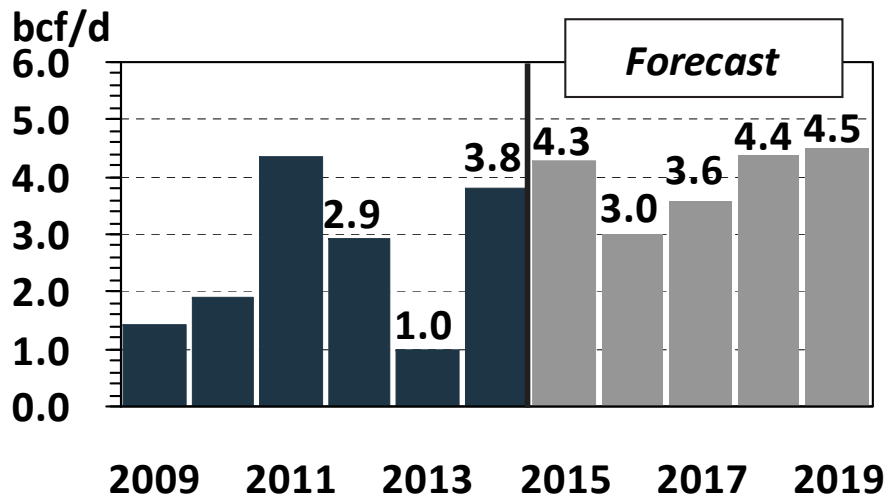
THAT PESKY U.S. DOMESTIC SUPPLY GROWTH

U.S. Weekly Dry Marketable Gas Supply



Source: FirstEnergy Capital Corp., Bloomberg.

U.S. Natural Gas Supply Growth



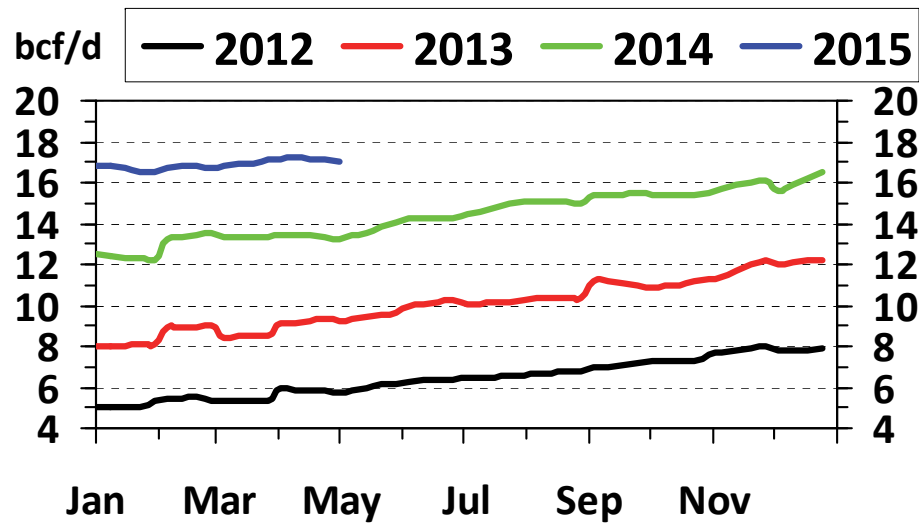
Source: FirstEnergy Capital Corp., US DOE/EIA.

- U.S. supply growth has remained very robust into 2015; 3 to 4 bcf/d higher than one year ago.
- Most growth being powered by the Marcellus/Utica, but a few other plays making some small contributions of late (e.g. Haynesville).
- Expect another big supply uptick by mid-year on an additional major pipeline expansion.
- Some indications that lower oil prices and some weak regional gas pricing is finally impacting spending decisions and rig counts.
- We expect some slowing of growth post-2015, but a rebound as market tightens into 2016/17.
- This phenomenal U.S. growth will continue to negatively impact Canada's ability to grow gas supply.

MARCELLUS/UTICA – THE TWO TOWERS OF SUPPLY GROWTH

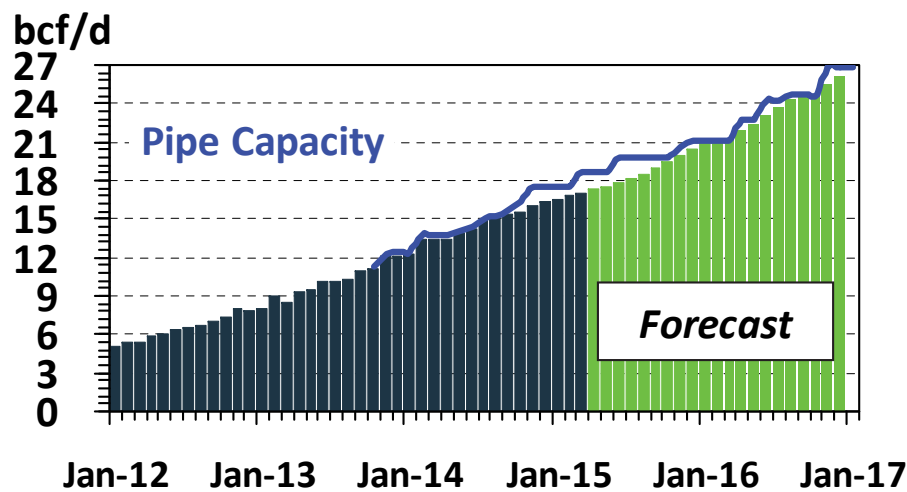
- Still running close 4 bcf/d higher than one year ago.
- Standing well count between 1,000 to 2,000 wells, depending on source; still lots of gas to tie in.
- Prices in the Marcellus have been extremely weak; some Producers shutting in volumes, awaiting price uplift (Cabot, Chesapeake); this may help to rebalance more quickly at higher prices, but shut-ins have to hold.
- New take away capacity coming soon (June) with REX reversal (1.2 bcf/d).
- Take away capacity will expand upward of 3.8 bcf/d by end-2015 and 7.3 bcf/d by end-2016.
- Full cycle costs as low US\$1.50 in some dry gas areas.

U.S. Weekly Marcellus/Utica Dry Gas Supply



Source: FirstEnergy Capital Corp., Bloomberg.

