NGI's Daily Gas Price Index

A Daily Price Service of Natural Gas Intelligence

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Bearish Storage Report Slows Price Climb

Prices managed to sustain this week's near-solid upward price movement Thursday, but there were hints that the bullish streak may be coming to an end. New upticks ranged from about a nickel to a quarter, but were mostly moderate at around a dime or less.

The Energy Information Administration fell short of many previous expectations in reporting 72 Bcf in storage injections last week, but it countered that semi-bullish news with an upward revision of 7 Bcf in the previous report's tally, changing the implied inventory for the week ending May 2 from 821 Bcf to 828 Bcf. Nymex traders must have focused more on the revision, which had been rumored prior to the Thursday morning issuance of EIA's report, since June gas futures plunged 18.3 cents for the day. The crude oil and heating oil contracts also gave up recent gains, with crude settling below $29/bbl Thursday.

"We saw [cash] prices jump up at first, but then they slid in the few remaining late deals" after EIA's report, said a Midwest utility buyer. She and others expect the negative storage data impact to be reflected in falling prices Friday. There will be the effect of lighter weekend load (including the three-day weekend for Canadians commemorating Victoria Day Monday) along with Thursday's weak energy futures and continuing light weather-related demand, the buyer said. The Midwest is in "a comfortable temperature area" for the time being, she added, but her company is "still going strong" on injecting storage.

A Northeast utility buyer also reported continuing storage refill efforts in the midst of a "pretty quiet" market. "I keep wondering why prices are remaining as strong as they are" during the generally moderate weather of a shoulder month, he continued. "We're in a minimum-flow period right now, and it's a good time for vacations." The buyer also commented that any so-called bullish news, such as reports of a fire knocking out the ExxonMobil processing plant at Katy this week, "tends to cause minor panics and higher prices."

A western trader said he was trying to figure out what to do when Transwestern switches its San Juan Lateral maintenance constraint from the Ignacio-Blanco segment in the northern part of the basin over weekend to the Blanco-Thoreau segment. "That will probably make El Paso long next week," he said. He noted that the Northwest domestic-Sumas spread has slipped to 15 cents or less this week after having been multiple dollars apart earlier this year, likely a result of Kern River's expansion start-up May 1. The current limit on Northwest's 26-inch line in Washington state, where it's still confined to 80% of Maximum Allowable Operating Pressure due to a rupture early in May (see *Daily GPI*, May 6), "isn't causing me any problems now on gas shipped from Sumas to Stanfield, but I can foresee trouble as summer volumes rise." He expect Sumas to regain more of its former large premium as a result.

EIA Revises Storage Data; Futures Market Corrects Lower

After a misguided attempt to rally Thursday morning, natural gas futures moved lower as traders pieced together a mixed bag of data released by the Energy Information Administration (EIA). The June contract was hit with two waves of local and fund trader selling — one following the 10:30 a.m. EDT storage report and the other near the 2:30 p.m. closing bell. The June contract suffered the greatest loss, dipping 18.3 cents to close at $6.131.

MAY CASH MARKET PRICES

	Range	Avg.	Chg
South Texas			
Agua Dulce	$6.10-$6.13	$6.12	+10
El Paso GTT (Valero)	$6.12-$6.13	$6.13	+16
Florida Gas Zone 1	$6.22-$6.25	$6.23	+9
NGPL S. TX	$5.94-$5.95	$5.95	
Tennessee	$6.01-$6.12	$6.08	+13
Texas Eastern S. TX	$5.85-$6.06	$5.97	+4
Transco St. 30	$6.00-$6.05	$6.03	+6
Trunkline	-- --	--	--
East Texas			
Carthage	$6.00-$6.16	$6.09	+8
Houston Ship Channel	$6.22-$6.24	$6.23	+11
Katy	$6.20-$6.28	$6.24	+12
NGPL TexOk	$5.95-$6.11	$6.08	+8
Texas Eastern E. TX	-- --	--	--
Texas Gas Zone 1	$6.00-$6.21	$6.20	+9
Transco St. 45	$6.18-$6.23	$6.22	+10
Trunkline	-- --	--	--
West Texas			
El Paso Permian	$5.58-$5.86	$5.75	+21
NGPL Permian	-- --	--	--
Northern Natural Mid 1-6	-- --	--	--
Transwestern	$5.45-$5.70	$5.62	+22
Waha	$5.85-$6.07	$5.96	+26
Midwest			
Alliance	$6.20-$6.34	$6.29	+7
ANR ML7	$6.47-$6.48	$6.47	+9
Chicago Citygate	$6.20-$6.35	$6.30	+8
Consumers Energy	$6.37-$6.48	$6.41	+7
Dawn	$6.35-$6.48	$6.41	+5
Michigan Consolidated	$6.34-$6.51	$6.44	+7
Midcontinent			
ANR SW	$5.75-$5.87	$5.83	+11
NGPL Amarillo Mainline	$5.70-$5.90	$5.80	+10
NGPL Iowa-Illinois	$5.85-$5.90	$5.88	+9
NGPL Midcontinent	$5.55-$5.76	$5.71	+11
Northern Natural Demarc	$5.70-$5.87	$5.80	+11
Northern Natural Mid 10-13	-- --	--	
Northern Natural Ventura	$5.75-$5.82	$5.79	+13
OGT	$5.79-$5.80	$5.80	+9
Panhandle Eastern	$5.81-$5.88	$5.84	+13
Reliant East (NorAm)	$5.92-$6.05	$6.03	+9
Reliant West (NorAm)	$5.94-$5.95	$5.95	+17
Williams	$5.79-$5.80	$5.80	+12
Louisiana			
ANR SE	$6.12-$6.15	$6.14	+8
Columbia Gulf Onshore	$5.99-$6.23	$6.19	+6
Columbia Gulf Mainline	$6.26-$6.28	$6.28	+8
Florida Gas Zone 2	$6.23-$6.24	$6.24	+8
Florida Gas Zone 3	-- --	--	--
Gulf South (Koch)	$6.23-$6.24	$6.24	+11
Henry Hub	$5.99-$6.28	$6.24	+7
Miss. River Trans.	-- --	--	--
NGPL LA	$6.12-$6.14	$6.13	
Southern Natural	$6.15-$6.23	$6.18	+7

According to the EIA, 72 Bcf was injected into underground storage facilities last week, bringing reserves up to the 900 Bcf mark. Versus expectations centered on a 74-85 Bcf build, the 72 Bcf figure was bullish. Contrasted with historical figures, the injection was neutral, falling between last year's 62 Bcf addition and the five-year average refill of 75 Bcf.

