

Drillbits

High Grade Energy: Sector Update

- Fourth quarter earnings season is now behind us. Results showed a dramatic decline, with fourth quarter EBITDA down on average 44% sequentially and down 17% year over year. For the most part of 2008, we saw record cash flows bolstered by record commodity prices. In contrast, fourth quarter 2008 showed heavy cash burns for the sector as plummeting commodity prices did not cover capital spending.
- In response to the price environment, we are seeing spending budgets adjust meaningfully downward. Now that most 2009 budgets are in, inside we look at 2009 spending in contrast to 2009 projected cash flow for the sector (see page 8).
- As capital spending has been curtailed, rig count has plunged. The US rig count was 1,243 for the week ending February 27, 2009, down 57 from the prior week and down 520 year over year. US natural gas rigs now amount to 1,018, down 323 from the start of this year, and down 412 from the same period last year. We expect the rig count to continue its precipitous decline and thus remain cautious of the drilling and services names. (see page 7)
- We maintain a Neutral recommendation on the high grade energy sector. Despite the dramatic decline in commodity prices and corresponding cash flows, we believe balance sheets will prove resilient. We expect leverage in the sector to rise throughout the year in accordance with a lower price environment, but not to unpalatable levels. We view the deteriorating price environment as balanced by an average leverage metric of 1.0x (excludes MLP's and Pipelines). Currently the sector trades 46bp inside the JULI. Year to date, investment grade energy has outperformed the JULI, tightening 87bp versus the broader JULI index, which tightened 22bp.
- We have seen healthy new issue in the energy sector thus far; year to date energy and pipeline issuance has totaled \$22.8 billion (\$17.3 billion done in February). We expect deal flow to continue to be heavy as issuers tap the market opportunistically and build further liquidity.
- Inside please find a summary of capital spending budgets for 2009, updated individual credit recommendations, credit metrics, sector valuation, the JPM commodity outlook and pending debt maturities. See page 4 for recent company recommendation changes.

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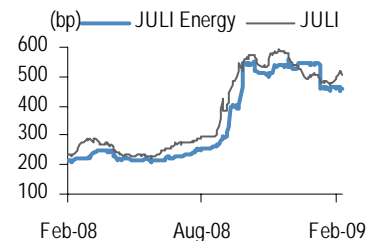
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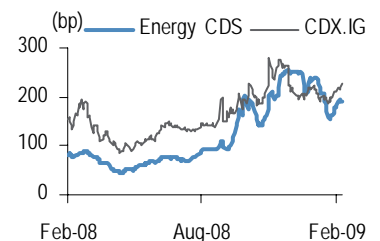
J.P. Morgan Securities Inc.

Energy spreads rally with the high grade market with a 2-month lag



Source: J.P. Morgan, as of 27-Feb-09

CDS spreads also tightened sharply in the past month



Source: J.P. Morgan, as of 27-Feb-09

See page 15 for analyst certification and important disclosures.

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This note was originally published on 2 March 2009. With this note, we are correcting the rating for Canadian Natural Resources in Exhibit 2 on page 4; it is Neutral, not Overweight.

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Sector valuation

Energy lagged behind the rally in high grade. However, in the past month spreads tightened sharply. Currently, the sector trades at 459 bps, 46 bps inside the JULI. Year to date the sector has outperformed the JULI by 65 bps. We remain Neutral on the sector, predicated primarily on the current balance sheet strength of the sector despite operating in a weakened price environment. Even in the face of an economic downturn and dramatic decline in commodity prices, we believe credit metrics will prove resilient. A substantially lower price environment and uncertain financial markets have led managements to pull back on spending. (See exhibit 9). Thus we have seen managements act prudently.

We expect leverage metrics to rise, but not to unpalatable levels. Ultimately we believe drastic spending cuts will be met by upward pressure on commodity prices and downward pressure on costs. While the markets adjust, the sector heads into uncertain times with tip top balance sheets. The sector overall does not face any large scale financing needs that we view as unmanageable. (See exhibit 9 for 2009 debt maturities for the sector).

New issue has been ablaze as issuers tap the market opportunistically. We expect this trend to continue into the pipeline space, as most deals we have seen have been in the E&P and integrated sub-sectors. Given the strength in the new issue market we also expect more off the run names to begin accessing the market.

