



March, 2010
Energy Industry Update

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What's in Store for 2010 & 2011

- 2010 certainly better than 2009
- Local rig count up 10% from bottom (+3 rigs)
- Should add 6 to 8 more active rigs during 2010
- Why not more?
- Newer rigs drill faster so more wells with fewer rigs, “spud to spud” rates improved 15%-30% in some areas
- Forecasting production based on rig count no longer correlative

What's in Store for 2010 cont'd

- Excess regulation and taxation threats insure reduced activity levels locally
- 2010 capital budgets based on CYE '09 service costs
- Capturing market share best way to grow in near term
- “The Loaf of Bread Analogy”
- 2K10 steady but at lower levels than '06-'08

How About 2011 ?

- I'm worried about industry activity in 2011
- US fiscal policy all about **revenue**
- Green energy subsidization
- Higher taxes on fossil fuels
- Reduced access to public lands for leasing
- Higher royalty rates, fees and penalties
- EPA "backdoor" alternative to CAP & Trade
- Exploding Deficit destroys business confidence and reduces investment which reduces demand for natural gas and of course limits job growth

2011

cont'd

- Hoping for activity levels flat with 2010
- Supply ready for economic recovery and demand increase
- Credit and Debt markets critical to industry's ability to reinvest
- Natural gas prices likely flat to lower in 2011 than 2010
- Long term outlook for natural gas is favorable
- **Local municipalities must budget accordingly**

Addressing the Shale Plays

- Common theme that capital being diverted only because of better pricing
- Piceance reserves largely booked, land positions set, basin essentially defined and infrastructure now in place
- Now in gas manufacturing mode locally
- Must consolidate to grow “Opportunity Count” and reserve base, or simply be the cash machine for development in other areas

The Shale Plays cont'd

- Rigs and services being diverted because:
- Wall Street rewarding participants
- Leasing highly competitive, short term leases and drilling obligations
- Regulatory environments more favorable and both jobs and tax revenue being welcomed
- Lower “Finding and Development Cost”
- Impetus to establish positions before regulatory & tax authorities “change the game”

Piceance v Shale Plays

- With Rockies Express, Meeker Hub and Ruby Pipelines, local gas far less disadvantaged
- Local gas processing capacity now in place
- Current **48 month pricing strip** shows Rockies gas within \$0.60 of other regions
- It's all about transport capacity!
- Current Piceance breakeven pricing between \$3.00 and \$4.00 **at the wellhead**
- Roughly equates to \$4.50 to \$5.50 NYMEX

The Latest Buzz

- Battlement Mesa all about “split estate”, realtors and lending industry missed the boat on split estate
- Recent article “**Booms, busts and B.S.**” sorely misses the point- criticizes even though not present
- Media touts well count but ignores pad drilling advancements (ie. 10 acre spacing no longer means what it used to)
- Far fewer surface facilities and interruption
- Same story on the Roan Plateau, where, by the way, drilling has been occurring for over 20 years on private lands **BBC talking about a 60 well pad**
- Need to speak in terms of pad count not well count (reduces disturbance by 80% to 90%)

The Latest Buzz cont'd

- GarCo well permit hearings before COGCC
 - * Imagine delays if hearings held on individual well permits (10 to 20 well pads)
 - * Stop showing pictures of Bill Clough's ranch- totally distorts today's reality
- **FOR THE RECORD:** New COGCC rules have had a significant impact on local industry, job counts, small businesses and tax receipts!
- **"Just a few cents per MCF" (COGCC Commissioner Rich Alward)**

.....and What About Water

- Salt and Selenium in the Colorado River
- Mancos Shale is the source
- Precip, domestic (lawns & parks) and agriculture/irrigation
- USGS “No other source of water to dilute impacts”
- And guess what.....Ag has an exemption for its irrigation outflow!

Water

cont'd

- Is the playing field level?
- CDPHE Manager says “permits to pollute”
- Ag exemption preserved **“simply as a result of Ag’s lobbying power”**
- **“The benefits outweigh the impacts”** Really?
- Water more valuable than energy?
- Point source for decline in water quality- think about the ironies
- And what if I told you that.....

Water

cont'd

- Rio Blanco, Mesa and GarCo produced enough water in 2009 to meet the annual needs of 32,000 local households (4 people) or roughly 85% of the Grand Valley's current population!
- Over 50,000 households in the Desert Southwest
- Approximately 120% of Ute Water's total demand
- Tri County energy companies produce over 16,000 acre feet per year

Water

cont'd

- Proven technologies already approved for use in Colorado
- Currently in the field but at pilot scales
- Industry lacks only the financial incentive to deploy
- Why wouldn't we do this? Would provide a sorely needed fresh source of water to the Colorado River

Water

cont'd

- Could the Energy Industry turn out to be the “White Knight” of the Colorado River?
- Just need to think out of the box!
- What’s the difference between cleaning up produced water and cleaning up sewage in water treatment plants?
- And talk about irony.....

What About Water cont'd

- Grand Junction Watershed Presentation
- E coli and guardia, **“it’s the deer & elk not the cattle”**
- The “Brush Hog”
- Roads, noise, kindling, OSHA, emissions
- Clear burning and airborne particulates
- Adopted special ordinances for oil & gas
- Fear of the unknown and a duty to protect
- Get the facts, what are the current BMP’s

Quote of The Week

- Concerning the roadless area mess down in Somerset, CO with the West Elk and Elk Creek mines.....it was noted however that
- **“the Western Slope Environmental Resource Council in Paonia supports the mine exemptions in the Somerset area because of their importance to the local economy”**

Wrap Up

QUESTIONS?

Thank you for having me again!