Historical/Forecast Marcellus/Utica Supply

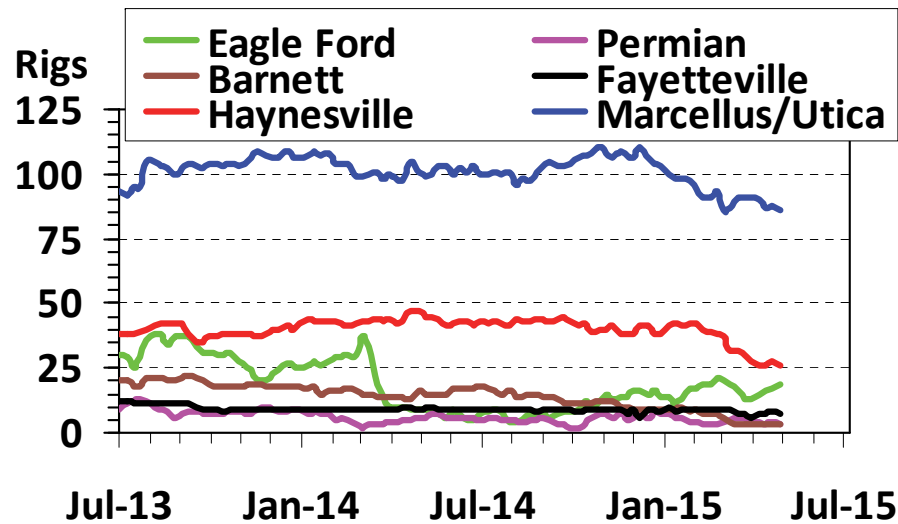


Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

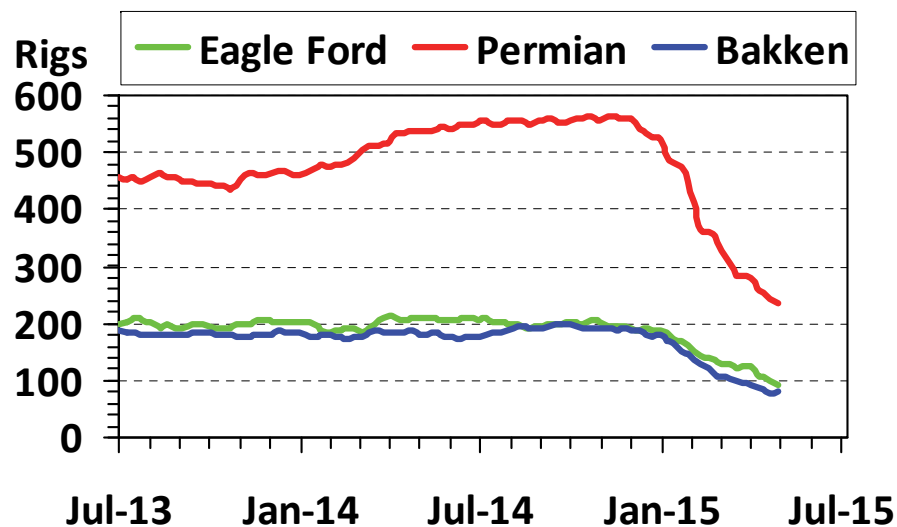
GAS DRILLING AND ASSOCIATED GAS SUPPLIES

- Tight cash flows have curtailed drilling to a degree, but rising productivities will likely mean only a modest impact on overall supply growth.
- We have tightened up our outlook for associated gas supplies, which helps to slow growth in 2016.
- Permian could see a sharp reduction as it grapples with oil supply growth.

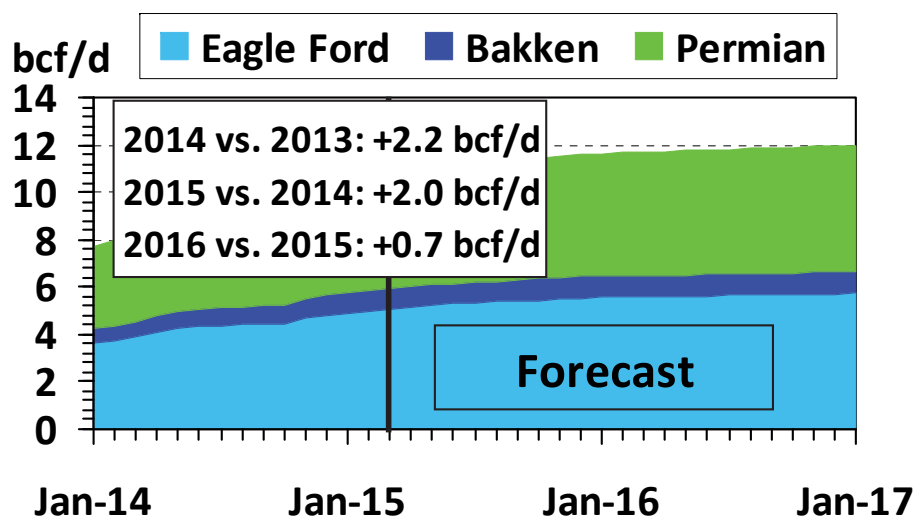
U.S. Natural Gas Rig Count by Basin



U.S. Oil Rig Count by Basin

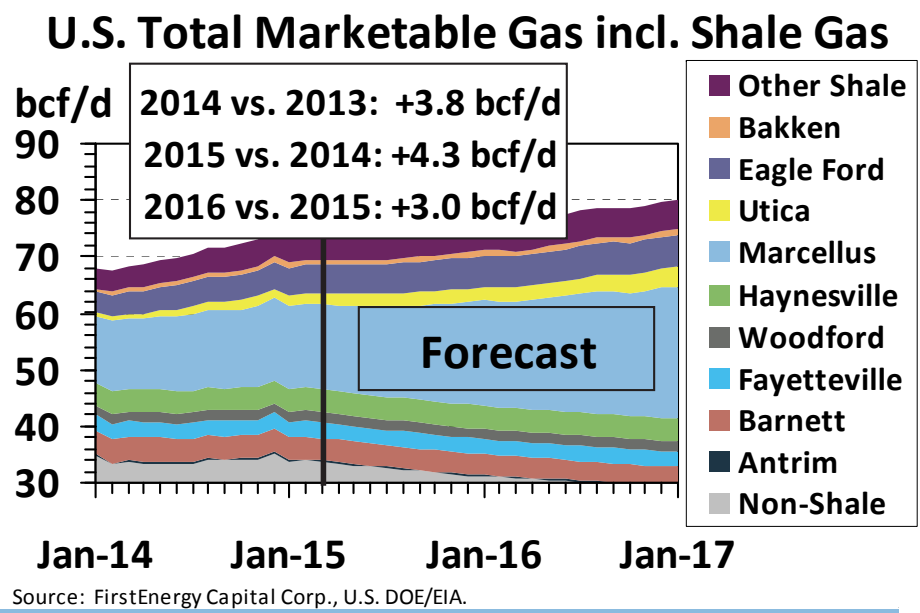


U.S. Associated Natural Gas Supply



U.S. GAS SUPPLY OUTLOOK BY PLAY

- Supply growth is still primarily geared to Marcellus/Utica volumes and these are mostly dependent on future pipeline expansions.
- U.S. supply could be reaching 90 bcf/d by 2019; 20 bcf/d growth from 2014.
- Getting enough pipe sanctioned remains biggest hurdle for market.



U.S. Natural Gas Supply by Basin

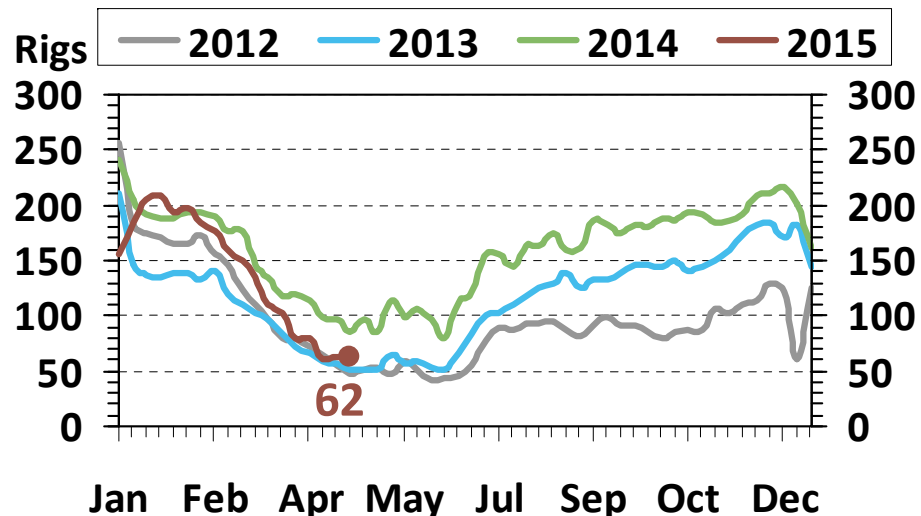
	2013	Change	% Change	2014	Change	% Change	2015	Change	% Change	2016	Change	% Change
Antrim	0.27	(0.02)	-6.2%	0.25	(0.02)	-8.6%	0.23	(0.02)	-7.5%	0.23	(0.00)	-0.7%
Barnett	4.48	(0.39)	-8.0%	4.14	(0.34)	-7.6%	3.86	(0.28)	-6.7%	3.48	(0.38)	-9.9%
Fayetteville	2.81	0.01	0.5%	2.80	(0.02)	-0.6%	2.76	(0.03)	-1.1%	2.71	(0.05)	-2.0%
Woodford	1.67	0.22	15.5%	1.77	0.10	5.9%	1.81	0.04	2.3%	1.80	(0.02)	-0.9%
Haynesville	4.88	(1.87)	-27.7%	3.95	(0.92)	-18.9%	4.03	0.07	1.8%	4.11	0.09	2.2%
Marcellus	9.84	3.41	53.1%	13.30	3.46	35.1%	16.08	2.78	20.9%	20.49	4.41	27.4%
Utica	0.28	0.24	599.6%	1.19	0.91	325.6%	2.14	0.96	80.7%	2.88	0.73	34.2%
Eagle Ford	3.29	1.10	50.4%	4.26	0.97	29.4%	5.25	1.00	23.4%	5.62	0.37	7.1%
Bakken	0.54	0.16	40.6%	0.73	0.18	33.4%	0.88	0.15	21.1%	0.91	0.03	3.2%
Other (Permian)	3.18	0.59	22.9%	4.18	1.00	31.5%	4.99	0.81	19.5%	5.26	0.27	5.5%
Total Shale	31.25	3.47	12.5%	36.55	5.31	17.0%	42.04	5.48	15.0%	47.49	5.45	13.0%
Non-Shale	35.42	(2.46)	-6.5%	33.89	(1.53)	-4.3%	32.68	(1.21)	-3.6%	30.26	(2.42)	-7.4%
Total U.S. Gas	66.66	1.00	1.5%	70.44	3.78	5.7%	74.72	4.28	6.1%	77.74	3.03	4.0%

Source: FirstEnergy capital Corp., U.S. DOE/EIA.

