



# Qwest Investment Management

Henry Hub Spot NG: US\$3.62/mmBtu AECO Gas: C\$3.48/mcf Western Canada Select: C\$73.33/bbl WTI Cushing Spot Crude: US\$79.68/bbl

Sources: www.firstenergy.com (as at close October 5, 2011)

## Key Oil & Natural Gas Headlines at a Glance October 6, 2011

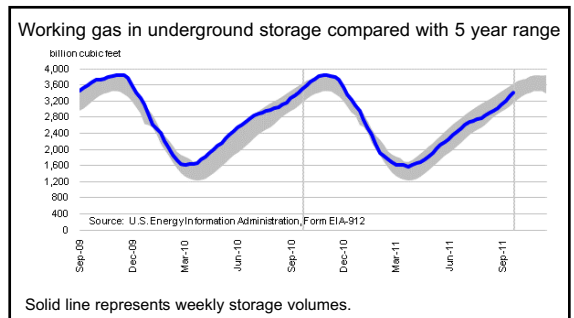
### U.S. NATURAL GAS (for the week ending Friday, September 30, as reported by the U.S. Energy Information Administration October 6, 2011)

**Net Injection/Withdrawal:** The implied net injection from working gas was 97 Bcf as of Friday, September 30th.

**Storage:** Working natural gas in storage rose to 3,409 Bcf as of Friday, September 30. Following a net injection of 97 Bcf from the previous week, stocks are now 78 Bcf below last year and 28 Bcf above the 5-year average. The injection was much larger than the 5-year average injection of 74 Bcf and last year's injection of 84 Bcf.

This was the second week in a row of very large builds. After spending most of the summer at a deficit to the 5-year average, stocks have rebuilt very quickly over the last several weeks as the hot weather has become milder. With production at very high levels, stocks were able to rapidly gain ground in the absence of much power sector demand and before major heating demand begins.

**Temperatures:** Temperatures during the week ending Thursday, September 29, averaged 67.7 degrees, 3.7 degrees warmer than normal and 2.9 degrees warmer than last week. Regionally, temperatures were higher than normal everywhere except the Midwest. The Northeast was the warmest relative to normal with New England 11.6 degrees warmer than normal and the Middle Atlantic 8.9 degrees warmer. These two regions would typically be starting to consume heating fuels such as natural gas as the weather turns colder, but heating degree-days last week were down over 90 percent from normal in each region.



### U.S. CRUDE OIL (for the week ending Friday, September 30, as reported by the U.S. Energy Information Administration October 5, 2011)

**Crude Oil Inventories:** Inventories decreased by 4.7 million from the previous week. At 336.3 million barrels, U.S. crude oil inventories are in the upper limit of the average range for this time of year.

**Crude Oil Imports:** Averaged 8.7 million bbls per day last week, down by 1.0 million bbls per day from the previous week. Over the last 4 weeks crude oil imports have averaged 8.8 million bbls per day, 246 thousand bbls per day below the same four-week period last year.

**Motor Gasoline Inventories:** Inventories decreased by 1.1 million from last week and are above the upper limit of the average range.

**Motor Gasoline Product Supplied:** Over the last 4 weeks, motor gasoline product supplied has averaged 8.9 million bbls per day, down by 1.7% from the same period last year.

**Distillate Fuel Inventories:** Inventories decreased by 0.7 million barrels last week and are in the upper limit of the average range for this time of year.

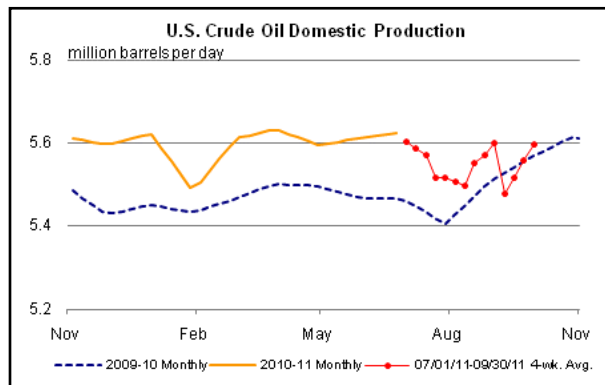
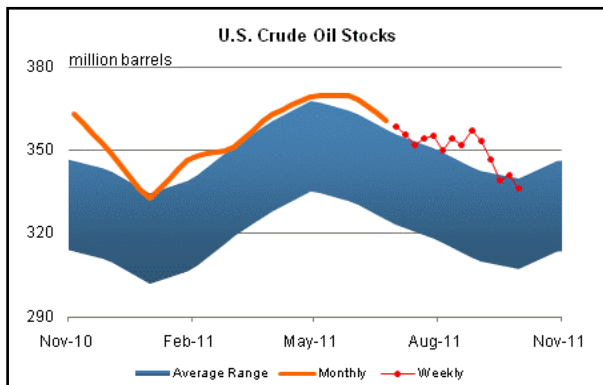
**Distillate Fuel Product Supplied:** Product supplied has averaged 3.9 million bbls per day over the last four weeks, up by 2.0% from the same period last year.

