



New Hampshire Energy Planning Advisory Board Stakeholders Forum



Petroleum Outlook



Doing More

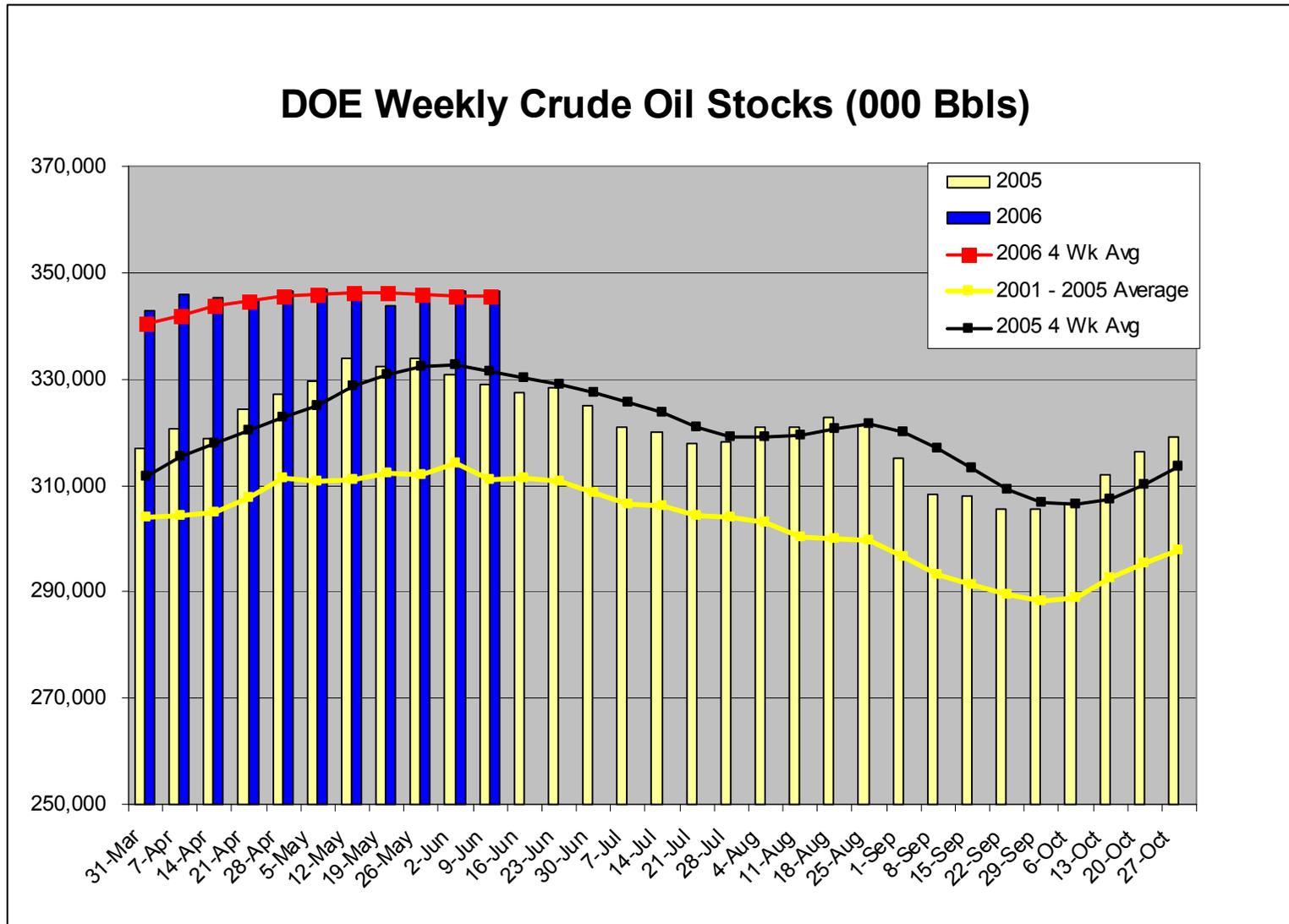
Jim Therriault
Vice President, Marketing
June 23, 2006