CANADIAN NATURAL GAS SUPPLIES – WOW!

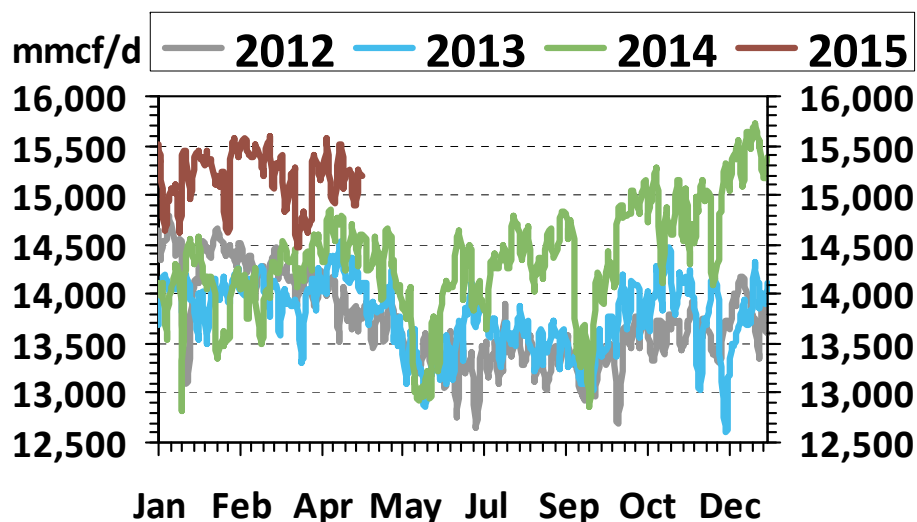
- Producers responded in a big way to the price surge of 1H14, with new shale gas supplies in 2H14 and 1H15.
- We expect that the supply gains will slow in 2H15 on lower drilling, weak pricing (oil and gas), and various deliverability constraints that are surfacing in the pipeline system.
- Also being squeezed by U.S. competition.

WCSB Natural Gas Rig Count



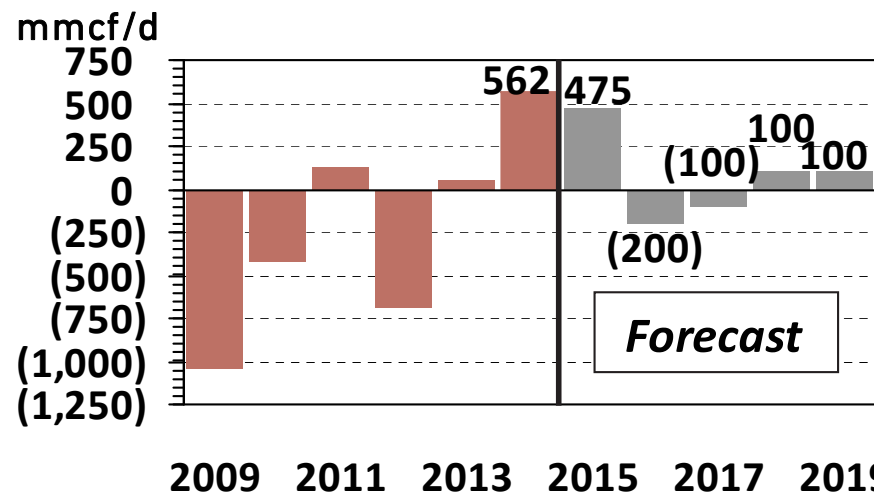
Source: FirstEnergy Capital Corp., Baker-Hughes, CAODC.

WCSB Daily Natural Gas Supply



Source: FirstEnergy Capital Corp.

WCSB Natural Gas Supply Growth

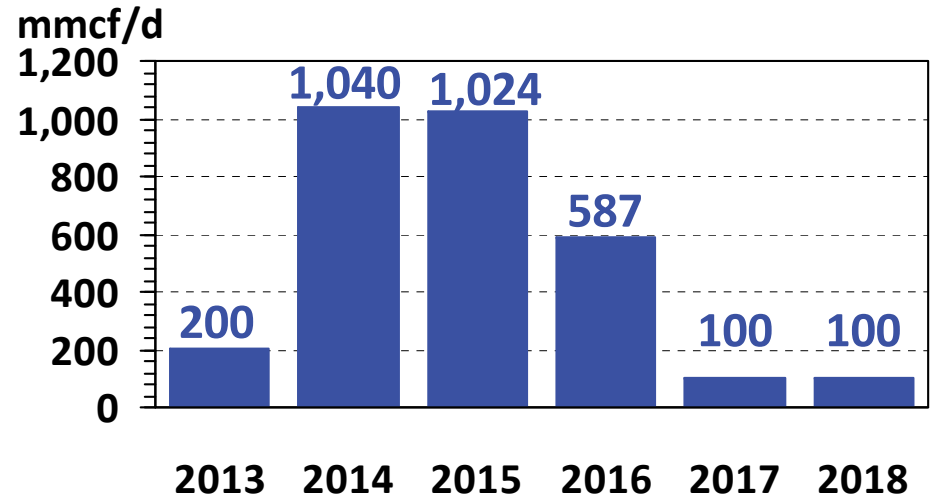


Source: FirstEnergy Capital Corp., company pipeline postings.

THE SUPPLY SURGE IS RUNNING INTO CONSTRAINTS

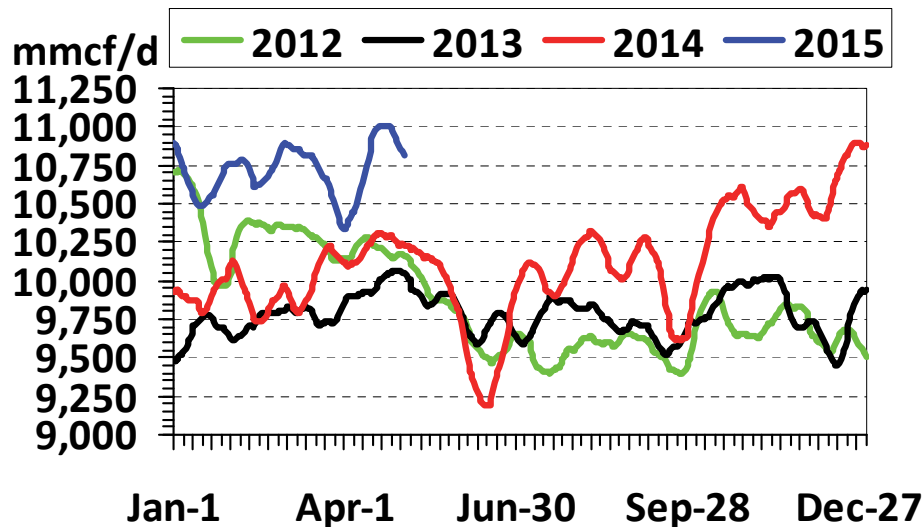
- Nearly all new gas production is coming from the Deep Basin, Montney, and Peace River Arch.
- New field facilities are running up against the reality of insufficient take away capacity by major pipes in these areas (more price pressures).
- Firm shippers should be okay, by IT shippers face constraints.