Exhibit 1: Energy lagged the rally but has now tightened in

JULI sectors	Sector Recommendation	JULI Index weight	Current Spread	1 month change	Sector vs JULI	Change vs JULI
Brokers/Dealers	Overweight	6.10%	506	-3	0	-12
US Banks	Overweight	15.37%	570	109	64	100
Pharmaceuticals/Medical Products	Overweight	5.30%	254	-18	-252	-27
Cable/TV	Overweight	2.70%	546	8	40	-1
Healthcare/HMOs	Overweight	1.66%	459	-41	-47	-49
Telecoms - Yankees	Neutral	3.12%	542	9	36	1
Energy	Neutral	8.10%	459	-84	-46	-92
Automotive	Neutral	1.09%	680	-58	175	-66
Telecoms - Domestic	Neutral	5.51%	414	5	-92	-4
Yankee Banks	Neutral	2.41%	476	35	-30	27
Building Materials/Construction	Neutral	0.39%	1045	5	540	-4
Food/Drug Retail	Neutral	1.59%	366	-21	-140	-29
Life Insurance	Neutral	1.92%	845	168	340	159
P&C Insurance	Neutral	1.51%	600	91	94	83
Finance Companies	Neutral	8.19%	758	65	252	57
REITs	Neutral	1.14%	904	-129	399	-137
Utilities	Neutral	7.68%	381	-40	-125	-49
Paper/Packaging	Underweight	0.31%	802	42	297	33
Metals/Mining	Underweight	1.55%	686	-29	181	-38
Chemicals	Underweight	1.23%	393	14	-112	6
Consumer Products	Underweight	1.89%	377	-23	-129	-31
Transportation	Underweight	1.99%	448	-36	-57	-44
Diversified Media	Underweight	2.84%	568	1	63	-7
Technology	Underweight	3.01%	453	-5	-52	-14
Capital Goods	Underweight	4.50%	384	26	-121	17
Non-Food Retail	Underweight	3.19%	450	-8	-56	-16
Food/Beverages	Underweight	5.72%	409	14	-96	6
JULI			505	8		

Source: J.P. Morgan, as of 27-Feb-09

High grade credit recommendations

Exhibit 2: Credit Recommendations

Recommendation changes:

COP: N from UW after debt financing pressures alleviated

KMP: UW from N based on valuations, tightest trading MLP

CNQ: OW to N

APA: N from OW post management comments regarding acquisition appetite

SE: N from UW on valuations. Commend capital spending cuts for '09 and recent equity issue. Refinancing needs and cap ex shortfall remain.

ETP: UW to N. Official termination of the OGE JV is modest positive. Credit has outperformed

NI: N from OW. We have been OW given cheap trading levels, bonds have performed.

HES: OW to N

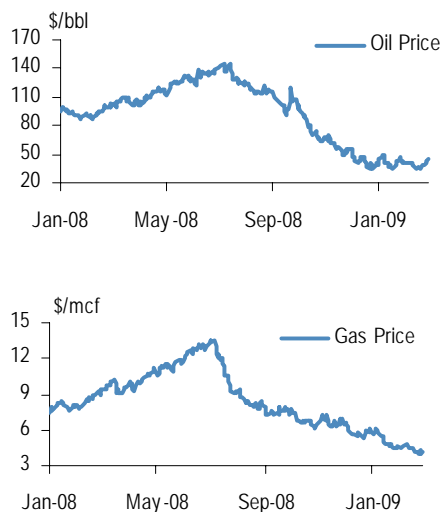
HSECN: N to OW. Exceptionally strong balance sheet, conservative mgmt is buying back debt and cut its dividend.

Ticker	Issuer name	% of JULI Energy	Investment Recommendation	5Yr CDS
COP	ConocoPhillips	13.82%	Neutral	115
XTO	XTO Energy	5.90%	Overweight	235
KMP	Kinder Morgan Energy Partners	4.72%	Underweight	190
APC	Anadarko Petroleum	4.28%	Neutral	275
TRP	Transcanada Corp	4.15%	Neutral	288
DVN	Devon Energy Corporation	3.93%	Neutral	105
RDSALN	Royal Dutch Shell	3.54%	Not Rated	80
ECACN	Encana	3.59%	Overweight	350
EPD	Enterprise Products Partners	3.36%	Neutral	380
CNOCN	Canadian Natural Resources	3.48%	Neutral	570
WFT	Weatherford International Ltd	2.91%	Neutral	380
APA	Apache Corp	2.66%	Neutral	125
BPLN	BP plc	2.18%	Not rated	75
VLO	Valero Energy Corp	2.39%	Neutral	255
MRO	Marathon Oil Corp	3.39%	Neutral	280
HES	Hess Corp	2.43%	Neutral	300
NI	Nisource	2.47%	Neutral	546
SU	Suncor Energy Inc	2.10%	Overweight	580
SE	Spectra Energy Corp	2.05%	Neutral	105
RIG	Transocean Ltd	2.02%	Neutral	250
ETP	Energy Transfer Partners LP	2.02%	Neutral	466
NGPLCO	NGPL Pipeco	1.90%	Overweight	-
PCACN	Petro-Canada	1.83%	Underweight	590
NXY	Nexen Inc	1.59%	Underweight	400
HAL	Halliburton Co	1.37%	Neutral	70
NBR	Nabors Industries	1.19%	Not rated	375
BHI	Baker Hughes Inc	1.20%	Underweight	105
OKS	Oneok Partners LP	1.13%	Neutral	200
DCPMID	DCP Midstream Partners	1.34%	Neutral	250
OXY	Occidental Petroleum Corp	1.03%	Neutral	85
EOG	EOG Resources Inc	0.98%	Overweight	147
EEP	Enbridge Energy Partners LP	0.99%	Neutral	496
PAA	Plains All Americans Pipeline LP	0.88%	Overweight	400
HSECN	Husky Energy	0.84%	Overweight	380
SUG	Southern Union	0.78%	Overweight	565
ROCKIE	Rockies Express	0.71%	Overweight	-
OKE	Oneok Inc	0.70%	Neutral	195
NGGLN	National Grid plc	0.66%	Not rated	210
STOIL	StatoilHydro	0.54%	Not rated	120
ENB	Enbridge Inc	0.51%	Overweight	370
TLM	Talisman Energy	0.49%	Neutral	280
TPP	Teppco Partners	0.43%	Neutral	355
EQT	Equitable Resources	0.30%	Underweight	300
STR	Questar	0.27%	Not rated	-
SUN	Sunoco Inc	0.23%	Not rated	330
NSUS	NuStar	0.20%	Neutral	-
NFG	National Fuel Gas	0.18%	Not rated	-
BPL	Buckeye Partners LP	0.17%	Underweight	425
BWP	Boardwalk Partners	0.16%	Overweight	-