**Total Products Supplied:** Over the last four weeks has averaged just under 19.0 million bbls per day, down by 1.3% compared to a similar period last year.

**Refineries:** Operated at 87.7% of their operable capacity last week.

**World Crude Oil Price:** The average world crude oil price on Friday, September 30th was \$103.17 per barrel, \$5.41 less than last week's price but \$27.03 above a year ago.

**WTI Crude Oil Price:** WTI was \$81.87 per barrel on Friday, Sept. 30, \$1.58 more than last week's price and \$0.30 above a year ago.



## Oil & Natural Gas Headlines (September 30 - October 6)



- ◆ **Russia Opens New Door to Offshore Riches** - *International Oil Daily (October 6)* - In a bid to step up the exploration of the Russian shelf, a new state exploration holding, **Rosgeologia**, is offering itself as a partner for foreign investors seeking access to Russia's offshore oil and gas riches.
- ◆ **Inaction Looks Best Option for OPEC** - *Petroleum Intelligence Weekly (October 3)* - At the start of the fourth quarter of a tumultuous year, the watchword for **OPEC** is caution. Prospects for the global economy are hard to read, with major concerns over growth in the US, sovereign debt in Europe, Beijing's desire to rein in inflation in China and the pace of post-quake recovery in Japan. OPEC's next scheduled meeting is still a long way off on Dec. 14, but it's already looking a fair bet that the producer group will sit on its hands.
- ◆ **China's Oil & Gas Consumption to Rise** - *Rigzone (September 30)* - China's growing economy and population means the country is consuming more oil and natural gas. Since 1980, Chinese oil consumption, including Hong Kong and Taiwan, has grown from just over 2 million bpd to over 10 million bpd in 2010. Natural gas consumption also has grown from approximately 575 Bcf in 1980 to nearly 4.5 Tcf in 2010. The **International Energy Agency** forecasts that Chinese oil consumption will nearly double over the 25 years to over 19 million bpd, and gas consumption is expected to reach over 22.4 Tcf during that time. China has proved oil reserves of nearly 15 billion barrels and 100 Tcf of natural gas reserves. However, China has had to rely on oil imports as its domestic resources are not enough to meet growing demand.
- ◆ **South, Korea LNG Demands Could Surge 40 Per Cent By 2024** - *Reuters (September 30)* - South Korean demand for liquefied natural gas could surge nearly 40 per cent in the next decade due to rising consumer and industrial needs in Asia's fourth largest economy, a senior industry official said recently. South Korea is the world's second biggest LNG importer after Japan, and its demand for LNG could surge as high as 44 million tonnes within 13 years, surpassing government expectations for imports to remain relatively steady at around 34 million tonnes. "We can see in 2024 that volume could be 34 million tonnes per annum, but many industry experts are expecting 10 million tonnes on top of that," said **K.J. Oh**, team leader of LNG procurement for Korean oil refiner **GS Caltex**, at an industry conference in Singapore.