Gas Producing Adds in the AB Deep Basin



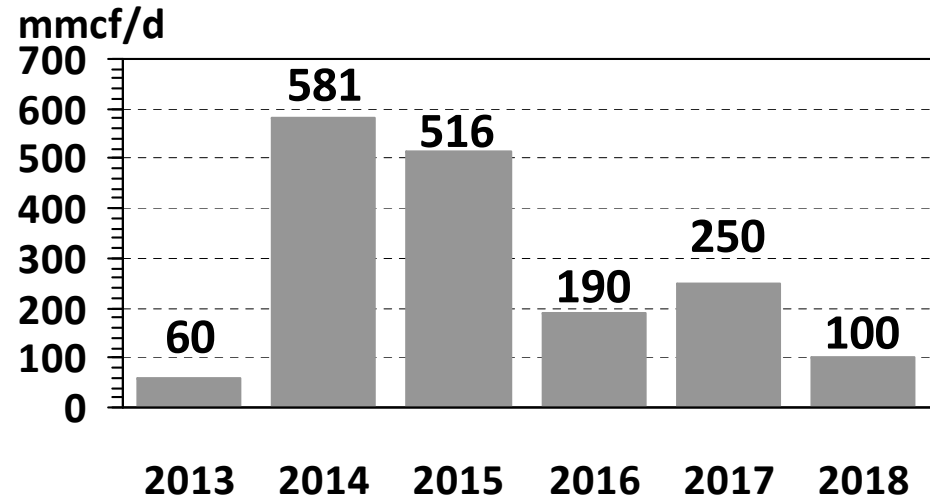
Source: FirstEnergy Capital Corp.

TCPL-Alberta System Field Receipts



Source: FirstEnergy Capital Corp., TCPL.

Gas Producing Adds by E&Ps in the Montney

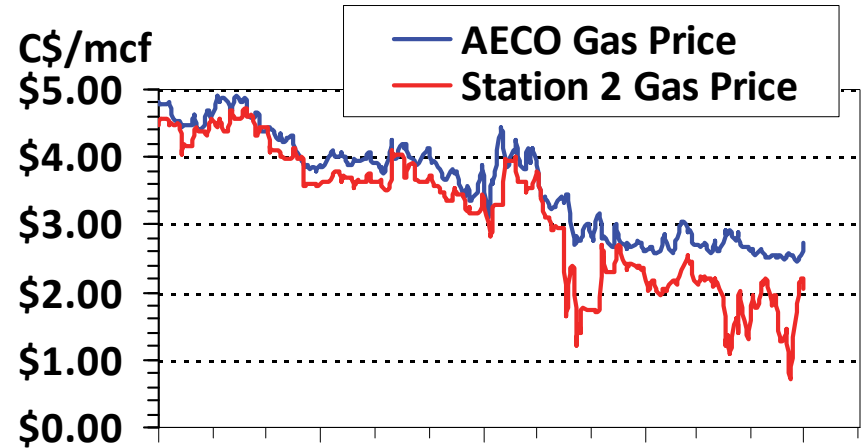


Source: FirstEnergy Capital Corp.

B.C. GAS FEELING THE DELIVERABILITY PINCH

- B.C. supplies are feeling the capacity crunch most acutely.
- Take away upside is very limited on Westcoast, Alliance and TCPL.
- Will have to wait for additional take away capacity in 2016/17 in the form of the North Montney pipeline (2.4 bcf/d) and Merrick Mainline (1.2 bcf/d).

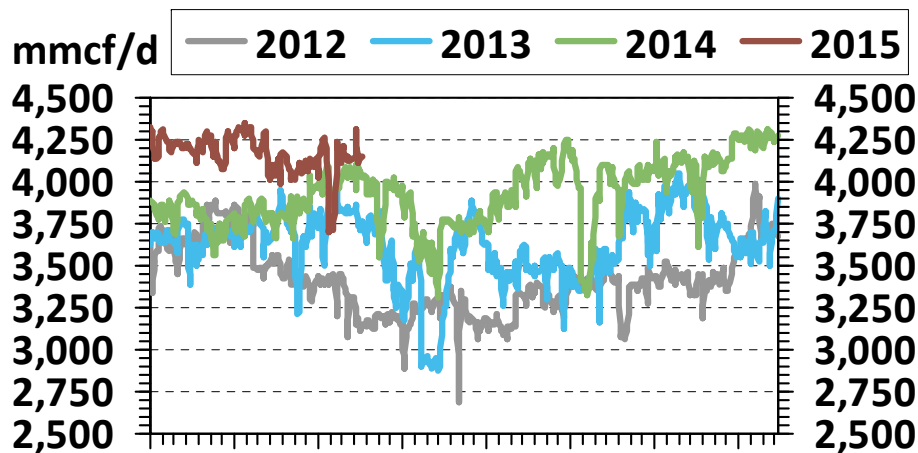
AECO & Station 2 Spot Prices



May-14 Aug-14 Nov-14 Feb-15 May-15

Source: FirstEnergy Capital Corp., Canadian Enerdata.

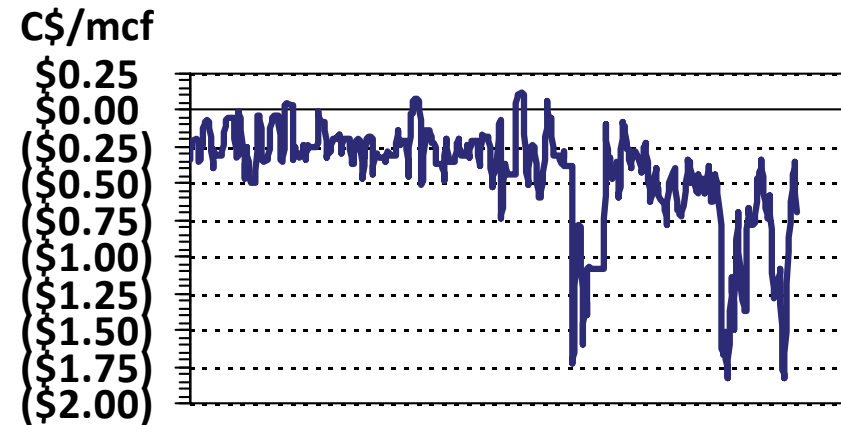
B.C. Daily Natural Gas Supply



Jan Feb Apr May Jul Sep Oct Dec

Source: FirstEnergy Capital Corp.

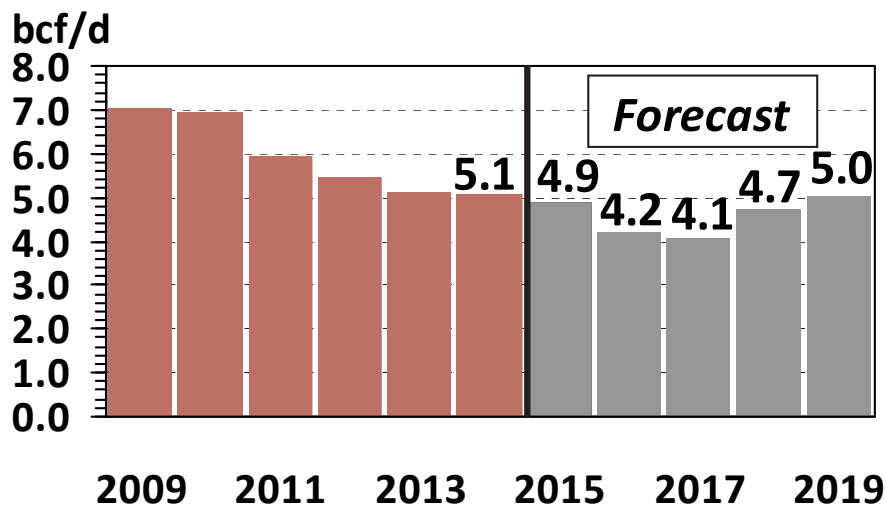
AECO-Station 2 Spot Price Differential



May-14 Aug-14 Nov-14 Feb-15 May-15

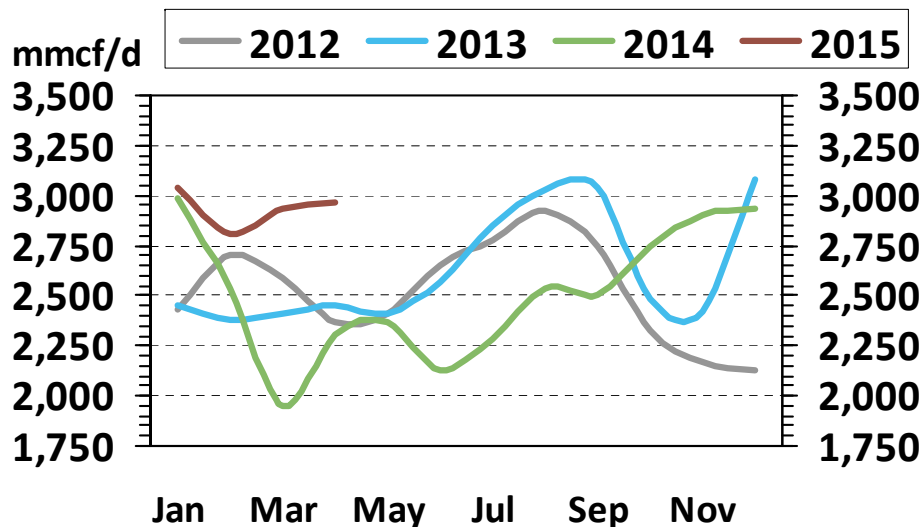
Source: FirstEnergy Capital Corp., Canadian Enerdata.