Source: J.P. Morgan, as of 27-Feb-09

Industry update

Exhibit 3: A surge in commodity prices was followed by an abrupt sell-off, oil prices have appeared to find a bottom at ~\$35



Source: Bloomberg, J.P. Morgan, as of 27-Feb-09

Oil price volatility continues to be staggering, WTI peaked near \$49/barrel in January and hit a low of \$34/barrel in mid-February. Year to date oil prices have averaged about \$40/ barrel. We don't believe we will see a sustained upward trend in the near term given the broader economic outlook; however, we don't view prices as sinking much further beyond the \$35-\$40/barrel level. Our oil strategist Lawrence Eagles forecasts \$43.25 for 2009 and \$55.00 for 2010.

Oil supply and demand continues to look for a balance. The bear market has prevailed as world oil demand looked exceptionally weak in the fourth quarter of 2008. This trend is likely to continue at least for the first quarter of 2009 as oil demand mirrors the dramatic contraction we are experiencing in the economy. J.P. Morgan's economists see global GDP contracting by 1.9% in 2009. Our energy strategy team translates this to world oil demand contracting by nearly 1.6 mbd this year.

While the demand outlook is lower, supply growth is lower as well. Thus far, oil prices have not reacted strongly to OPEC cuts. OPEC crude production cuts have attempted to limit the supply side, while in the non-OPEC countries, we have seen significantly reduced capex. Iran, Venezuela and Iraq have stated that OPEC is prepared to cut production again when it meets on March 15. The group agreed Dec. 17 on output constraints that would reduce supplies in January by 2.2 million barrels a day from December levels. That followed pledges to remove 2 million barrels a day in the fourth quarter of last year.

Exhibit 4: Crude Oil Inventory (to be updated) is 15% above the same period last year.



Source: Department of Energy, as of 27-Feb-09

Despite the willingness of OPEC to cut, our JPM strategy team sees more downside risk to current commodity forecasts than upside risk. With stocks already full and the economy weak, there will not be the usual seasonal desire to build inventory ahead of peak third quarter demand. As we go into the second half of the year, the oil market should tighten marginally, but this is still dependent on somewhat of an economic recovery. Below is an analysis of global oil demand changes as published by our strategy team this month:

Exhibit 5: Global oil demand.

In million b/d	Nov '08	Dec'08	Jan'09	Jan'08	%Chg.	YTD'09	YTD'08	Chg
Major OECD Consumers								
North America	23.69	24.75	24.44	25.08	-2.60%	24.44	25.08	-2.60%
United States	18.99	19.98	19.71	20.26	-2.70%	19.71	20.26	-2.70%
US Territories	0.38	0.3	0.36	0.35	1.70%	0.36	0.35	1.70%
Mex ico	1.95	2.18	2.13	2.11	0.80%	2.13	2.11	0.80%
Canada	2.36	2.29	2.25	2.36	-4.50%	2.25	2.36	-4.50%
Total OECD Europe	14.91	14.86	14.42	15.45	-6.60%	14.42	15.45	-6.60%
Germany	2.6	2.6	2.42	2.5	-3.40%	2.42	2.5	-3.40%
France	1.88	1.93	2.17	2.06	5.50%	2.17	2.06	5.50%
Italy	1.58	1.63	1.56	1.63	-4.10%	1.56	1.63	-4.10%
UK	1.7	1.67	1.72	1.7	1.30%	1.72	1.7	1.30%
Other EC-15	5.15	5.17	4.78	5.4	-11.40%	4.78	5.4	-11.40%
Other OECD Europe	2	1.85	1.77	2.17	-18.40%	1.77	2.17	-18.40%
OECD Asia	8.05	8.79	8.17	8.95	-8.70%	8.17	8.95	-8.70%
Japan	4.74	5.27	4.75	5.37	-11.50%	4.75	5.37	-11.50%
S. Korea	2.06	2.3	2.23	2.37	-6.10%	2.23	2.37	-6.10%
Austr./NZ	1.25	1.23	1.19	1.21	-1.20%	1.19	1.21	-1.20%
Total OECD	46.64	48.4	47.03	49.47	-4.90%	47.03	49.47	-4.90%
Major Non-OECD Consumers								
China	7.19	7.1	7.5	7.63	-1.70%	7.5	7.63	-1.70%
Russia	4.12	4.12	4.12	4.11	0.20%	4.12	4.11	0.20%
India	3.15	3.15	3.23	3.11	3.70%	3.23	3.11	3.70%
Brazil	1.99	1.99	1.91	1.9	0.80%	1.91	1.9	0.80%
Taiw an	0.87	0.87	0.98	1.13	-13.90%	0.98	1.13	-13.90%
Thailand	0.78	0.79	0.81	0.92	-12.50%	0.81	0.92	-12.50%
OPEC	8.59	8.59	8.65	8.55	1.10%	8.65	8.55	1.10%
Other Non-OECD	10.91	10.98	10.29	10.57	-2.60%	10.29	10.57	-2.60%
Total Non-OECD	37.58	37.58	37.48	37.93	-1.20%	37.48	37.93	-1.20%
Total World	84.22	85.97	84.51	87.4	-3.30%	84.51	87.4	-3.30%