The EIA also said Thursday that it had revised upward last Thursday's injection figure by 7 Bcf to 87 Bcf due to a resubmission of data by one or more of its survey respondents. Because last Thursday's reported 80 Bcf refill had fallen near the bottom end of market expectations, natural gas futures soared at the end of last week, setting the tone for this week's continued price strength. Upon the realization that last week's figure should have been an 87 Bcf build, traders were quick to lighten their long positions.

In response to industry criticism, the EIA last summer discontinued the practice of issuing corrections based on its estimation procedure. However, the administration said it would continue to make revisions at regularly scheduled times in the event survey respondents reported changes that caused the estimated level of working gas to move by 7 Bcf or more.

Prior to Thursday's storage report, rumors about the revision had circulated in the market. However, most market watchers chalked that up to local traders looking for a reason to explain the near $1 price increase over the past 10 days. As it turned out, the rumors for a downward revision were scintillating enough to entice buyers to bid the market higher just ahead of Thursday's 10:30 a.m. report. When the actual report — showing an upward revision — was released, they quickly liquidated those longs, traders said.

That selling had a profound impact on prices because of what traders called the 10:28 vacuum. Fearing an adverse price move following the storage report, traders often lift their buy and sell orders placed on either side of the prevailing market price. As a result, there is a virtual vacuum on either side of the market when the storage number is released and anyone who needs to buy or sell may find a lack of willing counterparties. This was never more evident than Thursday, when sellers pushed prices down 19 cents in the five minutes from 10:30 to 10:35 a.m. EDT.

Although prices dipped Thursday in reaction to the upward storage revision, the market is far from being out of the woods. "Assuming normal weather, we continue to believe that the goal of reaching the 3,000 Bcf comfort level by Nov. 1, 2003 is highly unlikely given the increased level of nuclear maintenance activity this spring — and more importantly — ongoing concerns surrounding the availability of nuclear generation capacity this summer," wrote UBS Warburg analyst Ronald Barone in a note to clients Thursday.

Based on the weather thus far this week, Barone predicts next week's storage figure will likely be similar to the 68 Bcf injection seen a year ago. Looking further into the weather crystal ball and considering the next three year-ago weekly storage injections of 72 Bcf, 107 Bcf, and 88 Bcf, Barone does not expect the often quoted year-on-year on year deficit — currently at 807 Bcf — to move outside of the 750-850 Bcf range between now and early June.

Gas Groups: Price Indexes 'Worked Well in Past,' and Will 'Work Well Again'

Four leading natural gas producer and industrial groups on Thursday pledged unwavering support for the continuation of published gas price indexes, while at the same time expressing their disdain for a governmental takeover of the process.

In post-technical conference comments filed at FERC, the Natural Gas Supply Association (NGSA), Independent Petroleum Association of America

MAY CASH MARKET PRICES

Louisiana (continued)	Range	Avg.	Chg
Tennessee Line 500	$5.98-$6.14	$6.08	+8
Tennessee Line 800	$5.98-$6.14	$6.12	+12
Texas Eastern E. LA	$6.06-$6.17	$6.15	+10
Texas Eastern W. LA	$6.12-$6.15	$6.13	+8
Texas Gas Zone SL	$6.04-$6.23	$6.18	+7
Transco St. 65	$6.05-$6.27	$6.22	+4
Trunkline E. LA	$6.05-$6.06	$6.06	+7
Trunkline W. LA	$6.08-$6.11	$6.09	+7
Alabama/Mississippi			
FGT Mobile Bay	-- --	--	--
Texas Eastern Kosciusko	$6.13-$6.33	$6.24	+2
Transco St. 85	$6.19-$6.22	$6.21	+6
Florida			
FGT Citygate	-- --	--	--
Rocky Mountains			
CIG	$4.80-$5.07	$5.00	+6
Cheyenne Hub	$5.20-$5.27	$5.21	+5
El Paso Bondad	$4.90-$5.25	$5.04	+5
El Paso non-Bondad	$5.20-$5.38	$5.21	+2
Kern River	$5.08-$5.27	$5.14	+8
Kingsgate	-- --	--	--
Northwest Domestic	$5.05-$5.35	$5.12	+7
Northwest S. of Green River	$5.06-$5.10	$5.08	+11
Northwest Sumas	$5.18-$5.29	$5.22	+10
Opal	$5.05-$5.35	$5.14	+8
Questar	$4.90-$4.99	$4.91	+1
Stanfield	$5.36-$5.49	$5.44	+12
Northeast			
Algonquin (citygate)	$6.66-$6.68	$6.67	+11
Algonquin (into)	-- --	--	--
Columbia Gas	$6.54-$6.66	$6.60	+13
Dominion (CNG)	$6.50-$6.66	$6.61	+9
Iroquois Zone 2	$6.58-$6.62	$6.60	+11
Niagara	$6.38-$6.58	$6.48	+8
Tennessee Zone 6	$6.60-$6.73	$6.65	+14
Tetco M-3	$6.55-$6.73	$6.67	+9
Transco Zone 6 NY	$6.62-$6.72	$6.68	+12
Transco Zone 6 non-NY	$6.58-$6.72	$6.65	+12
California			
Malin	$5.45-$5.59	$5.48	+5
PG&E Citygate	$5.72-$5.79	$5.76	+7
Southern Border, PG&E	$5.40-$5.58	$5.50	+14
Southern California Bdr. Avg.	$5.50-$5.70	$5.63	+15
Canada			
NOVA/AECO C (Cdn$/GJ)	$6.87-$6.98	$6.92	+8