U.S. Net Gas Imports from Canada



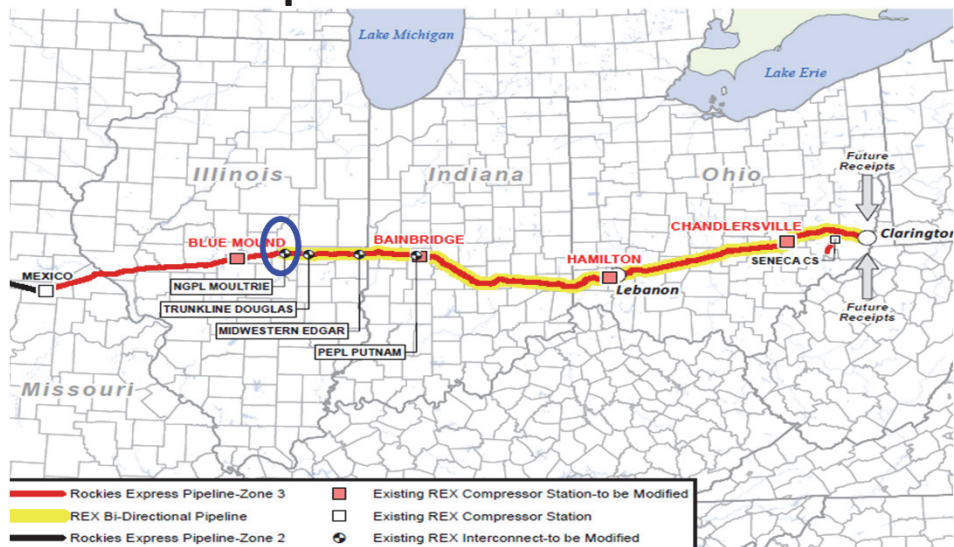
Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

Canadian Net Gas Exports to U.S. PADD 5



Source: FirstEnergy Capital Corp., company pipeline postings.

Rockies Express Reversal Back to Illinois



Source: Tallgrass Energy Partners.

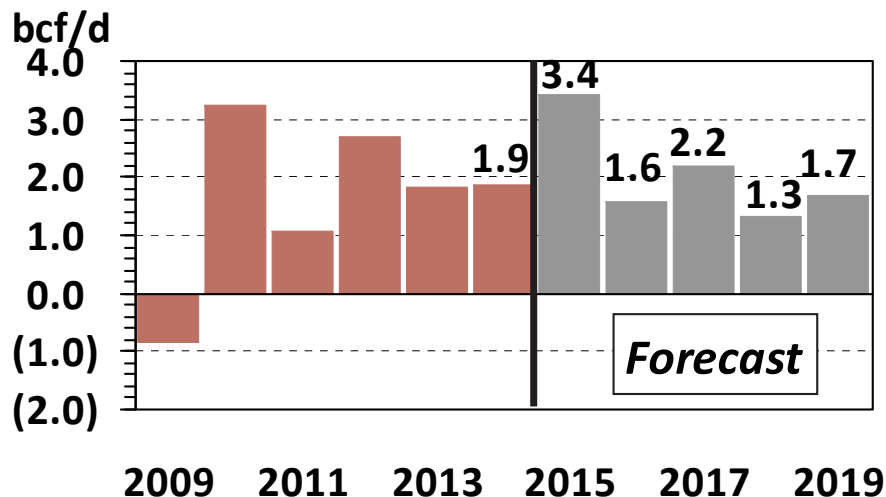
- Constrained supply growth and competition from U.S. supplies means even lower gas exports to the U.S.
- Major new competition with the start up of the REX reversal in June (1.2 bcf/d) - more gas into the Midwest.
- Producers have been shifting gas to the West Coast (California drought), but this option may also become limited.

WHAT IS GOING TO CONSUME ALL THAT SUPPLY?

United States Natural Gas Demand				
bcf/d	2013	2014	2015e	2016e
Residential	13.46	13.90	13.74	13.32
Commercial	8.98	9.48	9.31	9.07
Industrial	24.35	25.26	25.56	26.25
CHP	3.21	3.07	3.13	3.27
Non-CHP	17.11	17.91	18.00	18.40
L&P	4.04	4.29	4.43	4.58
Transportation	2.45	2.51	2.58	2.68
Power Generation	22.44	22.33	25.71	27.16
Utilities	10.88	10.20	11.99	12.72
IPPs	11.56	12.12	13.72	14.45
Total Demand	71.69	73.47	76.90	78.47

Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

U.S. Natural Gas Demand Growth



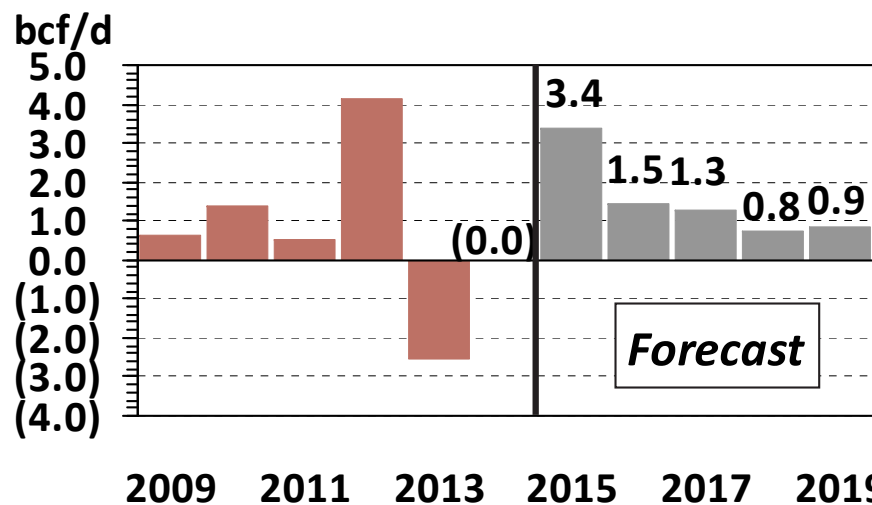
Source: FirstEnergy Capital Corp., US DOE/EIA.

- U.S. gas demand has been responding to the lower prices of recent years.
- More structural growth expected in the power generation and industrial sectors; demand growth to date in 2015 in these sectors has been more than expected from weather alone.
- 2015 will have to be more of price driven demand market in order to deal with excess supplies in the system and prevent a blowout of storage by the end of October 2015.
- Drought in California is helping with some power gas burn, but upside is being held in check by greater presence of renewables (solar).
- It will be growth in 2016+ that will help to support higher prices.

U.S. GAS POWER GENERATION DEMAND

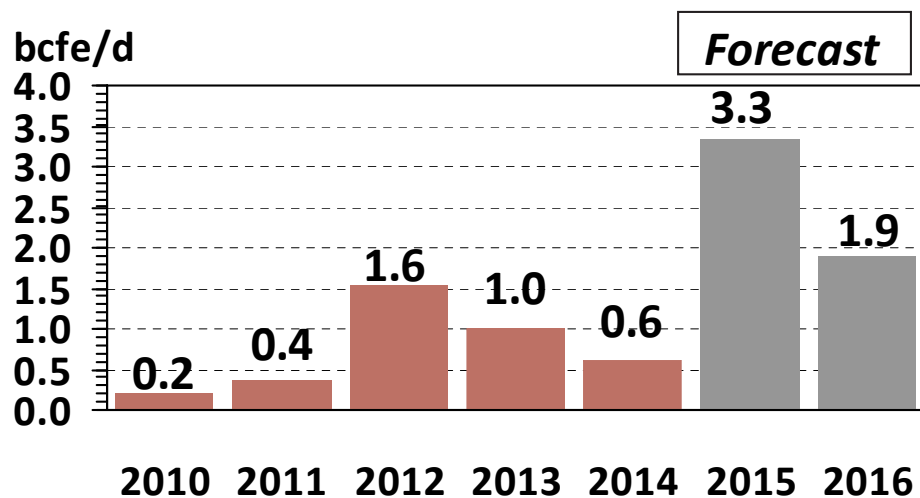
- We expect power burn to strongly respond to prices in the US\$2.50 range or lower; prices likely not as low as those in 2012 (sub US\$2.00).
- More generation capacity in place and more coming.
- MATS rule has forced many older coal plants into retirement in the NE.
- A cool summer means lower prices.