Source: JPMorgan Energy Strategy, IEA, government and industry sources.

Natural gas has plunged further downward. An oversupplied market has sent recent prices on a downward spiral. Our strategy team has lowered their 2009 natural gas forecast on the ongoing supply/demand imbalance. 2009 natural gas is now forecasted at \$5.16. Our natural gas strategist, Scott Speaker, notes that with unemployment continuing its rapid ascent and industrial slowdowns or shutdowns not yet plateauing, we would expect total natural gas demand to fall for the remainder of the first quarter and likely into the second quarter.

Scott also notes that a solution to sliding gas prices lays with the producers, "Given the unlikelihood that there will be a meaningful economic recovery in the next few months, the 'problem' in the natural gas market — the oversupply pushing pricing well below the marginal cost of production in many basins — will clearly need to be solved in the production community... while domestic production appears still to be in a year-on-year growth phase despite the slowdown in drilling (and a few examples of ongoing curtailment), the rapidly-falling rig count —if it continues — will clearly impact production levels going forward."

We have some expectations for a year end recovery, supported by the rapidly declining gas directed rig count. Our strategy team believes the drilling slowdown will be felt in physical supply available by the third quarter of 2009 and potentially result in a decline in y-o-y production. In exhibit 6 we take a look at the rig count trend:

Exhibit 6. North American Rig Count

	February 27, 2009	Week Ago	Year Ago
Gulf of Mexico	51	53	58
Canada	394	401	632
United States	1243	1300	1763
Oil	260	269	337
Gas	970	1018	1418
US breakdown			
Onshore	1191	1246	1704
Offshore	52	54	59

Source: Baker Hughes, as of 27-Feb-09

Exhibit 7. Oil & Natural Gas Market Pressure Points

Natural Gas:



- Storage levels still slightly below a year ago level
- Canadian imports lower
- Increase in fertilizer, ethanol gas demand
- Reduced capex on low prices and impacts of credit crunch may tighten longer-term supply
- Gas rig count declining

Crude oil:

- Opec deepens cuts, more expected
- Narrowing contango for benchmark crudes in US, Europe and Asia
- Gasoline, naphtha cracks tighten
- Reduced capex on low prices and impacts of credit crunch may tighten longer-term supply
- Cold weather hits

- Domestic production robust
- Economy, manufacturing weakening
- Crude oil prices lower
- High end of winter storage trajectory



- Recession deepens
- OPEC not delivering on cuts
- Production costs fall
- Peak winter demand near seasonal end
- Refiners entering peak maintenance

Source: J.P. Morgan Energy Strategy

JPM Commodity outlook

Exhibit 8: Oil and Gas price forecasts from J.P. Morgan Energy Strategy (*Energy Monthly: The Green Shoots of More Gloom*, published February 19, 2009)

In \$/MM/Btu	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	4Q10	2010
Current Forecast*	...	...	...	...	...	4.65	4.75	5.25	6.00	5.16	6.50	6.25	6.50	7.25	6.63
Previous Forecast**	...	...	...	...	...	5.00	5.25	6.00	6.50	5.69	6.50	6.25	6.50	7.25	6.63
Actual To Date	8.74	11.47	6.40	4.84	8.90	4.84	...	...	...	...	...	...	...	...	...

In \$/bbl	1Q08	2Q08	3Q08	4Q08	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	4Q10	2010
Current WTI Forecast*	...	...	...	...	...	38.00	40.00	45.00	50.00	43.25	50.00	50.00	60.00	60.00	55.00
Previous Forecast**	...	...	...	...	...	65.00	65.00	70.00	75.00	69.00	...	...	...	...	...
Actual To Date	97.82	123.8	118.22	59.08	99.75	40.42	...	...	...	...	...	...	...	...	...
Brent Forecast	...	...	...	...	...	40.00	40.00	45.00	50.00	43.75	50.00	50.00	60.00	60.00	55.00
Brent Actual To Date	96.31	122.79	117.15	57.49	98.52	44.99	...	...	...	...	...	...	...	...	...