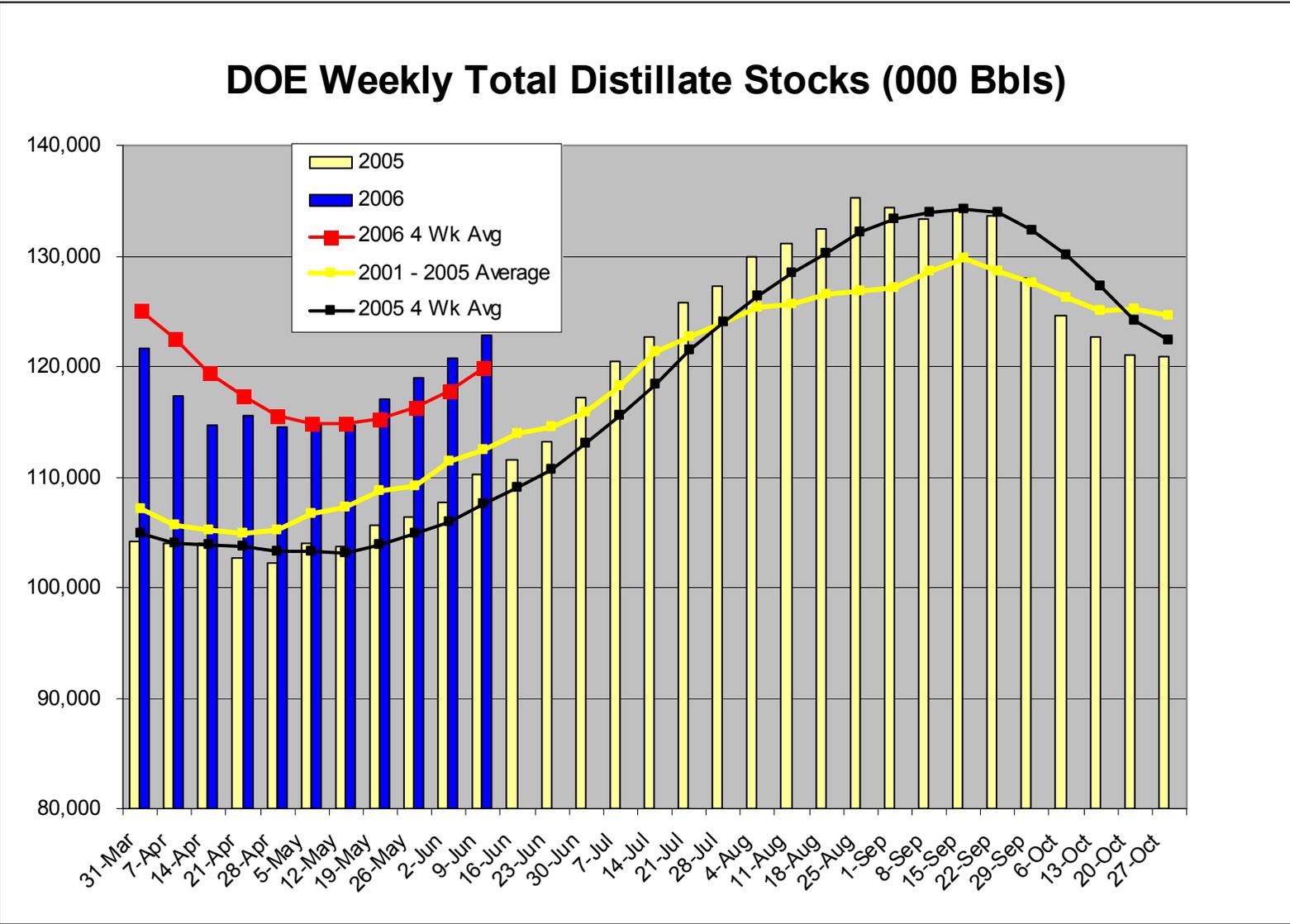
Winter 2006/2007 Outlook - Supply

- While little can be done to influence the global price level of petroleum products and there is little hope for major near term price relief – the local supply picture is relatively encouraging
- The market structure today encourages maximizing storage capability
 - Most available distillate storage is being filled up
 - With normal / predictable weather – supply should not be an issue