U.S. Power Gen. Gas Demand Growth



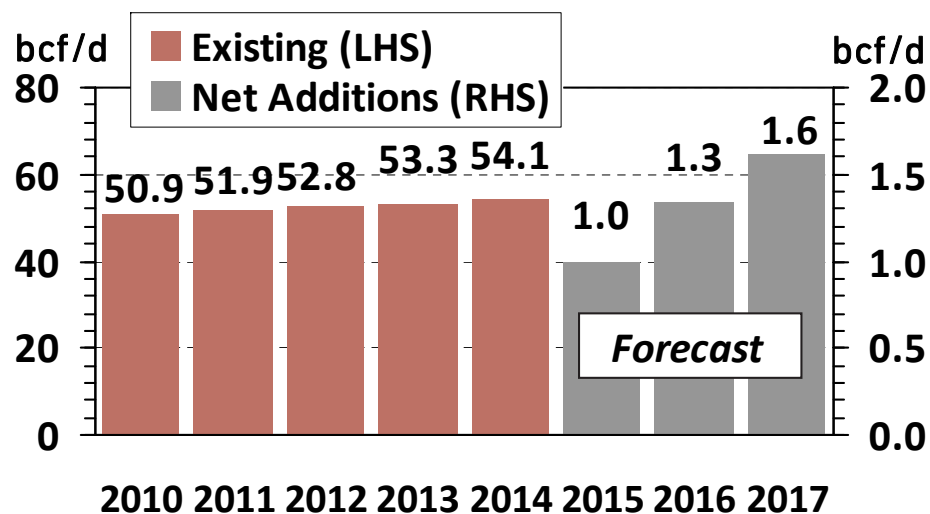
Source: FirstEnergy Capital Corp., US DOE/EIA.

U.S. Coal Fired Generation Retirements



Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

U.S. Gas Fired Generation Capacity

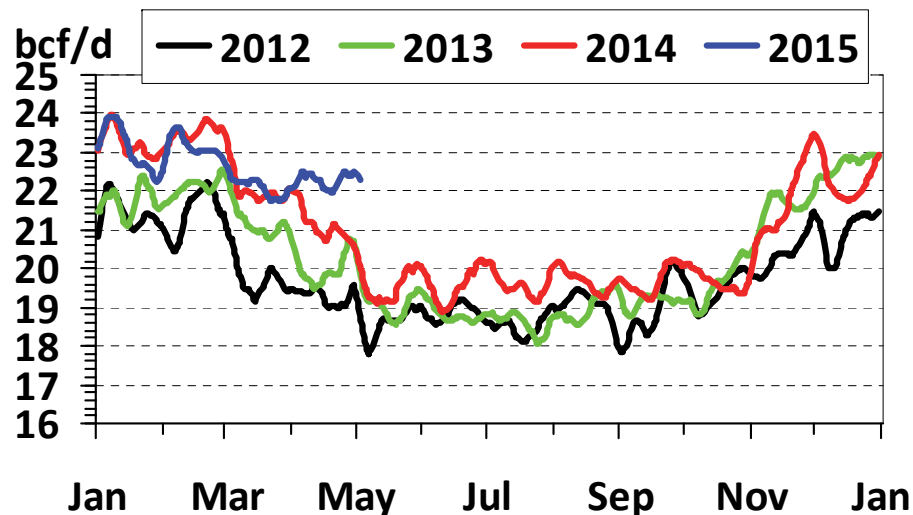


Source: U.S. DOE/EIA.

U.S. INDUSTRIAL GAS DEMAND

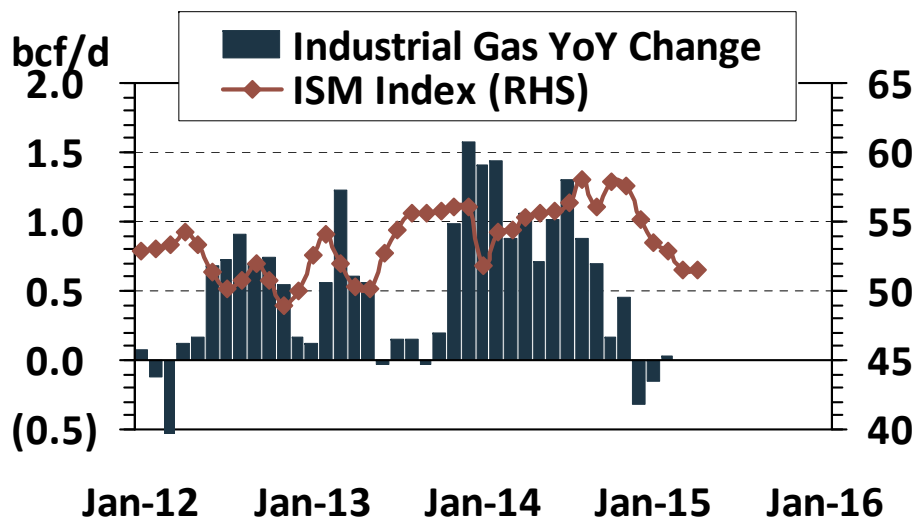
- Industrial demand responding to lower prices and very solid U.S. economy.
- More growth to come via more expansions and new greenfield builds for petchem plants, etc., that could see gas use rise up to 2 bcf/d by end-2018.
- Our outlook is conservative given some expansions were dependent on high oil price environment continuing overseas.

U.S. Daily Industrial Gas Demand



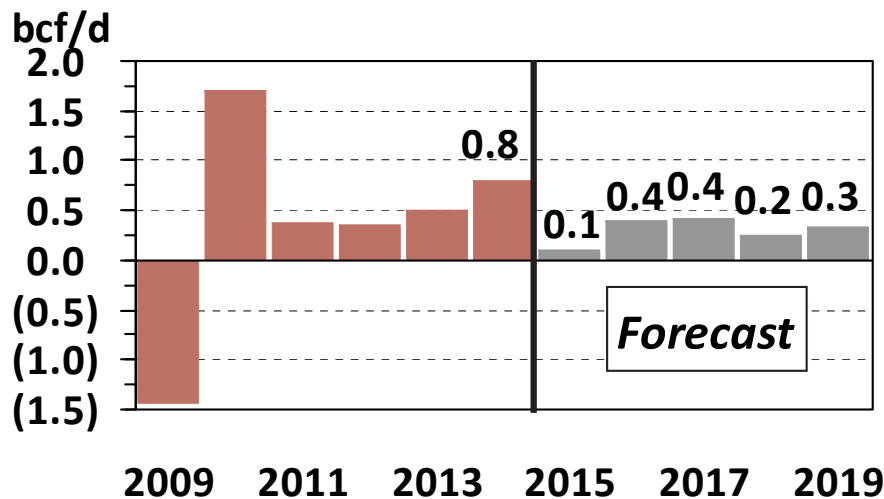
Source: FirstEnergy Capital Corp., Bloomberg.

U.S. Industrial Gas Demand vs ISM Index



Source: FirstEnergy Capital Corp., U.S. DOE/EIA, Bloomberg.

U.S. Industrial Gas Demand Growth

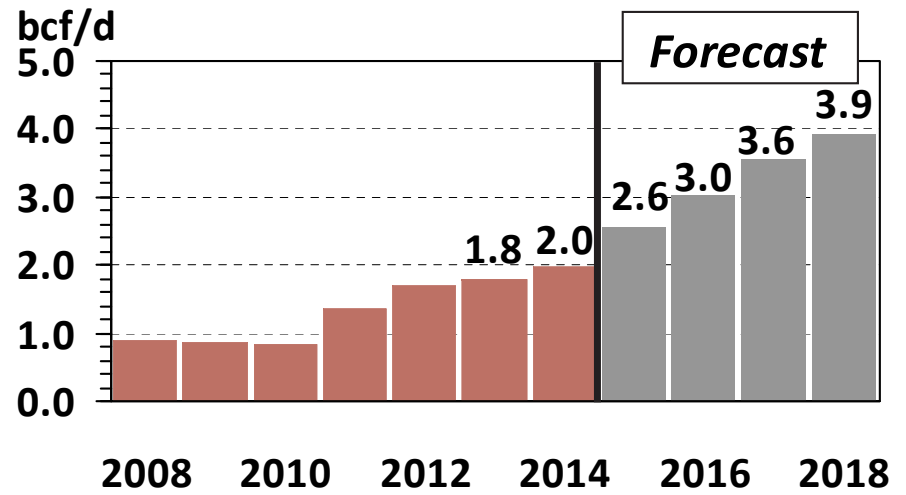


Source: FirstEnergy Capital Corp., US DOE/EIA.

