

# “Slowing Growth” Or “Survival Mode”

## A 2009 FORECAST OF THE LOCAL ENERGY INDUSTRY

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# In Just The Last 120 Days

- Significant Rig Reductions already taking place
- Piceance Basin rig count has declined 68%
- Uinta Basin rig count down 60%
- 2009 Capital Budgets being slashed
- Sharp decline in demand for oilfield services
- Implementing Hiring Freezes and Initial Layoffs
- New well completions being deferred
- Facility construction being deferred
- Gas Plant expansions being deferred
- Nymex gas price down to \$3.85 p/Mmbtu

# The Real Drivers

- Sharply lower natural gas, crude and NGL prices
- Liquidity Impact of CYE Reserve Writedowns
- Targeted Taxation and “Fees”
- Cost and Impact of new COGCC Rulemaking
- Well & service costs spun out of control
- Limited access to debt and capital markets
- Rockies “Basis Blowout”
- Insufficient Pipeline Takeaway Capacity
- Near Term Supply v. Demand Imbalance
- Regional break-even Nymex gas price (10% IRR)  
now \$6.50 to \$7.00

# March, 2009 Update

- Piceance Rig Count down to 33 from high of 102 in Q3 '08 (-68%) and headed to 25 total rigs
- Piceance Rig Count now equal to 2003 level
- Rockies nat gas prices now at 2004 levels
- Number of layoffs higher than original estimates
- Operators demanding service and supply cost reductions of 20% to 30% and its happening
- Increased threat of rising LNG Deliveries
- Record cold in Midwest and East hasn't helped
- Local industry now in "Survival Mode"
- Real Estate seeing few if any buyers

# BRACE YOURSELVES

- What if the Mayor is right?
- GJ sheltered from Nation's woes due to economic diversity and energy activity?
- Could GJ simply be 15 months behind the national trends and economic pain?
- Foreclosure filings rise locally throughout 2009 and 1<sup>st</sup> half 2010
- 2020 assessed valuations down 20% compared to 2009
- Local unemployment peaks between 8% and 10% by Q1 2010
- Local sales and use taxes down 8% to 10% compared to 2008
- What if energy decline creates a “double whammy” in local economy once national trends reach the valley
- Could GJ actually be impacted worse than State as a whole?

# LOCAL ECONOMIC IMPACTS

- Rising Unemployment through at least Q4 2009
- Real Estate Shutdown above \$400K homes and 20% overall value correction in local markets
- 2011 receipts for ad valorem tax levied in 2009 far below prior year receipts
- Sharply lower sales and use tax receipts in GJ
- Sharply lower demand for construction services
- Declining revenue from Tourism and Recreation
- Reduced Charitable Giving
- Home builders suffer significant attrition
- Loss of at least one GJ Air Carrier

# FORECAST QUALIFIERS

- Producer Hedging Programs
- Multi Year Drilling Rig Commitments
- Farmout Earning Requirements
- Rate of Service and Supplier cost reductions
- Major revisions to COGCC Rules would aid in arresting flight of capital from W. Colorado
- An unexpected near term rebound in commodity prices
- Earlier than expected rebound in domestic economy, particularly industrial demand
- LNG Imports could extend low prices

# POTENTIAL SILVER LINING'S ?

- Lower Labor Costs in all sectors
- Declining home rental rates
- Safer highway travel and reduced road damage
- Sharply lower construction costs
- Less Crowded Classrooms
- Re-Balancing of the Local Real Estate Market
- Lower gasoline, nat gas and propane prices
- Housing becoming more affordable
- Negligible Short Term Inflation
- Increasing availability of industrially zoned property in the Valley

# IMPORTANT METRICS

- \$3.0 to \$3.2 Billion less investment in local energy industry in 2009 v. 2008
- Each Energy Job provides an additional 1.67 indirect or induced jobs in local economies (NWCG report projected 2.3)
- Roughly 40% of each investment dollar stays within the State 28% stays in local 5 County Area
- Takes \$50M per year to drive one rig
- 1,200 to 1,500 fewer wells drilled in 2009
- Avg. Piceance well cost in '08 \$2.6M (Valley)
- '08 Piceance Breakeven gas price \$7.00 Nymex

# ENERGY INDUSTRY JOB IMPACTS

➤ DIRECT

➤ INDIRECT

➤ INDUCED

# DIRECT IMPACTS

- Drilling
- Completions and Workovers
- Surveying
- Lease and Well Equipment Installations
- Well Pad, road and pipeline construction
- Sales, Use, Property and Payroll tax receipts
- Severe reduction in severance tax receipts, particularly impactful in Rio Blanco and Garfield Counties
- Hot shot services
- Electrical parts and services

# INDIRECT IMPACTS

- Management of Companies and Enterprises
- Custom Computer Programming Services
- Legal Services
- Environmental Services
- Real Estate Values and Inventories
- Power Generation
- Architectural and Engineering Services
- Scientific Research and Development
- Trucking and Freight Services

# INDUCED IMPACTS

- Tourism and Retail
- Offices of Physicians, Dentists and other Healthcare Services
- Food Services and Drinking Establishments
- Real Estate Sales and Management
- Hospitals (fewer births & elective surgeries)
- Auto Sales and Parts Dealers
- Food and Beverage Stores
- Insurance Carriers
- General Merchandise Stores

## HOW LONG WILL IT LAST ?

- Next meaningful increases in pipeline capacity not expected until mid-2011
- Duration of national recession directly impacts demand for natural gas and other petroleum products
- Timing of service and material cost reductions
- Our best guess is that industry activity bottoms by Q3 2009 and begins to improve locally by Q3 2010
- Highly unlikely that industry activity will ever return to the levels seen during the 2006-2008 time period
- Sharp decline in “flush production” will begin easing pipeline capacity constraints by Q4 2009

# We're Not Alone, But.....

<u>REGION</u>	<u>PEAK RIG COUNT</u>	<u>MARCH COUNT</u>	<u>% CHANGE</u>
Arkoma Basin	137	91	-34%
Fayetteville Shale	55	47	-15%
Woodford Shale	65	35	-46%
E.Texas/N. La. (Haynesville)	316	218	-31%
So. Texas	126	50	-60%
No. Texas	225	105	-53%
West Tx./NM	326	116	-64%
Northeast Region	158	80	-49%
Ft. Worth (Barnett Shale)	182	85	-53%
<b>Rockies Overall</b>	<b>447</b>	<b>218</b>	<b>-51%</b>
<b>Uinta Basin</b>	<b>55</b>	<b>22</b>	<b>-60%</b>
<b>Piceance Basin</b>	<b>102</b>	<b>33</b>	<b>-68%</b>

WE'RE NOT ALONE, BUT.....

# TAKEAWAY POINTS

- Local Industry in “Survival Mode”
- Worst is yet to come, ‘09 activity down 70% -75%
- COGCC Rules represent significant cost impact and stymie industry via execution uncertainty
- Service and material costs dropping fast (-20%)
- Job losses across local region will exceed consensus expectations
- Real Estate market and new construction will be stagnate through Q3 2010
- 18 to 24 month “down cycle”
- No rigs running in Mesa County in March.

# What to Do

- Prepare for a revenue reductions in both government and private sectors
- Reduce operating & capital budgets now
- Rainy Day fund to offset 2011 property tax hit
- Continuous economic evaluation by local governments of contributors to current revenue streams (must understand business drivers)
- Promote support for, and retention of extractive industries in the state
- Aggressively promote declining cost of business, increase in industrially zoned property in the valley and housing affordability
- Re-bid all capital projects

# 2009 Energy Industry Forecast

Thank You.

QUESTIONS?