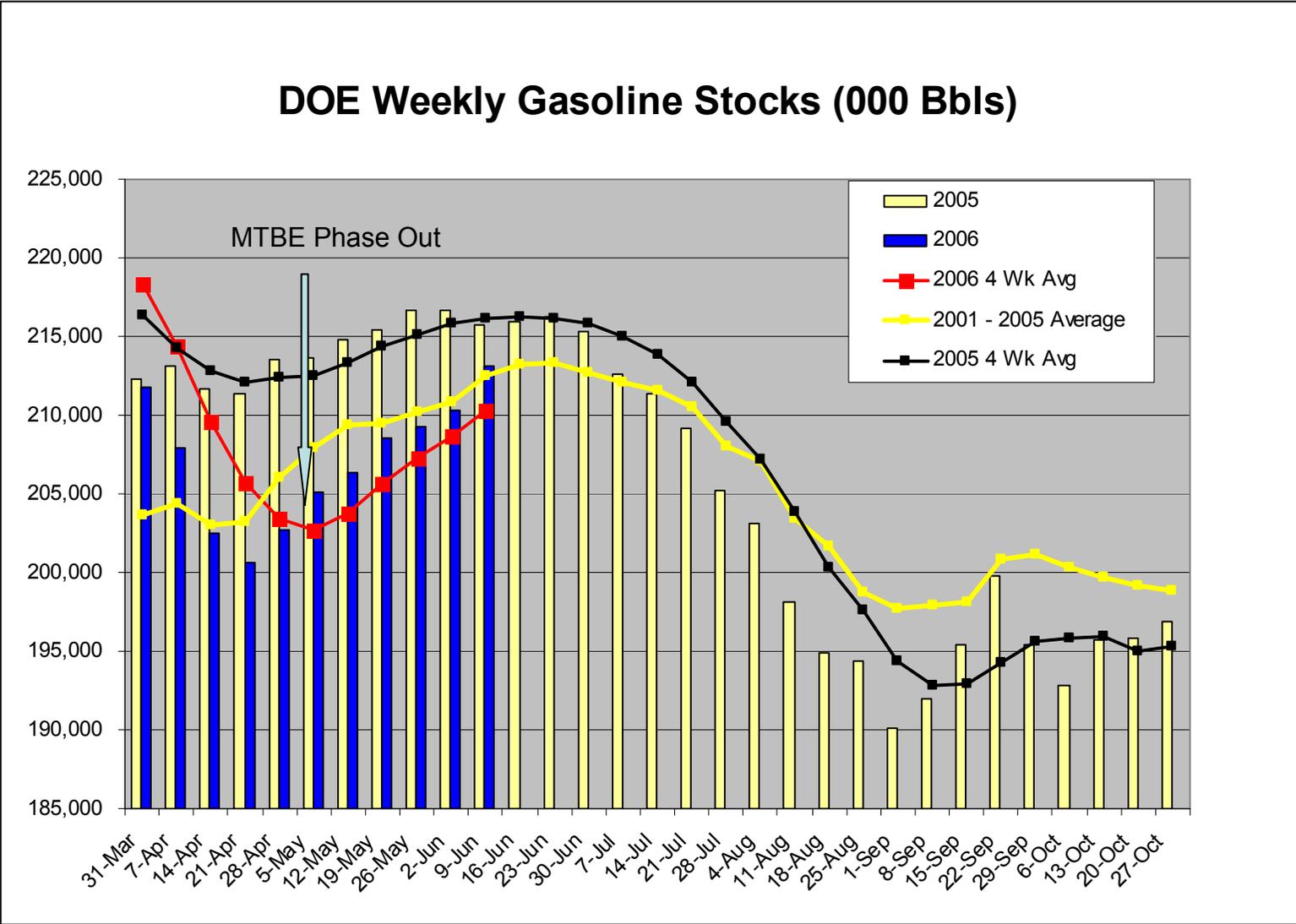
Crude Stocks are High



Distillate Stocks are High



Gasoline Stocks are Recovering



Winter 2006/2007 Outlook – Recent Developments

- We have begun a national phase in of Ultra Low Sulfur Diesel fuel (15 ppm sulfur as opposed to 500 ppm)
 - June 1 – Refineries
 - Sept 1 – Terminals
 - Oct 15 – Retail
- 80% of all supply (production and imports) must be ULSD
- There are no restrictions on what is burned in pre 2007 engines
- Industry does not have resources to carry both grades
- This is causing a mismatch between demand and supply
- Most available supply will be 15 ppm by fall