Source: J.P. Morgan Energy Strategy

2009 Capital Spending and Maturities

We expect that low commodity prices and weak economy will pressure sector fundamentals. A number of energy companies have announced cost reduction initiatives and capital spending cuts in an effort to conserve cash. We believe that the sector is well positioned to weather the downturn. Assuming most recent spending guidance and consensus forecasts for 2009 EBITDA, most companies should be able to “live within cash flows”. Fortunately, unlike other sectors, energy does not have the burden of large debt overhang. Assuming that expiring revolvers get rolled over, the maturity schedule for 2009 is relatively light. That being said, we still expect the new issue calendar to be quite full.

Exhibit 9: Reductions in capital spending budgets average 23%.

Company Ticker	Capital Expenditures (\$m)		2009 Maturities(\$m)		EBITDA (\$m)
	2008	2009	Bonds	Loans ¹	Consensus Estimate
APA	5,730	3,750	100	-	5,029.8
APC	4,770	4,250	1702	-	4,510.1
COP	19,100	12,500	1234	-	22,246.8
CNQ (C\$) ²	7,220	4,000	-	2350	9,018.9
DVN	9,380	5,000	177	-	5,045.9
EOG	5,200	3,100	-	-	3,200.0
ECA	8,250	6,100	250	-	8,323.6
HES	4,530	3,100	103	-	2,853.7
HSE (C\$)	4,060	2,600	-	-	4,125.5
MRO	6,710	5,700	-	-	6,420.0
NBL	2,280	1,600	-	-	1,880.3
NXY (C\$)	2,870	2,600	-	-	3,301.7
OXY	4,820	3,500	96	-	7,228.7
PCA (C\$)	6,340	4,000	-	-	5,642.7
SU (C\$)	7,990	3,000	-	-	3,368.9
SUN	1,290	1,200	146	100	1,286.8
TLM (C\$) ²	4,640	3,600	173	-	7,640.6
VLO	2,790	2,700	200	-	4,204.6
XTO	3,520	3,200	-	-	6,596.4
BHI	1,300	1,250	-	-	2,221.5
CAM	270	200	-	-	825.9
DO	610	110	-	-	2,379.0
HAL	1,820	1,820	-	-	3,447.2
NBR	1,490	-	225	-	1,617.5
RIG	2,210	3,050	-	-	7,068.4
SLB	4,070	3,000	400	128	7,087.9
WFT	2,480	1,200	-	-	2,354.1
BPL	120	29	-	-	333.9
BWP	2,450	1,100	-	-	659.8
EEP	1,380	1,600	-	-	813.1
EPD	1,970	750	500	218 ⁴	2,059.0
ETP	1,940	755	-	-	1,674.0
KMP	2,870	2,992	-	600 ⁵	2,640.8
MMP	260	215	-	-	439.9
NS	200	68	-	-	492.7
OKE	1,470	-	-	400 ⁶	1,093.0
OKS	1,250	425	-	-	769.1
PAA	490	370	175	-	947.8
TPP	270	428	-	-	554.4
ATO	420	508	400	-	674.5
DCPMID	630	-	-	-	-
EQT	1,340	1,000	-	-	618.2
ENB (C\$)	3,640	3,650	260	459 ³	2,468.7
NI	970	800	461	-	1,469.0
SE	1,800	1,000	672	142 ³	2,417.3
SUG	590	360	60	-	825.0
TRP (C\$)	3,130	4,800	302	317	4,295.7

¹ Assumes rolling revolving facilities with more than 6-month maturities.

² As full year capital expenditures have not been reported, LTM capital spending as of 3Q08 was used instead

³ Subsidiary maturity

⁴ Term loan agreement signed November 12, 2008

⁵ Rokies Express floating notes

⁶ 364-day facility repaid in January 2009

Source: Bloomberg, Company reports

Recent issuance

The pace of new issuance picked up markedly since the end of 2008. January supply totaled \$5.6bn, on par with pre-Lehman bankruptcy levels. February new issuance amounts to an astonishing \$17.3bn. Over the last two months we saw an increase in both frequency and size of new deals, possibly reflecting the backlog from last year and uncertainty regarding future access to financing.

Exhibit 10: Year-to-date new issuance is \$22.8bn vs \$4bn during the same period last year.