Notes: *Prices are in U.S. $/MMBtu for dry gas with the exception of NOVA/AECO C, which is in Cdn$/GJ. Prices traded Thursday, May 15 for May 16 delivery. Dashes in the change column indicate that insufficient information was collected to update the corresponding price.*

Previous 5 Days

	5/9	*5/12*	*5/13*	*5/14*	*5/15*
May Henry Hub	$5.74	$5.90	$5.98	$6.17	$6.24
Jun Nymex	$5.806	$5.983	$6.308	$6.314	$6.131
3 Month Strip	$5.865	$6.040	$6.377	$6.377	$6.206
6 Month Strip	$5.894	$6.062	$6.394	$6.389	$6.232
12 Month Strip	$5.808	$5.937	$6.222	$6.195	$6.069
18 Month Strip	$5.540	$5.627	$5.847	$5.799	$5.693
24 Month Strip	$5.441	$5.501	$5.673	$5.625	$5.526

(IPAA), the Process Gas Consumers Group (PGC) and the New Jersey Large Energy Users Coalition said they were not ready to jettison published price indexes, and likened trader manipulation of the indexes to just another "bump" along the road in the development of North American gas markets. "This bump needs attention, but we have yet to be convinced that recent events should trigger either wholesale rejection of the current reporting mechanisms or imposition of a federally managed data-collection and index-reporting system."

The four groups urged FERC "not to lose sight of the fact that the price indices have worked well in the past and can, with appropriate attention, work well again." *Platts* has published price data for more than 15 years, *Natural Gas Wee*k for more than 17 years and *Natural Gas Intelligence* for nearly 20 years, they noted.

"These companies have been significant participants in the sea changes of the last two decades and we should allow them to continue applying their experience and knowledge to improve their processes, while we explore other alternatives in case additional measures are deemed necessary," they said.

Moreover, "we continue to believe that the gas price data collection and index reporting functions should not be taken over by the federal government...We are concerned that a federal agency may not be sufficiently nimble to collect and analyze this amount of data on a daily basis," noted the NGSA, IPAA, PGC and the New Jersey coalition.

"We have watched [the Energy Information Administration] struggle with the data collection and reporting of the weekly storage report — a report that is released once each week and results in the reporting of one net injection number...If an agency were to take it over, and was inadequately prepared, the consequences to the natural gas industry could be far-reaching and very damaging," the trade groups said.

"Given the fact that the gas price collection and index reporting function involves the collection of data on a daily basis from hundreds of sources and, in order to be useful, must result in the daily publication of pricing information for some 70 pricing points, we are skeptical as to whether any federal agency is adequately staffed or technologically prepared to take on this responsibility."

The four groups were adamantly opposed to being required to report counterparty information (identities of a buyer and seller involved in a transaction). As an alternative to this reporting requirement, "we urge the industry to consider granting an index developer the right to conduct spot checks and request counterparty information when reported data is suspicious or questionable."

Earlier this week, NGSA, IPAA and the PGC joined the Interstate Natural Gas Association of America (INGAA) and the American Gas Association (AGA) in calling on FERC to explore further the role of self-regulatory organizations (SROs) and other independent third parties in restoring public confidence in reported gas prices.

The NGSA, IPAA and PGC, in their comments to FERC, made clear they were interested in SROs only if public confidence was not restored to published price indexes.

In their joint letter Monday to FERC Chairman Pat Wood, the five associations representing local distribution companies (LDCs), independent and major gas producers, interstate gas pipelines and large industrial companies asked the agency to "promptly hold an educational workshop" to focus on the alternative methods for authenticating prices reported by gas traders.

The request comes less than three weeks after the Commission held a day-long technical conference to consider reforms to the current system in which energy companies report gas prices to trade publications, which then

NYMEX Henry Hub Futures 5/15/03

Expiration dates in parentheses

Contract	High	Low	Settle	Change
June (5/28)	$6.370	$6.120	$6.131	-.183
July (6/26)	$6.460	$6.200	$6.221	-.173
Aug (7/29)	$6.470	$6.250	$6.266	-.158
Sep (8/27)	$6.425	$6.215	$6.230	-.149
Oct (9/26)	$6.420	$6.210	$6.230	-.146
Nov (10/29)	$6.490	$6.315	$6.315	-.131
Dec (11/25	$6.560	$6.410	$6.422	-.114
Jan (12/29)	$6.630	$6.499	$6.499	-.107
Feb (1/28)	$6.450	$6.324	$6.324	-.102
Mar (2/25)	$6.150	$6.039	$6.039	-.097
Apr (3/29)	$5.265	$5.159	$5.159	-.081
May (4/28)	$5.040	$4.986	$4.986	-.074
June (5/26)	$4.995	$4.939	$4.939	-.066
July (6/28)	$4.990	$4.929	$4.929	-.066
Aug (7/28)	$4.980	$4.926	$4.926	-.059
Sep (8/27)	$4.970	$4.900	$4.911	-.059
Oct (9/28)	$4.960	$4.896	$4.896	-.066
Nov (10/27)	$5.095	$5.056	$5.056	-.076
Dec (11/26)	$5.290	$5.229	$5.229	-.073
Jan	$5.360	$5.299	$5.299	-.073
Feb	$5.240	$5.234	$5.234	-.078
Mar	$5.100	$5.054	$5.054	-.078
Apr	$4.750	$4.704	$4.704	-.078
May	$4.690	$4.624	$4.624	-.078