- Availability of ULS Kero for diesel winterization is still a wildcard

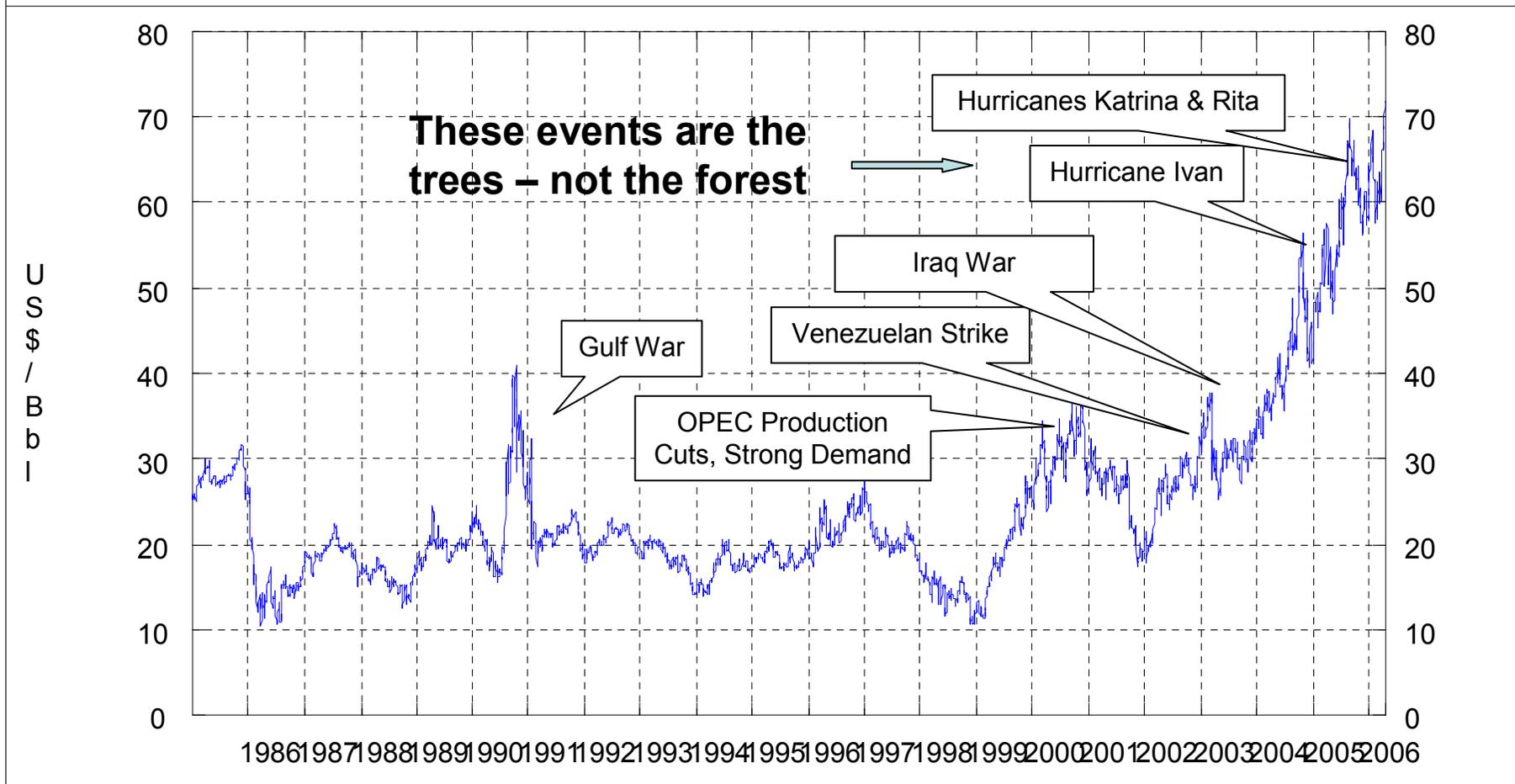
Petroleum Prices Have Been Rising Since The Late 90's

PAWS

WTI Cushing Platt's Mth1(Adj)

24APR06

Max. 73.670 Min. 10.425 Mean 24.695 Std.Dev. 11.105 Last 73.670



Sprague Energy

Crude Oil Futures Pricing (1985 – Present)

2JAN85 to 21APR06

High Oil Prices are NOT a Local Happening

- Current high petroleum prices are a global phenomenon driven by macro economic forces:
 - World demand continues to increase (China – India)
 - World excess refinery capacity continues to shrink (grade mismatch)
 - Many traditional supply sources are in turmoil
 - Developing additional reserves/capacity is not a priority for most producing nations – they have other domestic agendas
 - **The daily buffer between crude supply and demand has been reduced to a few million barrels (<3%) from a historical level of 10 million barrels a day through the 80's (10% - 15%)**
- As a result the markets have little capacity to absorb any type of disruption
 - Weather
 - War
 - Strike

Traditional Supply Sources are in Turmoil

This Weeks Headlines

OPEC – Liking \$70 Crude and the influence it commands

IRAQ – Limited southern production – northern pipeline all but non existent

Nigeria – “Movement for the Emancipation of the Niger Delta” – sabotage – kidnapping
- killing and general disarray