U.S. EXPORT PROJECTS – MEXICO AND LNG

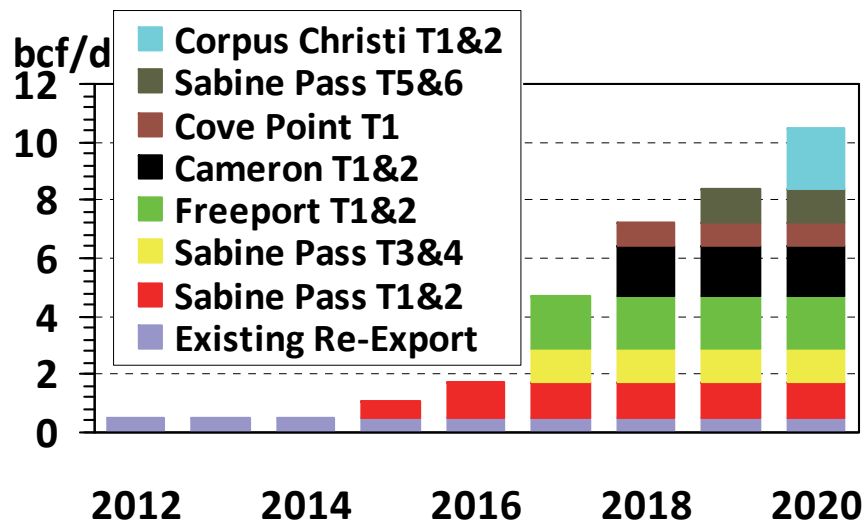
- Significant new export outlets to Mexico and LNG should help to take up much of the coming supply expansion.
- Mexican exports happening gradually as power plants and industries catch up to recent pipe expansions.
- LNG exports start to become a factor in 2016+, but could ramp up very quickly.

U.S. Net Gas Exports to Mexico



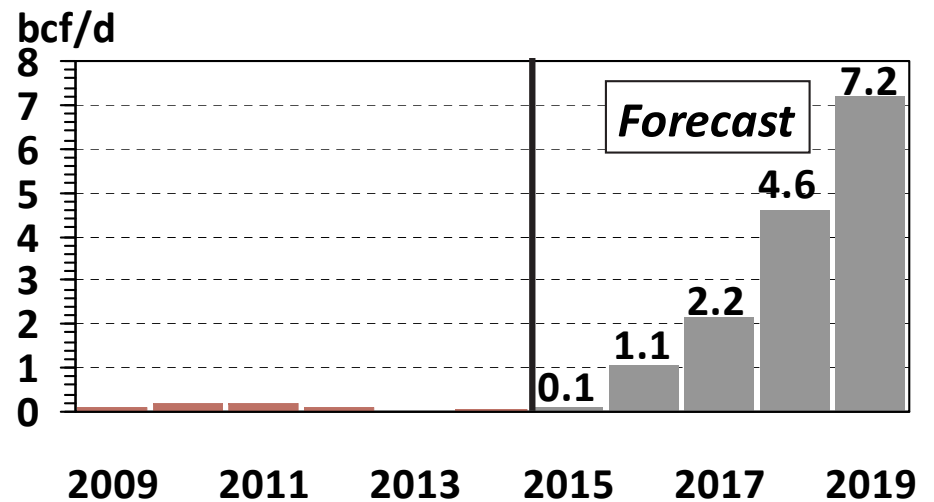
Source: FirstEnergy Capital Corp., U.S. DOE/EIA.

U.S. Annual LNG Export Capacity (Year End)



Source: FirstEnergy Capital Corp., Reuters.

U.S. Annual LNG Exports



Source: FirstEnergy Capital Corp., US DOE/EIA.

United States LNG Export Projects/Proposals

Fully Approved or Approved and Under Construction

<u>Project</u>	<u>Owners</u>	<u>Capacity (mmcf/d)</u>	<u>Status</u>
Sabine Pass	Cheniere	2,400	Under Construction, finish late 2015 (T 1 & 2), mid-late 2017 (T 3 & 4).
Freeport LNG	Freeport LNG	1,800	Under Construction; early 2018 completion.
Dominion Cove Point	Dominion	800	Under Construction; mid-2018 completion.
Cameron LNG	Sempra	1,700	Under Construction; late 2017 early 2018 completion.
Total		6,700	

Likely to Proceed

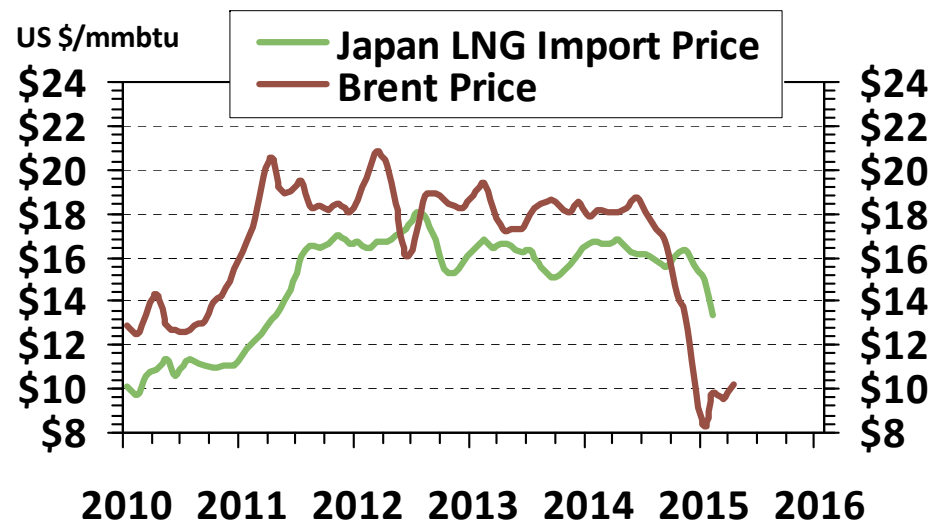
Corpus Christi	Cheniere	2,100	FERC approved; pending DOE approval.
Sabine Pass T 5&6	Cheniere	1,200	FERC approved; pending DOE approval.
Total		3,300	
Grand Total		10,000	

Source: FirstEnergy Capital Corp., Waterborne Energy Inc., Reuters.

OIL'S IMPACT ON GLOBAL LNG PRICING

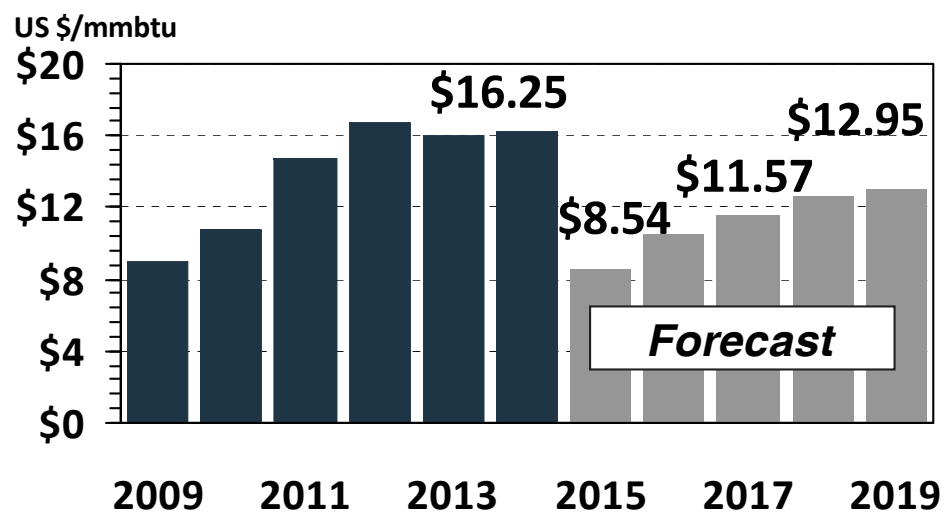
- Our lower crude oil price outlook is impacting oil-linked LNG prices.
- Combined with more spot volumes entering the market over the next few years, LNG prices could remain under pressure and below our price outlook.
- Some projects could face very thin economics and returns if LNG prices hold under US \$10 to US \$11 range.
- End result could be bearish for North American pricing as take-or-pay agreements at new U.S. LNG projects mean offtakers can pay the fee, but not take the gas, forcing gas back into the North American grid.
- We suspect that most buyers of the LNG will find a way to make money and work around lower LNG prices.
- New world emerging as Japan looking to push new LNG contract terms.