Est. Volume, 5/15: 85,592 Open Int, 5/14: N/A

June NYMEX Technical Indicators

Trend Indicators	***5/9***	***5/12***	***5/13***	***5/14***	***5/15***
+Dir. Indicator	33.19	39.30	41.86	41.22	37.93
-Dir Indicator	20.54	18.40	16.01	14.41	13.58
18 Day Avg.	5.579	5.593	5.623	5.652	5.670
40 Day Avg.	5.389	5.405	5.428	5.455	5.477
Oscillators					
RSI	60.48	64.80	71.06	71.16	63.78
Stochastics(Slow)	70.18	77.59	85.60	89.87	90.53

Notes: *The contents of this chart are in no way intended to serve as trading advice on the part of Intelligence Press Inc. For more information on how to interpret these technical indicators, please call Intelligence Press at (703) 318-8848 and ask for the pricing staff.*

June NYMEX Options at 5/15 Close

Strike Price	Call Price	BS Value	Implied Volatility	Put Price	BS Value
$6.00	.296	.286	51.2%	.165	.155
$6.05	.269	.258	51.4%	.188	.177
$6.10	.244	.232	51.6%	.213	.201
$6.15	**.222**	**.208**	**52.1%**	**.241**	**.227**
$6.20	.201	.185	52.5%	.270	.254
$6.25	.181	.165	52.7%	.300	.284
$6.30	.164	.146	53.2%	.333	.315

Total Volume, 5/15: N/A Open Interest, 5/14:N/A

Notes: *BS Value represents the theoretical value of the option at the close of the May 15, 2003 trading session derived using the Black-Sholes options valuation model. Inputs for the model are the June futures price of $6.131, strike price, 20 day annualized volatility of the June contract of 48.9%, and 12 days remaining before the option's expiration.*

compile indexes. Publishers told FERC they already have taken steps to protect their indexes from trader fraud in the future, but some critics are calling for a complete overhaul of the price-reporting system.

"To continue our progress, we urge FERC to follow up the conference with a workshop structured to address how other commodity markets perform price discovery with a focus on independent third party or self-regulatory organizations (SROs) performing price-data collection," wrote the gas trade groups in their letter.

The focus of the trade associations' interest is the SRO — "how it would work [and] how it would protect the confidentiality" of traders reporting prices, said Martin Edwards, INGAA vice president of legislative affairs. By requesting the workshop, "it doesn't mean that the groups are 100% going to support [an SRO]," he told *NGI*.

"I don't know [if] they're ready to make that kind of a value judgement yet," said Edwards. The gas industry just wants to see how SROs work in other commodity markets, and whether it "might work for us too."

"We are not at the point of embracing an SRO, we are just intrigued by it," echoed Dena Wiggins, PGC's general counsel. "There was sufficient discussion of SROs at the [FERC] conference that we believe we need to learn more about it."

The trade associations are encouraging FERC to oversee the price-reporting process, but they believe any changes and improvements that are made should be "stakeholder led," rather than imposed by the government, said IPAA spokesman Jeff Eshelman. Toward that aim, the industry feels it "needs to evaluate it [the SRO option] more completely."

At the FERC conference in late April, a key SRO advocate was Robert Levin of the New York Mercantile Exchange. He said an SRO would "validate and substantiate" the pricing and other data supplied by traders prior to its being disseminated to price-index publishers (see *Daily GPI*, April 25). He recommended that an SRO be subject to some oversight by FERC or the Commodity Futures Trading Commission, or both, saying this would provide "the public with the confidence that [the information] is authentic."

FERC staff at the time also expressed interest in studying the SRO concept further.

In their post-conference comments, the NGSA, IPAA, PGC and the New Jersey coalition outlined some of their concerns about SROs. "Based on additional information we have gathered since that conference, we are somewhat concerned that an SRO, as constituted in other industries, may be too complex for the needs of the natural gas industry."

For the one-day workshop, the groups suggested that FERC's Office of Market Oversight and Investigations (OMOI) invite representatives from either academia or the third-party price collection entities from other industries to conduct training sessions and give overviews on how their organizations works.

With respect to third-party data collectors, specifically SROs, the gas industry wants to know "who participates; whether participation is voluntary or mandatory; how the entity is funded (both for initial start-up costs as well as ongoing expenses); whether counterparty information is required; and, if not, how the data-collection process is verified without it; whether the government or some other entity has oversight authority over the data-collection entity...; whether the third-party entity was developed through industry consensus or mandated by statute; whether the third-party entity has audit capability...; and the role of the federal government in the day-to-day operations of the third-party entity," the gas associations told FERC.

IntercontinentalExchange™

Firm Physical Natural Gas Price Bulletin

For Natural Gas Delivered on on May 16, 2003

(Trade Date of May 15, 2003)