Venezuela – Stockpiling arms to repel the US invasion

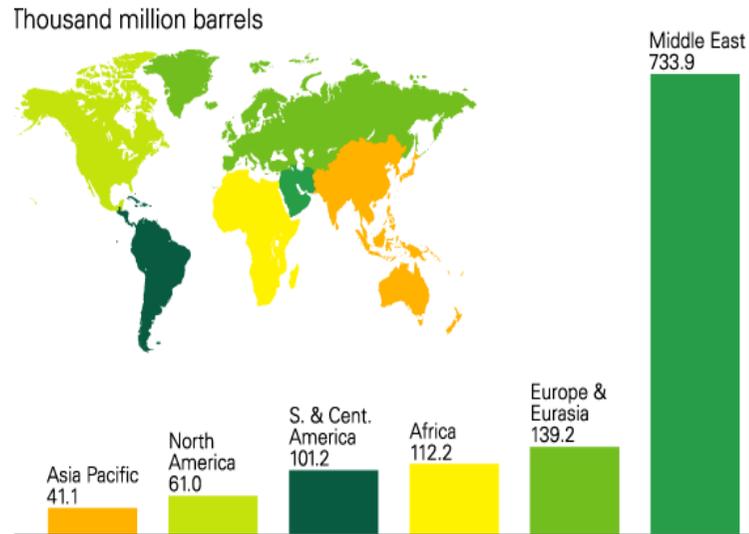
Iran – Nuclear Arms Crisis

China – Domestic demand continues to grow – exports disappearing

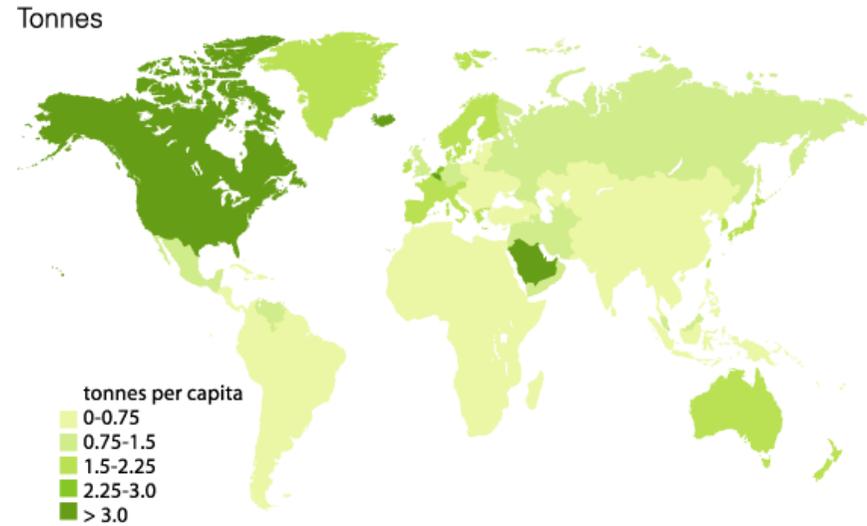
Russia –Have not recovered from collapse of the Soviet Union

North America is Especially Vulnerable to this Imbalance

Proven Oil Reserves



Per Capita Consumption



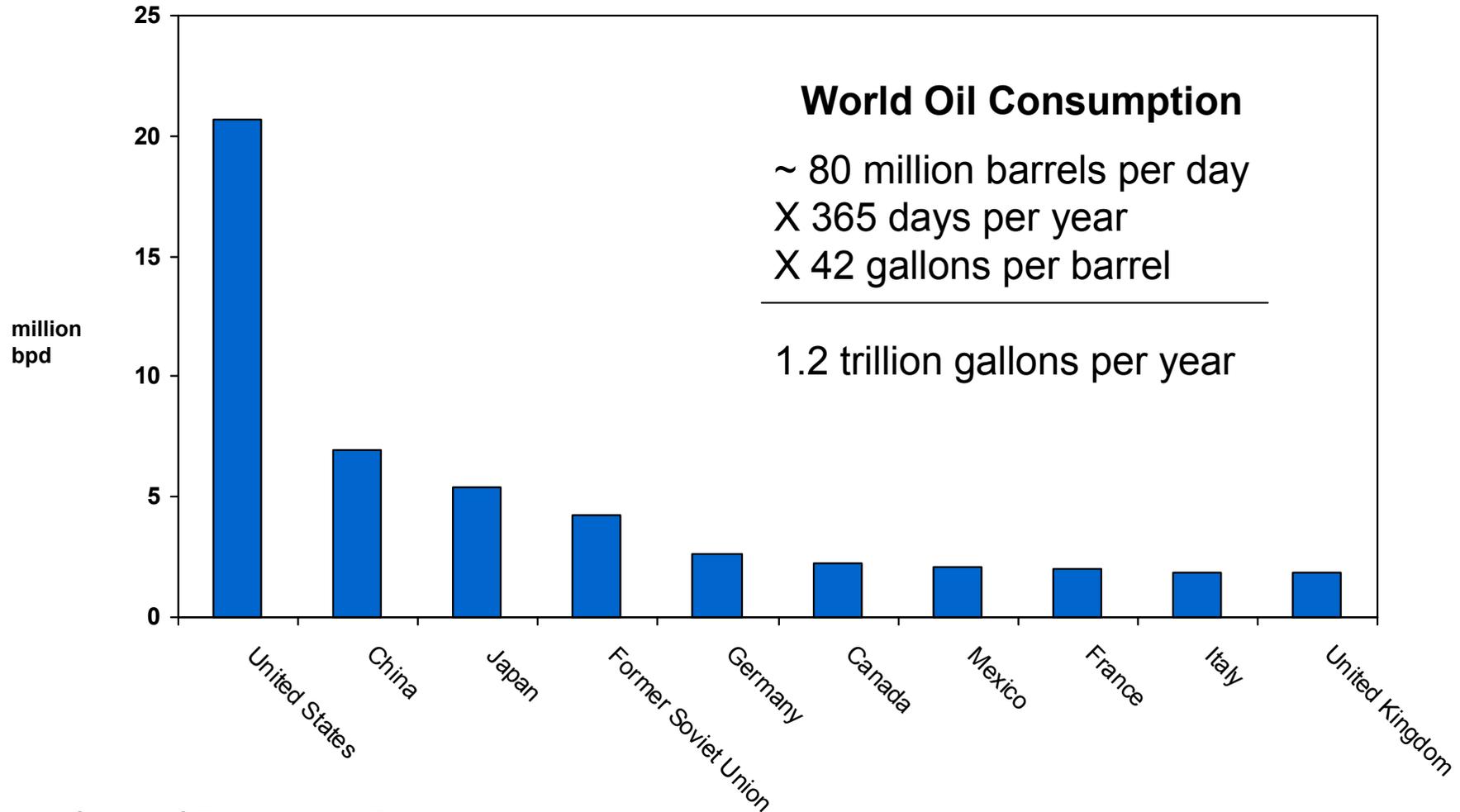
North America has only 5% of the world reserves ...