Month	Company	Amount (\$m)	Term	Spread at Issue
February	CVX	\$5,000	3-yr, 5-yr, 10-yr	+195bps, +195bps, +195bps
	OKS	\$500	10-yr	+570bps
	WPL	\$1,000	5-yr, 10-yr	+625bps
	NBL	\$1,000	10-yr	+550bps
	DCPMID	\$450	10-yr	+722bps
	MRO	\$1,500	5-yr, 10-yr	+487.5bps
	SUN	\$175	5-yr	+690bps
	PETROBRAS	\$1,500	10-yr	+518bps
	COP	\$4,875	5-yr, 10-yr, 30-yr	+295bps, +295bps, +295bps
	HES	\$1,250	5-yr, 10-yr	+530bps, +540bps
January	WFT	\$1,250	10-yr, 30-yr	+723bps, +698.2bps
	DVN	\$1,200	5-yr, 10-yr	+400bps, +385bps
	TRP	\$2,000	10-yr, 30-yr	+460bps, +460bps
	NBR	\$1,125	10-yr	+676.1bps
December	EPD	\$500	5-yr	+815bps
	KMP	\$500	10-yr	+789.9bps
	EEP	\$500	10-yr	+888.8bps
	ETP	\$600	10-yr	+878bps
November	BPLN	\$3,000	5-yr	+275bps
	NE	\$250	5-yr	+525 bps
	DCPMID	\$250	5-yr	+767.8bps
October	OXY	\$1,000	5-yr	+437.5bps
	BHI	\$1,250	5-yr, 10-yr	+400bps, +400bps
September	APA	\$800	5-yr, 10-yr	+310bp, +310bp
	EOG	\$750	5-yr, 10-yr	+310bp, +310bp
	HAL	\$1,200	10-yr, 30-yr	+230bp, +250bp
	SE	\$500	5-yr, 30-yr	+300bp, +320bp
August	TRP	\$1,500	10-yr, 30-yr	+245bp, +255bp
	XTO	\$2,250	2-yr, 5-yr, 10-yr, 30-yr	+248bp, +253bp, +258bp, +263bp
July	BRK (Northern Natural Gas)	\$200	10-yr	+193bp
	NBR	\$400	10-yr	+255bp
	MMP	\$250	10-yr	+255bp

Source: J.P.Morgan as of 27-Feb-09

Liquidity snapshot

Note: Liquidity snapshot presented is as of 3Q08. Please refer to the next monthly publication for updated balances as of December 2008, based on company 10-K filings

Exhibit 11: Liquidity remains solid in the energy sector

E&P, Integrated, Oil Services, as of 3Q08

Company	Credit Facilities (\$m)	Amt Drawn	CP Outstanding	Cash	Net Liquidity
APA	2,250	0	0	1,645	3,895
APC	1,300	0	0	1,980	3,280
CAM	585	18	0	1,436	2,003
COP	9,850	0	1,559	1,116	9,407
DVN	2,500	0	140	1,837	4,197
EOG	1,000	0	0	856	1,856
EQT	1,500	94	26	11	1,391
HAL	3,900	0	0	973	4,873
HES	3,000	317	0	1,380	4,063
MRO	3,000	404	886	785	2,495
RIG	3,500	415	932	829	2,982
VLO	3,190	0	767	2,767	5,190
WFT	1,750	1,030	28	337	1,029
XTO	3,140	0	1,060	19	2,099

Canadians, as of 3Q08

Company	Credit Facilities (\$m)	Amt Drawn	CP Outstanding	Cash	Net Liquidity
CNOCN	6,233	4,154	0	14	2,093
ECACN	5,450	2,150	0	622	3,922
HSE	1,629	129	0	966	2,466
NXY	4,067	1,227	458	1,772	4,154
PCACN	4,412	293	0	1,912	6,031
SU	4,173	0	642	1,315	4,846
TLM	2,800	703	0	154	2,251

MLP's, as of 3Q08

Company	Credit Facilities(\$m)	Amt Drawn	CP Outstanding	Cash	Net Liquidity
BPL	775	252	0	99	622
BWP	1,000	958	0	22	64
EEP	1,750	362	0	152	1,540
EPD	2,090	1,433	0	55	712
ETP	2,075	1,400	0	526	1,201
KMP	1,850	682	0	53	1,221
MMP	550	85	0	0	465
NSUS	1,200	739	0	41	502
OKS	1,015	882	0	15	148
PAA	1,600	762	0	37	875
TPP	950	325	0	55	680

Note: The portion of credit facilities underwritten by Lehman Brothers were not material

Source: Company reports

Trading levels

Exhibit 12: Energy sector bonds and CDS have tightened substantially since last month