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	High	Low	Weighted Average Index	Change	Volume (mmBtu)
EAST TEXAS					
Carthage	$6.1500	$5.9800	$6.0868	+0.07	46,300
TGP-Z0	$6.1050	$6.0000	$6.0751	+0.13	94,100
LOUISIANA					
ANR SE	$6.1600	$6.0700	$6.1301	+0.07	86,400
Columbia Onshore	$6.2350	$5.9900	$6.1876	+0.07	161,100
Columbia Mainline	$6.2950	$6.2400	$6.2783	+0.10	79,000
Henry Hub	$6.2800	$6.0700	$6.2362	+0.07	626,800
NGPL LA	$6.1300	$6.1300	$6.1300	+0.11	300
TGP-500L	$6.1400	$5.9150	$6.0746	+0.07	120,500
TGP-800L	$6.1400	$5.9800	$6.1096	+0.11	67,200
TETCO ELA	$6.1700	$6.0100	$6.1270	+0.07	114,400
TETCO WLA	$6.1600	$6.1200	$6.1372	+0.09	51,800
Transco 65	$6.2600	$6.0800	$6.2210	+0.05	231,900
Trunkline ELA	$6.1200	$5.9800	$6.0448	+0.08	36,000
TGT-SL (FT)	$6.2350	$6.0400	$6.1922	+0.09	62,500
MIDCONTINENT					
ANR-SW	$5.8600	$5.7500	$5.8279	+0.09	38,200
Consumers	$6.4800	$6.3700	$6.4314	+0.10	27,400
MichCon, citygate	$6.5000	$6.3500	$6.4464	+0.07	65,000
NGPL Midcont	$5.7600	$5.6000	$5.7080	+0.11	109,000
NGPL-Nicor	$6.3350	$6.1800	$6.2813	+0.07	68,300
NGPL-Nipsco	$6.3500	$6.3100	$6.3281	+0.10	51,300
NGPL-TXOK East	$6.1125	$5.9500	$6.0653	+0.07	161,500
NNG-Demarc	$5.8400	$5.7000	$5.7882	+0.12	61,200
Panhandle	$5.8500	$5.8100	$5.8311	+0.13	45,200
Peoples Gas	$6.3400	$6.2800	$6.2900	+0.06	42,800
Union-Dawn	$6.4875	$6.4700	$6.4735	+0.12	25,000
NORTHEAST					
Columbia TCO	$6.6500	$6.5050	$6.5956	+0.11	703,600
Dominion-South	$6.6500	$6.5300	$6.6034	+0.08	207,000
TETCO-M3	$6.7500	$6.6000	$6.6905	+0.10	118,800
Transco-Z6 (NY)	$6.7200	$6.6900	$6.7042	+0.17	12,000
WEST					
EP-San Juan Blanco	$5.4000	$5.3000	$5.3565	+0.16	15,500
Huntingdon/Sumas	$5.2900	$5.1800	$5.2223	+0.08	171,100
Malin	$5.6200	$5.4500	$5.5213	+0.11	71,400
Opal	$5.2700	$5.0600	$5.1404	+0.09	199,700
PG&E-Citygate	$5.8500	$5.7200	$5.7851	+0.10	64,500
SoCal Border	$5.7400	$5.6500	$5.6919	+0.26	37,000
Stanfield	$5.4900	$5.3700	$5.4132	+0.10	77,000
Station 2	$6.8000	$6.7000	$6.7486	+0.08	47,300
WEST TEXAS					
EP-Keystone	$5.8500	$5.6000	$5.7636	+0.21	69,600
Waha	$6.0100	$5.8975	$5.9487	+0.26	46,700

Includes all firm physical fixed price trades done from 7 AM to 11:30 AM Central Prevailing Time on the trade date specified for natural gas delivered on the specified date(s). © 2003 IntercontinentalExchange, Inc.

Analyst's Report Advocates 'Fixing' Existing Price Reporting System

Fixing the current system of natural gas price reporting by trade publishers "has the greatest potential to restore confidence in the shortest period of time," a report by Charles Schwab's Washington Research Group concluded, but politicians, regulators, and a potential short-supply, high-price crisis could produce more drastic measures.

"We are concerned that volatility in the natural gas markets this summer could degenerate into another round of political finger pointing and investigations. Congress could add mandatory price reporting and possibly other provisions to...energy legislation that would smack of cost-of-service oversight instead of market-driven economics," warned the report by Christine Tezak with Charles Schwab Capital Markets (CSCM).

The Federal Energy Regulatory Commission, whose recent report on the California crisis of 2000-2001 condemned the published price indices as subject to manipulation, so far has offered no opinion as to how well the indices are functioning now. "We feel unable to give investors constructive guidance as to when to expect the regulatory cloud to lift, particularly if Congress begins to meddle in earnest," the Charles Schwab report said.

It suggests it would be helpful if the Commission would issue a final report on its investigation of the February 2003 price spikes. Comments from FERC staff that the spikes appeared to be driven by fundamentals have yet to be backed by a complete report on the situation. The market is concerned that FERC's new oversight office may have a "paranoia" leading it to label continuing market volatility as evidence of market manipulation.

Author Tezak expresses concern "that some staff in OMOI [Office of Market Oversight and Investigations] and other key offices at FERC really are not comfortable with the difference between 'moving' and 'manipulating' a market or index. The former is legal (some would say even necessary or desirable to stimulate investment), the latter is not..."

"Is FERC even looking at today's situation or is it still myopically focused on solving yesterday's problems?" The report notes, "The industry...has coalesced rapidly behind efforts to 'fix' the existing system over the last few months." And both the industry and publications have worked successfully through the Committee of Chief Risk Officers to improve methodologies and standards for the price data.

Today's situation includes a lack of liquidity because of the virtual disappearance of the marketing sector, which did much of the fixed price trading. This situation — not enough beans — cannot be fixed by changing bean-counters.