but makes up 29% of the world demand

Source: BP Statistical Review of World Energy 2005

Our Own Consumption is Equal to the Next 5 Nations Combined

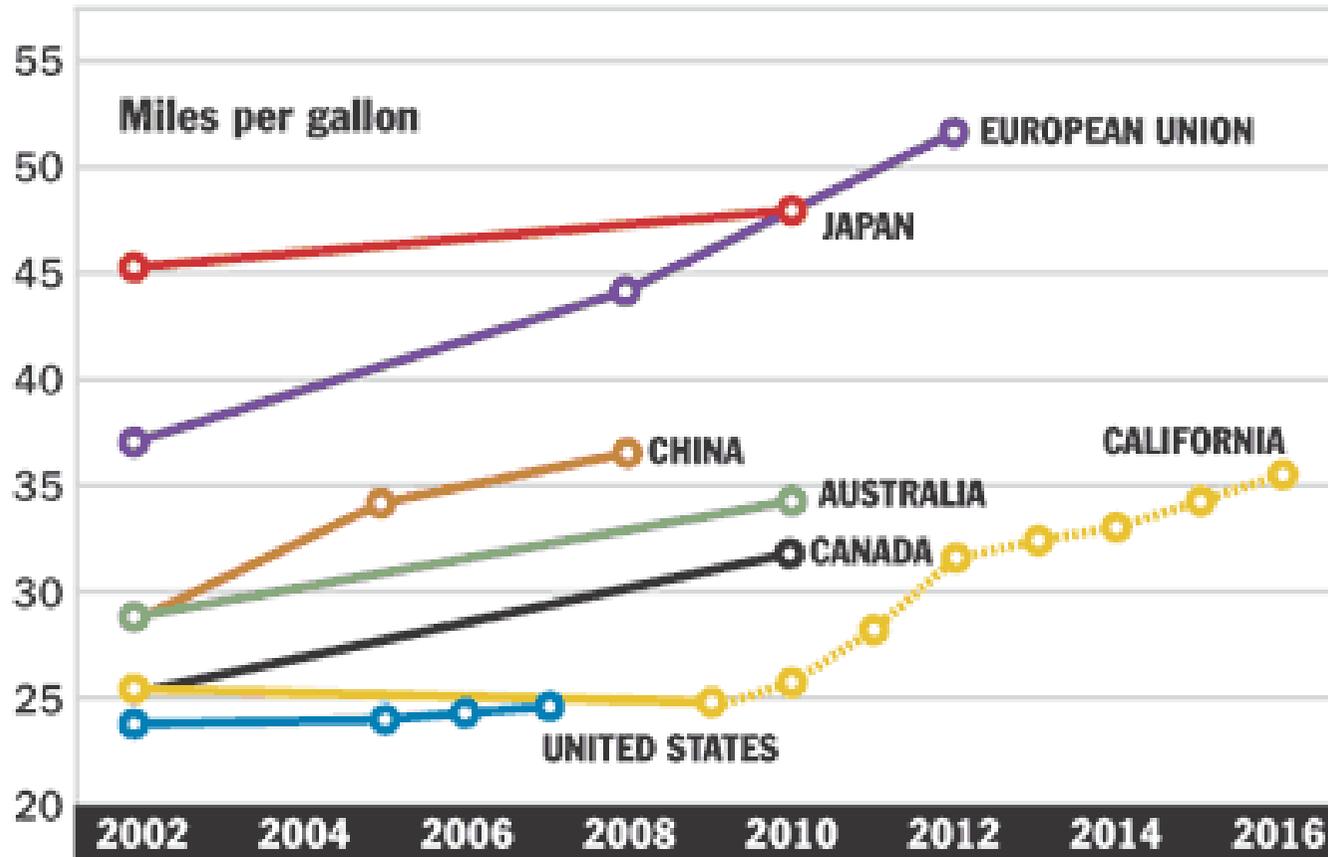
Top 10 Countries 2005



Source: US EIA, International Petroleum Monthly

We are Lagging the Rest of the Developed World

Fuel economy trend lines



Bio Based Liquid Fuels are a Good Step

Biodiesel

- Fuel derived from vegetable oils and animal fats
- Blended up to 20% with diesel fuel and heating oil
- Energy content equivalent to kerosene ~127,000 BTU
- U.S. annual consumption is 90M gallons - projected by 2012 to be 300 million gallons
- Still less than one half of 1% of total current demand
- Cost to add to one terminal - approximately \$500,000
- Requires strict quality control