Domestic E&P, Integrated, Refiners							MLP's						
Company	Coupon	Maturity	Spread (Treasury)	1 month Δ	CDS Spread	1 month Δ	Company	Coupon	Maturity	Spread (Treasury)	1 month Δ	CDS Spread	1 month Δ
APA	6.900%	2018	291	5	125	-50	BWP	5.500%	2017	602	-1	-	-
	6.000%	2037	275	-92			EEP	6.500%	2018	606	-13	496	-54
APC	5.950%	2016	568	-74	275	-5		7.500%	2038	640	-29		
	6.450%	2036	561	-71			EPD	6.300%	2017	515	-155	380	-40
COP	4.400%	2013	276	-72	115	-20		6.500%	2019	491	-159		
	5.200%	2018	304	-45				6.650%	2034	496	-155		
	5.900%	2038	304	-61			ETP	6.000%	2013	624	-218	466	-66
DVN	7.950%	2032	436	-40	105	-5		6.700%	2018	578	-115		
EOG	6.125%	2013	281	-85	147	-28		6.625%	2036	593	-140		
	6.875%	2018	286	-85				7.500%	2038	593	-140		
EQT	6.500%	2018	582	-44	300	-	KMP	6.000%	2017	455	-190	190	-115
HES	7.300%	2031	514	-82	300	-100		5.950%	2018	436	-191		
	7.125%	2033	510	-82				6.950%	2038	439	-203		
MRO	6.000%	2017	493	-175	280	-160	MMP	6.400%	2018	512	-61	380	-
	5.900%	2018	485	-175				6.400%	2037	507	-40		
	6.600%	2037	523	-156			NSUS	7.650%	2018	786	-271	-	-
VLO	6.125%	2017	560	-125	255	-50	PAA	6.125%	2017	607	-175	400	-125
	6.625%	2037	555	-135				6.500%	2018	615	-53		
XTO	6.500%	2018	327	-142	235	-35		6.650%	2037	619	-177		
	6.750%	2037	423	-66			OKS	6.150%	2016	603	-74	200	-80
								6.650%	2036	587	-82		
								6.850%	2037	587	-82		
							TPP	6.650%	2018	632	-100	355	-75
								7.550%	2038	646	-119		

Canadians							Oil Services						
Company	Coupon	Maturity	Spread (Treasury)	1 month Δ	CDS Spread	1 month Δ	Company	Coupon	Maturity	Spread (Treasury)	1 month Δ	CDS Spread	1 month Δ
CNQCN	5.900%	2018	502	-85	570	-90	CAM	6.375%	2018	567	6	350	10
	6.250%	2038	532	-71				7.000%	2038	558	-49		
	6.750%	2039	527	-72			HAL	5.900%	2018	229	-65	70	-25
ECACN	5.800%	2018	442	-69	350	-110		6.700%	2038	337	-30		
	6.500%	2038	511	-92			RIG	6.000%	2018	410	-125	250	-40
HSECN	6.200%	2017	605	-74	380	-50		6.800%	2038	412	-135		
	6.800%	2037	608	-82			WFT	6.000%	2018	637	-29	380	-30
NXY	5.650%	2017	591	29	400	-115		7.000%	2038	639	-56		
	6.400%	2037	607	13									
PCACN	6.050%	2018	609	-100	590	-80							
	6.800%	2038	612	-119									
SU	6.100%	2018	623	-14	580	-120							
	6.500%	2038	649	3									
TLM	5.850%	2037	627	-103	280	-150							
	6.250%	2038	627	-145									

Source: J.P. Morgan, as of 27-Feb-09

Sector fundamentals

Please refer to the next monthly publication for updated fundamentals as of December 2008, based on company 10-K filings

Exhibit 13: Summary of company financials

LTM quarter end Ticker Rating Outlook	E&P, Integrated, Refiners									Oil Services					
	3Q08 APA	3Q08 APC	3Q08 COP	3Q08 DVN	3Q08 HES	3Q08 MRO	3Q08 OXY	3Q08 VLO	3Q08 XTO	3Q08 BHI	3Q08 HAL	3Q08 NBR	3Q08 RIG	3Q08 SLB	3Q08 WFT
	A-/A3	BBB-/Baa3	A/A1	BBB+/Baa1	BBB-/Baa2	BBB+/Baa1	A/A2	BBB/Baa2	BBB/Baa2	A/A2	A/A2	BBB+/Baa1	BBB+/Baa2	A+/A2	BBB+/Baa1
	S/S	S/S	S/S	S/S	S/S	S/S	S/S	S/S	S/S	S/S	S/S	S/N	S/S	S/S	S/S
Total Revenues	13,447	18,509	249,023	15,698	43,238	82,135	25,620	128,273	7,328	11,428	17,548	5,302	11,481	26,543	9,158
EBITDA	10,032	12,870	56,685	10,851	8,531	10,597	16,423	5,432	5,324	3,153	3,559	1,868	6,431	9,587	2,523
EBIT	7,558	8,927	47,176	7,610	6,026	7,808	13,634	3,980	3,630	2,551	3,051	1,226	5,196	7,377	1,828
EBITDA Margin	75%	70%	23%	69%	20%	13%	64%	4%	73%	28%	20%	35%	56%	36%	28%
EBITDA/Interest	56.0x	16.0x	63.5x	29.6x	31.5x	89.8x	120.8x	18.3x	12.8x	45.2x	24.0x	23.7x	15.1x	36.9x	10.5x
Cash From Operations	7,829	6,923	26,456	9,723	4,878	8,377	10,610	4,729	4,748	1,651	2,609	1,560	4,678	7,039	935
Capex	(5,579)	(4,316)	(14,419)	(7,860)	(4,087)	(6,909)	(4,210)	(3,003)	(3,225)	(1,155)	(1,824)	(1,632)	(2,023)	(3,471)	(2,359)
Dividends paid	(239)	(172)	(2,811)	(282)	(130)	(683)	(885)	(287)	(227)	(168)	(318)	0	0	(922)	0
Free Cash Flow	2,010	2,435	9,226	1,581	661	785	5,515	1,439	1,296	327	467	(73)	2,655	2,646	(1,424)
(Acquisitions)	(0)	0	0	0	0	(3,926)	(3,705)	(153)	(9,154)	(82)	(1,985)	0	(14,293)	(1,583)	(724)
Share repurchase	4	(687)	(7,500)	(858)	0	(424)	(1,781)	(1,811)	(13)	(851)	(575)	(383)	0	(2,222)	(67)
Asset sales	374	1,490	1,244	153	0	434	372	463	0	215	664	74	683	263	316
Cash & Equivalents	1,645	1,980	1,116	1,194	1,380	1,479	1,452	2,888	19	1,127	973	621	829	188	337
Total Debt	4,058	12,698	29,897	4,837	3,932	8,452	1,904	6,475	11,122	1,631	2,771	4,212	14,783	5,739	5,618
Equity	16,613	18,211	92,876	25,290	17,347	21,927	22,006	19,714	15,366	6,786	7,487	4,997	16,078	17,871	8,383
Debt/EBITDA	0.40x	0.99x	0.53x	0.45x	0.46x	0.80x	0.12x	1.19x	2.09x	0.52x	0.78x	2.25x	2.30x	0.60x	2.23x
Debt/Capital(%)	20%	41%	24%	16%	18%	28%	8%	25%	42%	19%	27%	46%	48%	24%	40%