EIA Weekly Gas Storage Report

Data Released May 15, 2003 for the Week Ending May 9, 2003

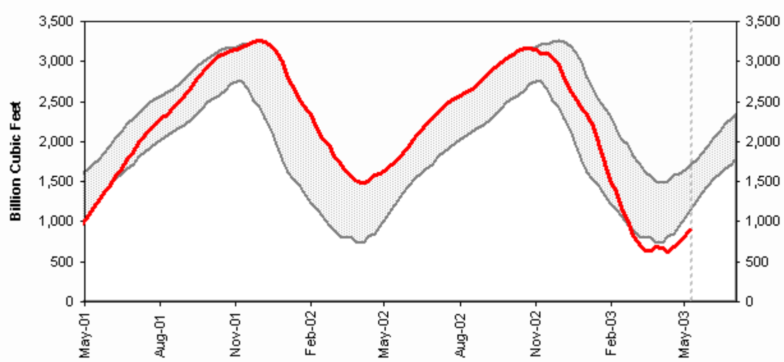
	This Week (Bcf)	Prior Week (Bcf)	Change (Bcf)	Year Ago (Bcf)
East	438	385***R***	53	825
West	198	192	6	254
Producing	264	251	13	628
Total Lower 48	***900***	***828R***	72	***1,707***

	5-Year Average	% Difference from 5 Yr Avg	Survey Sample	Est. Std. Error (Bcf)
East	736	-40.5%	90%	61
West	207	-4.3%	92%	9
Producing	499	-47.1%	89%	24
Total Lower 48	***1,442***	***-37.6%***	***90%***	66

R: Revised

East Region includes Illinois, Indiana, Iowa, Kentucky, Maryland, Michigan, Missouri, Nebraska, New York, Ohio, Pennsylvania, Tennessee, Virginia, and West Virginia. West Region includes California, Colorado, Minnesota, Montana, Oregon, Utah, Washington, and Wyoming. Producing Region includes Alabama, Arkansas, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas.

Working Gas in Underground Storage Compared with 5-Year Range



Notes: A weekly record for March 10, 2002, was linearly interpolated between the derived weekly estimates that end March 1 and the initial estimate from the EIA-912 on March 15. The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 1997 through 2001. Graph prepared by EIA.

Source: Weekly storage values from March 15, 2002, to the present are from Form EIA-912, "Weekly Underground Natural Gas Storage Report." Values for earlier weeks are from the Historical Weekly Storage Estimates Database.

Tezak cited *NGI's* testimony at FERC's technical conference on the excessive reliance by state regulatory commissions on the published indexes as a means of judging utility gas purchases. This leads wary utilities to index rather than attempt fixed price transactions.

But state commissions could turn on the indexes if prices spike. "We worry that regulators could balk at passing through index-driven cost increases and attempt to seek modification of prices at FERC by using OMOI's concerns about manipulation as justification for investigations if this year's natural gas markets stay tight and expensive," the CSCM report said.

Commenting on presentations at FERC's technical conference, Tezak said it was clear that publishers had a financial stake in continuing their competing price collection systems, while some of the counterproposals offered by others were driven in part by the commercial and financial potential of a government-authorized monopoly price collection system.

Neither FERC nor the Energy Information Administration (EIA) want the job of collecting price information. The report examined the problems that EIA has faced in reporting storage information once a week.

Third party systems delegated by FERC or so-called self-regulating organizations, would not be possible without legislation giving FERC the power to mandate the submission of price data. "Then we'll need policy development and rulemaking at the agency itself, a process likely to take years," the report said. It also questions funding for the third-party systems. Sponsors say it would come from fees collected from publishers and others who would be provided with aggregated data that is "cleansed" of any individual information. "We see no reason why publishers would pay for raw index data that is already published by a third party."

A representative who put the University of Houston's proposal before FERC "would not answer directly the question posed to him — would the business school use the data for its own proprietary research?" This also is a concern regarding some publishers with research and consulting affiliates. "If the potential for such commercial leveraging also exists in a so-called SRO proposal, why undertake the extensive machinations of setting it up, mandating [that] industry participants feed it data and assessing subscribers with the cost of funding it for the SRO's commercial gain?"

While industry groups on the surface are willing to explore the idea of an SRO, "the breadth and depth of their concerns suggest to us that this idea really is going to have tough sledding philosophically, on top of concerns of about its logistical feasibility."

The Charles Schwab paper concludes that "reinventing the wheel and moving to mandatory reporting has serious legal and logistical issues."

FERC OKs Iroquois Project Delays

Iroquois Gas Transmission is the latest pipeline to ask FERC to delay its certificated expansion projects by more than a year because prospective shippers — mostly power companies — have decided to either terminate or defer their service requirements.

The Commission this week agreed to postpone the pipeline's two compression expansions in Athens, NY, and Brookfield, CT. The so-called Athens project was to be completed later this year, but the agency extended the deadline to complete construction until December 2004. The Brookfield expansion, which was to be in service by April 2004, got an 18-month reprieve until November 2005.

The Athens expansion, which FERC approved a year ago, called for the addition of 10,000 horsepower of new compression to supply up to 70,000 Dth/d of gas to Athens Generating Co. LP for use in a new 1,080 MW gas-fired generation facility in Athens, NY. But the Athens plant reportedly faces an uncertain future now.

"There is uncertainty at this time regarding anticipated changes in the ownership of the Athens electric generation plant and the potential impact of such changes on the times of completion and operation of the plant," Iroquois told FERC. Adding to the problem is the fact that Athens Generating is a subsidiary of PG&E National Energy Group, which is on the brink of bankruptcy.

The $24.6 million Brookfield project entails the construction of a new compressor station with a 10,000-hp compressor unit on the Iroquois mainline in Connecticut. It was expected to supply a total of up to 85,000 Dth/d of firm service to two shippers, Astoria Energy Co. LP and PPL EnergyPlus LLC.

But PPL EnergyPlus has terminated its precedent agreement with the pipeline, and Astoria Energy, the largest shipper on the project, has requested that its service be deferred until November 2005, Iroquois said.

Cheniere, Partner to Build LNG Facility in Corpus Christi

Cheniere Energy Inc. has entered into a partnership with BPU LLC, an affiliate of Sherwin Alumina, to build an liquefied natural gas (LNG) receiving terminal on a site adjacent to the Sherwin Alumina plant in Corpus Christi, TX.