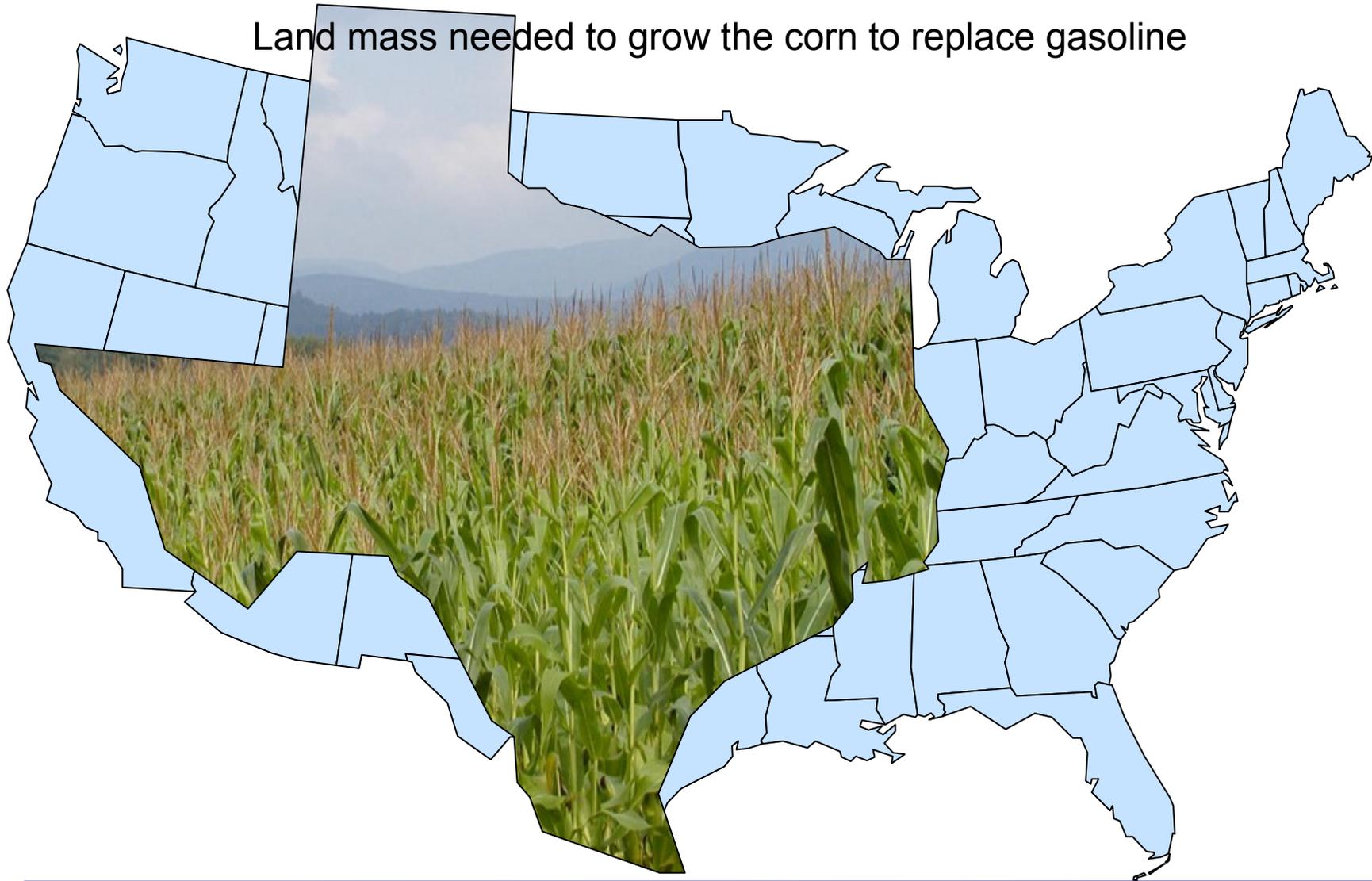
Ethanol

- Ethanol is used as an alternative fuel to replace gasoline
- Ethanol is derived from renewable resources such as corn and sugar cane
- Ethanol is used to increase octane and improve emissions quality in gasoline
- Ethanol is blended at volumes up to 10% in normal gasoline (E10) and up to 85% in specialty engines (E85)