Source: Company Reports

	Canadians							MLP's							
<i>LTM quarter end</i>	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08	3Q08
<i>Ticker</i>	CNQ	ECA	HSE	NXY	PCA	SU	TLM	BPL	DCPMID	EPD	ETP	KMP	MMP	OKS	PAA
<i>Rating</i>	BBB / Baa2	A- / Baa2	BBB+ / Baa2	BBB- / Baa2	BBB / Baa2	BBB+ / Baa1	BBB / Baa2	BBB/Baa2	BBB/Baa2	BBB-/Baa3	BBB-/Baa3	BBB/Baa2	BBB/Baa2	BBB/Baa2	BBB-/Baa3
<i>Outlook</i>	S / S	N / S	S / S	S / S	S / S	N / S	S / N	S / S	S / S	S / S	S / S	N / S	S / S	S / S	S / S
Total Revenues	14,770	29,230	24,760	8,347	28,216	27,845	10,179	1,513	17,702	23,625	9,125	11,904	1,287	17,341	31,565
EBITDA	7,345	12,896	8,024	5,869	10,386	5,672	7,423	301	2,135	1,804	1,348	2,291	431	1,361	806
EBIT	4,609	8,583	6,219	3,711	7,503	4,565	4,442	248	1,779	1,334	1,103	1,663	362	1,123	611
EBITDA Margin	50%	44%	32%	70%	37%	20%	73%	20%	12%	8%	15%	19%	33%	8%	3%
EBITDA/Interest	47.1x	23.1x	51.4x	63.1x	52.2x	18.9x	41.9x	4.5x	10.9x	4.7x	5.6x	5.8x	8.1x	5.4x	4.4x
Cash From Operations	6,652	9,005	6,923	4,002	4,591	4,511	5,449	239	1,677	1,626	1,266	1,920	417	567	67
Capex	(7,219)	(10,777)	(3,512)	(2,823)	(6,181)	(6,826)	(4,641)	(84)	(541)	(1,987)	(1,787)	(2,311)	(263)	(1,398)	(592)
Dividends paid	(200)	(1,049)	(1,324)	(80)	(286)	(176)	(191)	(200)	(2,171)	(1,068)	(834)	(1,382)	(259)	(354)	(513)
Free Cash Flow	(767)	(2,821)	2,087	1,099	(1,876)	(2,491)	617	(44)	(1,035)	(1,429)	(1,354)	(1,773)	(105)	(1,185)	(1,039)
(Acquisitions)	0	0	0	0	0	0	(660)	(661)	6	(5)	(65)	(173)	(21)	(300)	(720)
Share repurchase	0	(326)	0	(300)	(113)	0	(68)	0	0	(1)	0	0	0	(0)	0
Asset sales	120	544	34	4	239	36	42	0	7	12	23	340	4	2	62
Cash & Equivalents	14	622	966	1,837	1,921	1,315	154	99	112	55	526	53	20	73	37
Total Debt	11,633	9,657	1,719	5,686	4,098	6,575	3,814	1,500	3,520	8,458	5,555	8,341	1,018	5,543	4,569
Equity	13,628	23,643	14,256	7,263	16,007	14,492	10,057	1,201	1,760	6,432	3,810	4,762	951	2,058	3,651
Debt/EBITDA	1.58x	0.75x	0.21x	0.97x	0.39x	1.16x	0.51x	4.99x	1.65x	4.69x	4.12x	3.64x	2.36x	4.07x	5.67x
Debt/Capital(%)	46%	29%	11%	44%	20%	31%	27%	56%	67%	57%	59%	64%	52%	73%	56%

Source: Company Reports

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