The partnership, to be named Corpus Christi LNG LP, will own a 210-acre tract of land and will control 400 additional acres through permanent easements. BPU will contribute the land and certain development costs associated with the project in return for a 33.33% limited partnership interest.

"We have been pursuing sites in Corpus Christi for almost three years now and have been working with Sherwin Alumina to explore the feasibility of this site for over a year," said Cheniere's CEO Charif Souki. "We have held numerous meetings with the Navigation District, the Pilots Association, and the Coast Guard and have concluded that this is an ideal site for building an LNG receiving facility."

Sherwin Alumina, formerly Reynolds Metals Co.-Sherwin Plant, has produced alumina near Corpus Christi for more than 48 years. Its primary function is to extract aluminum oxide, called alumina, from bauxite ore. The plant is capable of producing 1.4 million tonnes of smelter grade alumina and 300,000 tonnes of chemical grade alumina hydrate per year.

Sherwin Alumina CEO Peter Bailey said the company was excited about enabling a long-term source of natural gas for Corpus Christi. "We are a prime example of a large employer in Corpus Christi for whom a steady supply of natural gas is vital."

Earlier this month, Cheniere hired Keith Meyer, the former vice president of business development for LNG and supply at CMS Panhandle Eastern Pipe Line Co. Meyer was named president of subsidiary Cheniere LNG Inc., and also was given the title of vice president and officer at the parent company.

Cheniere LNG owns 30% of Freeport LNG Development LP, which already has begun developing LNG receiving facilities at Sabine Pass, LA. Freeport LNG filed an application with the Federal Energy Regulatory Commission for development of an LNG terminal in Freeport, TX, earlier this year (see *Daily GPI*, April 1). Cheniere expects to file an application with FERC for its next site in the first quarter of 2004.

"Cheniere's goal is to develop a portfolio of attractive sites in the Gulf Coast [region] to allow LNG imports to replace the declining Gulf Coast production, and to offer importers a maximum amount of flexibility in their choice of locations," said Souki.

Malcolm: Williams' Gas Assets Form Solid Platform for Future

On the heels of a quarterly earnings report that, although negative, still enthused more buyers than sellers this week, Williams' annual shareholder meeting Thursday gave the CEO an opportunity to share the company's vision for a "new" integrated natural gas company that he promised would be "viable, sustainable and value creating."

CEO Steve Malcolm, who at last year's meeting had been asked to resign by several irate shareholders, appeared renewed this week as he presided over what he said was a smaller and more simplified company. However, the once embattled CEO noted that Williams, nearly 100 years old, had transformed itself in the past, and he believes the Tulsa-based company's gas assets form a solid platform for profitability and cash-flow generation into the future.

"Today, there are many reasons to once again be confident in Williams," Malcolm said. "We are managing the company differently to fit what is a very different business environment. We're building liquidity and cutting costs. We're generating cash by selling assets that don't fit our new, sharply defined business focus. We're exercising a new discipline in capital spending. We're strengthening our balance sheet by reducing debt." Malcolm added that the company also has taken steps to further formalize its commitment to running the business with "integrity and openness that is at the heart of our core values and beliefs."

He said that "for shareholders in particular, the past 18 months or so have not been easy. As you know better than anyone, by all measures 2002 was one of the worst years in company history. Our stock price plummeted. Our credit was dropped below investment grade. Liquidity and debt became serious issues. Our company faced a full-blown financial crisis."

Basically, Malcolm blamed two businesses for Williams' fall last year: energy marketing and telecommunications, which were "each caught in an unprecedented market collapse." However, despite the "almost overwhelming series of negative events and circumstances, we persevered. We took ownership of our problems...and more importantly, of the solutions."

With a new direction set after being besieged with problems, Malcolm said management decided that it wanted to own and manage natural gas assets in "key" growth markets where the company enjoys the competitive advantages of scale, such as its Opal gas processing plant in Wyoming; where it enjoys the advantages of being a low-cost service provider, as it is with its Transco pipeline; or where it is a market leader, as it is in the Rocky Mountains, where it is the largest operator in the Piceance and Powder River basins.

"Our commercial strategy is straightforward. We are in the natural gas business. That's where the market wants us to be. That's where our customers want us to be. And that's where we want to be. We are applying disciplined focus on business segments and markets where we have leadership positions today and growth potential for the future."

Malcolm said that the company's core businesses remain strong, adding that they had been performing "well" along, "a fact that simply has been overshadowed by the other financial hits we've taken recently." However, while the core businesses are continuing to add value, Malcolm said that was not enough. "There's no doubt that on the financial side, we still have some challenges. But I can assure you that we are meeting the challenges and moving well beyond the financial crisis we experienced last July."

Executing the financial strategy required some tough decisions, he said, including selling assets that had served the company well. Besides selling assets and implementing workforce reductions, Williams also has discontinued its national television advertising, and shut down its energy news web site. It also is renegotiating some sporting event sponsorships.

"These cost-reduction efforts — and many others — have resulted in a significant reduction in our selling, general and administrative costs," he said. "We've gone from spending almost a billion dollars in 2002 to an estimated $600 million this year. We're making progress. In the first quarter, we reduced these expenses by 16% over a year ago."

Although it has substantially exited energy marketing and trading, Malcolm admitted it has been more difficult than simply pulling the plug.

"We are selling individual contracts as fair offers come in, such as the sale earlier this year of two significant, long-term contracts and a power facility for approximately $255 million," he said. "And we will continue our efforts to sell more contracts. But there's still a perception of uncertainty around this sector, which makes it more difficult to resolve than other asset sales."

In the next 18 months, Malcolm said a top priority is in meeting debt obligations. "The first significant obligation is the 364-day loan backed by our Rocky Mountain reserves, which is due in July. The other obligation in that league is a $1.4 billion note related to our former telecom subsidiary that is due in March 2004." However, by the time of the next annual shareholder meeting in a year, "we expect liquidity-related issues to be largely behind us."