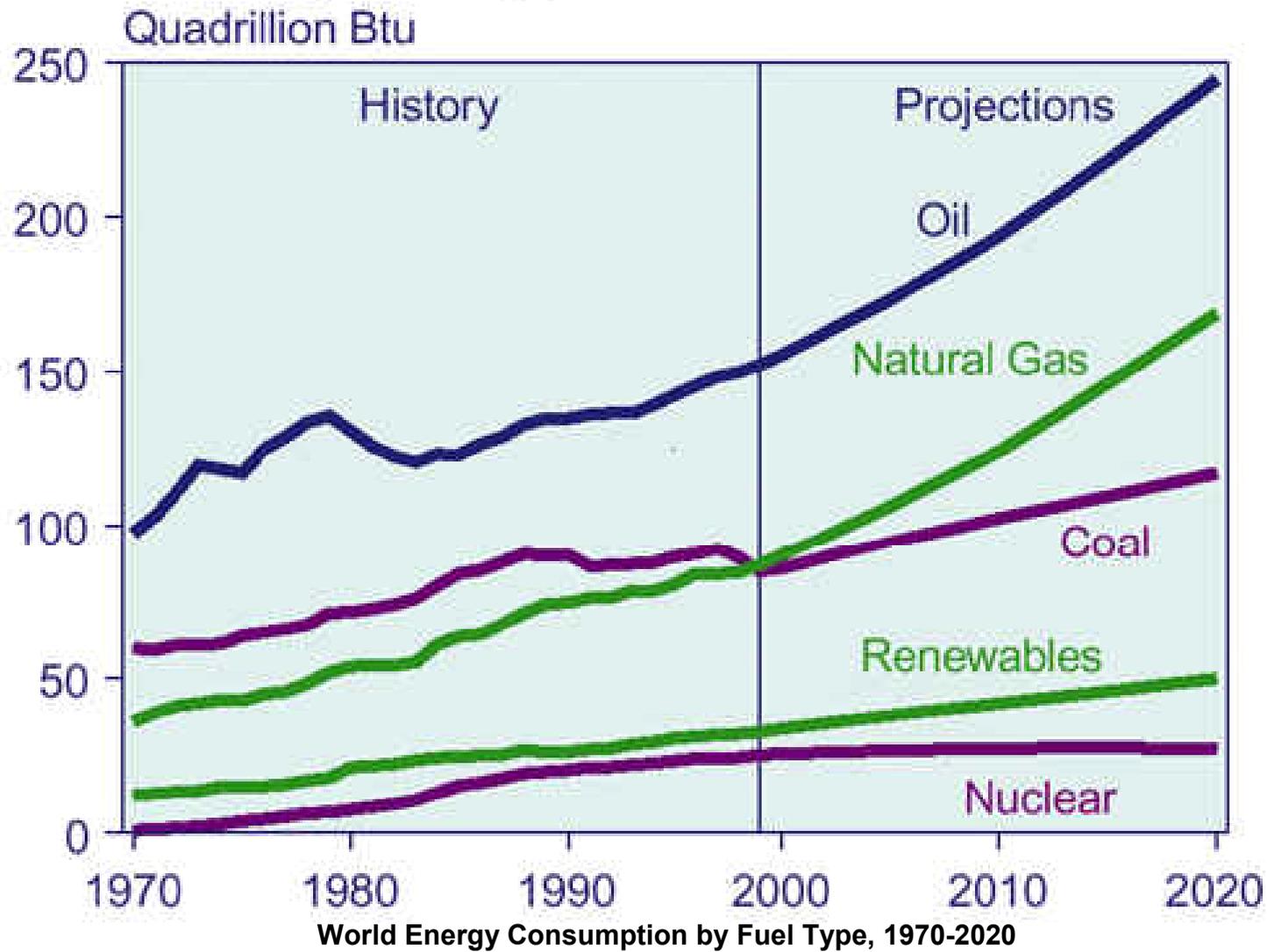


Growing Our Way Out of this Situation Can Not be The Only Solution

Land mass needed to grow the corn to replace gasoline



We Will Remain a Petroleum Based World Economy for the Foreseeable Future



What is Needed is a Multi-Faceted Approach to Promoting Diversified Energy Source Development

- What's needed from the Government
 - Grants to promote research and alternative fuel usage
 - Tax policy to support that development
 - Energy policy that does not favor one fuel over another but allows the market the flexibility to provide the best solutions
 - Lead times that allow for sensible market adoption of new fuel standards (oxygenates, sulfur levels etc.) and recognition of the need to adopt large regional standards (28 grades of gasoline)
- What's needed from the public
 - A willingness to consider all energy sources – Renewable, Geothermal, Low Sulfur Fuels, Natural Gas, Propane, Coal Gasification, Nuclear...
 - A willingness to work with the regional stakeholders to allow for well thought out development in the area of their back yards.

Protectionism is Not the Answer

“The U.S. economy has been able to absorb the huge impact of rising oil prices with little consequence to date because it has become far more flexible over the past decades owing to deregulation and globalization. Growing protectionism would undermine that flexibility and make our nation increasingly vulnerable to the vagaries of the oil markets.”

- Statement by Alan Greenspan to the US Congress – June 2006