- ◆ **Obama Administration Moves Forward with 'Lease Sale 193' off Coast of Alaska** - *Dow Jones Newswires (October 4)* - The **Obama** administration announced Monday it was moving forward with oil-drilling leases issued off the coast of Alaska by the previous administration, marking an important development in the battle over Arctic Ocean drilling. The **Interior Department** said it was going to uphold nearly 500 leases issued in the Chukchi Sea after several environmental groups challenged the sale of the leases in court. The **George Bush** administration conducted the sale in 2008, collecting bids worth about \$2.7 billion. Among the companies securing leases in "Lease Sale 193" was **Shell**, the energy giant at the center of a high-profile fight to secure permits to drill in the Arctic.
- ◆ **Pennsylvania Launches Natural Gas Drilling Fee** - *Reuters (October 4)* - Pennsylvania on Monday announced plans for new levies and stricter rules for natural gas drilling, which has been blamed for contaminating local water supplies. Governor **Tom Corbett** proposes to slap a potential \$160,000 "impact fee" on each well drilled, which would be used to improve infrastructure and promote the use of natural gas vehicles in the state. "Estimates show that this impact fee will bring in about \$120 million in the first year, climbing to nearly \$200 million within six years," Corbett said in a statement. Each well will be subject to a fee of up to \$40,000 in the first year, \$30,000 in the second year, \$20,000 in the third year and \$10,000 in the fourth through tenth years, the statement said. Pennsylvania is home to a large portion of the Marcellus shale, the country's largest deposit of shale gas.
- ◆ **Chevron Unveils World's Largest Solar Enhanced-Oil-Recovery Project** - *Rigzone (October 3)* - **Chevron Technology Ventures**, a division of **Chevron U.S.A.**, launched a unique demonstration project to test the viability of using solar energy to produce oil. The project uses over 7,600 mirrors to focus the sun's energy onto a solar boiler. The steam produced is injected into oil reservoirs to increase oil production. The project is the largest of its kind in the world. "Through this demonstration, we want to determine the feasibility of using solar power for enhanced oil recovery," said **Desmond King**, president of Chevron Technology Ventures. "This technology has the potential to augment gas-powered steam generation and may provide an additional resource in areas of the world where natural gas is expensive or not readily available."
- ◆ **U.S. Gas Rig Count At Nine-Month High** - *Reuters (October 3)* - The number of rigs drilling for natural gas in the United States climbed by 11 last week to a nine-month high of 923, the second gain in three weeks, data from oil services firm **Baker Hughes** showed on Friday. The gas-directed rig count is at its highest since Dec. 22, when the total stood at 931. The count is down seven per cent from its 2010 peak of 992, its highest since February 2009, when 1,018 rigs were drilling for gas. Horizontal rigs -- the type most often used to extract oil or gas from shale -- fell by five to 1,135 after matching a record high last week. Horizontal rigs comprise part of the overall gas rig count.
- ◆ **India's GAIL Moves Into US Shale Gas** - *International Oil Daily (September 30)* - Indian gas utility, **GAIL (India) Ltd.**, has become the latest Asian firm to hop on the North American shale gas bandwagon, buying 20% of Houston-based **Carrizo Oil & Gas'** acreage in Texas' Eagle Ford Shale play.



- ◆ **Alberta Land Sale Draws Nearly \$100 Million, Saskatchewan October Sale Generates Over \$13 Million** - *Nickle's Daily Oil Bulletin (October 6)* - Further interest in the Duvernay is likely responsible for Alberta's Wednesday land sale bonus haul of nearly \$100 million. The Oct. 5 sale generated \$99.89 million in total bids on 184,921 hectares at an average price of \$540.20. This brought the year-to-date total to \$3.16 billion as the province continues to inch closer to the all-time calendar year record of \$3.4 billion set

in 2006. Alberta has five land sales left this year. To date in 2011, 3.64 million hectares have exchanged hands at an average price of \$867.03.

- ◆ **FirstEnergy Forecasts Gas Price Rebound For 2012** - *Nickle's Daily Oil Bulletin (October 5)* - **FirstEnergy Capital Corp.** expects **AECO** natural gas prices to average \$4.54 per mcf next year, up from an estimated average 2011 price of \$3.84. In releasing its price outlook on Tuesday, the investment dealer said the AECO price averaged \$3.79 an mcf in the first quarter of this year, \$3.89 in the second quarter and \$3.67 in the third quarter, and it's forecasting \$4 for the fourth quarter. FirstEnergy expects AECO prices to edge up to an average of \$4.61 an mcf in 2013 and \$4.83 in 2014.
- ◆ **Encana Eyes Asia as Key Market for BC Natural Gas** - *LNG Intelligence (October 5)* - **Encana** said Tuesday the proposed Kitimat LNG export terminal in British Columbia will help to stabilize gas prices in North America and provide an outlet for growing production from the province's Horn River Basin.
- ◆ **Enbridge Proposal Offers Expanded Markets For Western Light Crudes** - *Nickle's Daily Oil Bulletin (October 4)* - Western Canadian light oil producers will have increased access to refineries in the United States upper Midwest and Ontario with two new projects by **Enbridge Inc.** and **Enbridge Energy Partners, L.P. (EEP)**. The project involves the expansion of EEP's Line 5 light crude line between Superior, Wisconsin, and Sarnia, Ontario, by 50,000 bbls per day, at a cost of approximately \$100 million. Enbridge also plans to reverse a portion of Line 9 in western Ontario to permit crude oil movements eastbound from Sarnia as far as Westover, Ontario, at a cost of approximately \$20 million. Subject to regulatory approvals, both projects are targeting to be in service in late 2012.
- ◆ **Alberta Rig Count Continues To Climb** - *Nickle's Daily Oil Bulletin (September 30)* - Canada's drilling rig utilization stood at 67 per cent this week, with 548 rigs working across the Western Canada. For the month of September, rig utilization has remained steady at about 67 to 68 per cent as operators continue to make up for lost drilling days in the spring due to wet weather. In Alberta, 375 rigs were at work, up eight rigs from last week. It's the highest rig count in Alberta since the week of March 15. The rig count in both Saskatchewan and British Columbia declined from the prior week. In Saskatchewan, there were 104 active rigs, down from 112 last week. In B.C., 49 rigs were at work this week, off from 51 a week ago. In Manitoba, 20 rigs were active this week, the highest count since the week of March 8.

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