Japan Landed LNG Prices



Source: FirstEnergy Capital Corp., Bloomberg.

Asia Landed LNG Prices



Source: FirstEnergy Capital Corp., Bloomberg.

CANADIAN LNG PROJECTS – LIGHT AT THE END OF THE TUNNEL?

- There are about 20 contenders looking at exporting Canadian gas as LNG from both the east and west coasts; projects on the west coast (British Columbia) remain the most advanced, but also the most in limbo.
- Pacific NW project still in deferral stage, but Petronas saying it will decide by June 2015; federal government recently proposed new capital cost allowance rules for LNG related projects to help overall economics (30% for equipment, 10% for buildings); seeks firm binding decisions from regulators; possibility of export licenses being extended to 30 years; new FN settlements along pipeline route.
- Tentative signs that Petronas may decide to go ahead with its project.

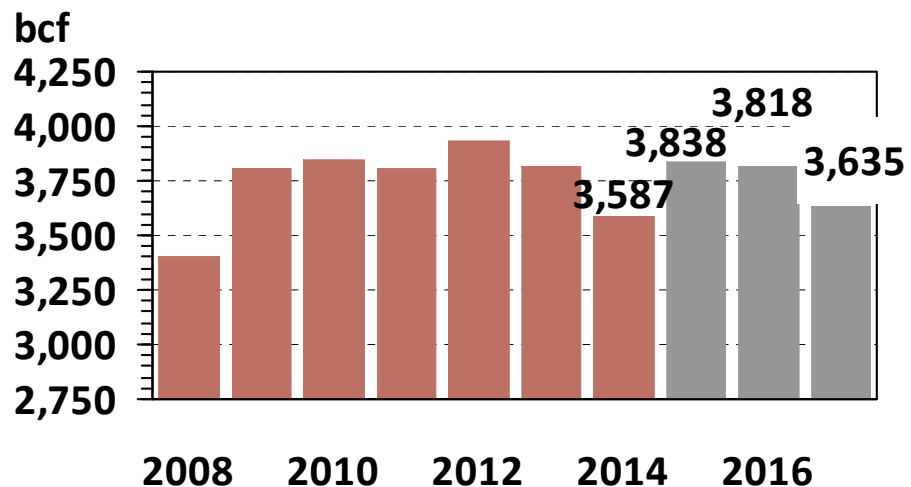
Canada LNG Export Proposals						
Project	Partners	Location	Capacity mmcf/d	Approval to Export?	Potential On Stream	Comments
Pacific Northwest LNG	Petronas, Sinopec, Japex, Petroleum Brunei, Indian Oil Corp.	Prince Rupert	2,600	Yes (25 YR)	mid-2019	FID decision has been deferred until mid-2015? Has pipeline, site, and export permits in place.
LNG Canada	Shell Canada, KOGAS, Mitsubishi, PetroChina	Kitimat	3,200	Yes (25 YR)	2021	Has pipeline proposal in place. Has filed EIA with B.C. agencies. Has estimated cost up to US \$40 billion. FID in 2017?
Douglas Channel LNG	Altagas, Idemitsu, EDF.	Kitimat	70	Yes (25 YR)	2018	Resurrection of previous proposal, barge based liquefaction.
Kitimat LNG	Chevron Canada	Kitimat	1,300	Yes (20 YR)	2020	Potential merger candidate with Shell-led project?

Source: FirstEnergy Capital Corp., Natural Gas Week.

IT ALL COMES DOWN TO STORAGE – MOST OF THE TIME

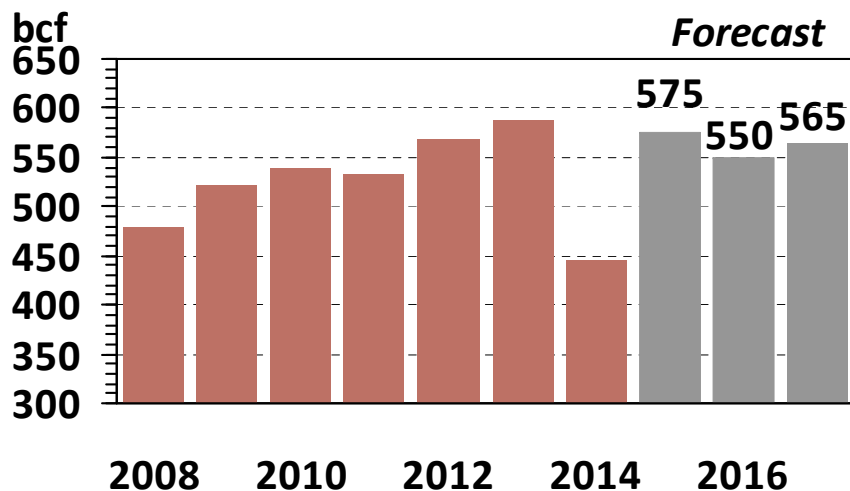
- We do not expect that storage levels will be tested above 4,000 bcf in 2015 or other years.
- Market knows that it has more than enough gas for a cold winter at 3,600 to 3,800 bcf in storage.
- Canada still has to deal with push back from U.S. supplies so more gas in storage.

U.S. End-October Storage Levels



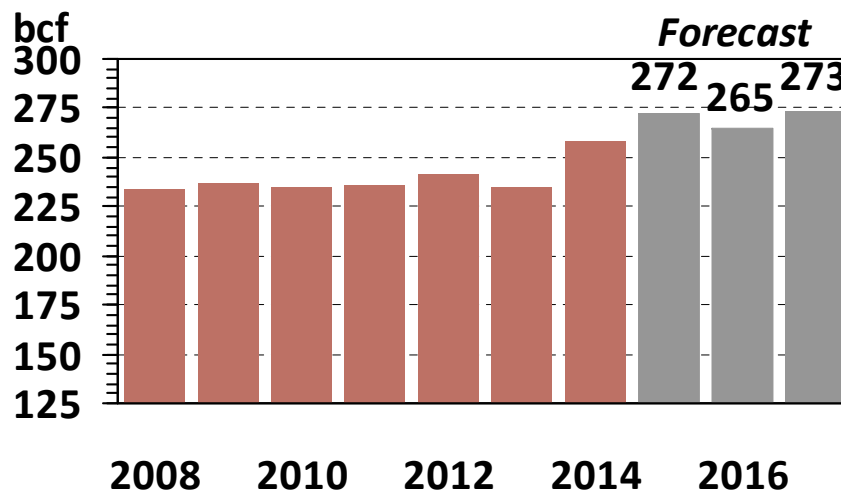
Source: FirstEnergy Capital Corp., US DOE/EIA.

Can. West End-October Storage Levels



Source: FirstEnergy Capital Corp. Canadian Enerdata.

Can. East End-October Storage Levels



Source: FirstEnergy Capital Corp. Canadian Enerdata.

- 2015 shaping up as another tough year for the industry as it grapples with strong U.S. supply growth; lower prices will be needed to spur power generation demand to balance market, especially if cool summer develops; constructive price upside for 2016+.
- Most U.S. supply growth still geared to Marcellus/Utica, which is being more constrained to a degree by pipeline availability; significant expansions expected by year end 2016.
- Structural demand growth coming in the U.S. market via industrial and power generation sectors and large upswing in exports of gas to Mexico and LNG.
- Canadian supply under pressure from U.S. supply growth; Midwest could be next big market to fall due to Marcellus/Utica supplies.
- Canadian supplies also being held in check by insufficient take away capacity in core shale growth areas.
- Canadian LNG exports possible by end 2019 with Pacific NW project, but go ahead very dependent on resolution of regulatory process.

**Thank You
and
Questions?**