Aquila's Exit from Trading Impacts 1Q2003, But Domestic Networks Show Gain

Aquila Inc.'s first quarter losses, though anticipated because of its decision to wind down its once mighty wholesale energy trading business, showed a glimmer of positive news Thursday, with the company's domestic utility networks up more than 50% from a year ago.

Overall, the Kansas City, MO-based utility reported a fully diluted loss of 27 cents per share for the first quarter of 2003, or a net loss of $51.9 million on sales of $579.3 million. For the same period last year, Aquila had net income of 32 cents per share, or $44.4 million on sales of $767.4 million, including earnings of $4.4 million from discontinued operations, net of tax.

Losses for the first quarter mostly came from trading and contract losses after management decided last year to exit its once high flying energy trading business. The quarter also was hit by an increase in fixed capacity payments for merchant generation capacity, mark-to-market losses on some of its long-dated forward contracts, and higher interest cost reflecting additional borrowings and higher interest rates due to the company's non-investment grade credit rating. Aquila also recorded $6.3 million in restructuring charges primarily connected with unfavorable interest rate swaps.

However, earnings before interest and taxes (EBIT) from Domestic Networks increased 53% in the first three months of the year, which the company attributed to cost control measures and rate adjustments that took effect in two states beginning in the second quarter of 2002. Lower results from International Networks reflected the October 2002 sale of all Aquila's interests in New Zealand and an unfavorable regulatory decision regarding depreciation of its network assets in Alberta.

"As planned, in 2003 we are continuing our transition from being a major participant in the energy trading sector to concentrating on our core utility operations in the United States," said CEO Richard C. Green Jr. "We will continue following our restructuring plan throughout 2003 and 2004."

Aquila recorded restructuring charges of $6.3 million in the first quarter, including a $5.3 million restructuring charge to exit portions of interest rate swaps related to construction financing arrangements for two merchant power plants. In conjunction with the company's recent refinancing, debt related to these facilities was paid down and the interest rate swaps were no longer necessary. The company reduced its position and realized the loss associated with the cancelled portion of the unfavorable swaps. In April 2003, Aquila repaid the outstanding balances on the debt and incurred an additional $17.5 million of expense to exit the remaining swap positions, which will be recognized in the second quarter results.

In the quarter, Aquila also recorded $1 million in severance costs following the elimination of approximately 128 positions at its telecommunications business, Everest Connections. Because of the Everest restructuring, Aquila expects to incur approximately $1.3 million in additional restructuring charges for severance and other related costs in the second quarter of 2003.

Pulled up by interim rate increases in Michigan and Iowa, Aquila's Domestic Networks reported first quarter EBIT of $70.6 million, compared with $46.1 million a year earlier. Operating expense also decreased $24.5 million year to year, primarily due to labor and benefit savings and lower administrative expenses as a result of Aquila's 2002 restructuring. In addition, Everest Connections' EBIT was $2.8 million higher in the 2003 quarter mostly because of a customer increase.

Everest recently has become self-funded and cash-flow positive, following a decision in the fourth quarter of 2002 to halt network expansion activities and focus solely on customer retention and new customer acquisition to the existing Everest network. Everest will meet its own cash flow needs going forward.

International Networks reported EBIT of $10.6 million, compared with $33.6 million a year ago. The drop reflects a $31.1 million decrease in sales due to a reduction in electric rates for 2002 and 2003, offset by a decrease of $16.8 million in depreciation and amortization related to the Alberta network assets due to a change in regulatory treatment.

Capacity Services reported a loss of $48.7 million, compared to EBIT of $2.2 million in 1Q2002. The loss resulted primarily from a $21.4 million decrease in mark-to-market gains that occurred in 2002 but did not recur due to lower spark spreads in the forward market. In addition, there were $16.0 million of non-cash mark-to-market losses on long-dated forward contracts in the 2003 quarter.

In connection with its merchant power plants, Aquila makes fixed capacity payments evenly throughout the year. For the first quarter, capacity payments increased by $11.5 million as new plants became operational late in 2002. This additional capacity was utilized on a limited basis at prices that were not sufficient to cover the fixed capacity payments, the company said.

Wholesale Services also reported a loss of $52.6 million, compared with earnings of $21.5 million a year earlier, reflecting its exit fro whole trading. The $52.6 million loss included a non-cash loss of approximately $27 million related to the sale of all of the capacity under certain long-term gas transportation contracts at substantially less than Aquila's future commitments. The remaining first quarter margin losses stem from mark-to-market losses and unfavorable settlements related to Aquila's trading portfolio, including highly structured rainfall, stream flow and load base fixed price sale transactions.

Within Discontinued operations, in 2002 and early 2003, Aquila sold its Texas natural gas storage facility, its Texas and Mid-Continent natural gas pipeline systems, including its natural gas and natural gas liquids processing assets and its ownership interest in the Oasis Pipe Line Co., its coal terminal and handling facility and its Merchant loan portfolio. The results of operations of those assets are now reported as discontinued operations. They had earned $4.4 million in 1Q2002.

TransCanada PipeLines Ltd. Creates Corporate Parent

TransCanada Corp. said that the plan of arrangement to establish it as the parent company of TransCanada PipeLines Ltd. has received all necessary regulatory approvals and certificates. As a result, the agreement went into effect Thursday.

Common shareholders of TransCanada PipeLines Ltd. have automatically become common shareholders of TransCanada Corp. on a one-for-one basis. TransCanada Corp.'s common shares are now publicly traded on the Toronto and New York stock exchanges under the symbol "TRP", the symbol historically used by TransCanada PipeLines Ltd. Preferred shares in TransCanada PipeLines Ltd. are publicly traded under the new symbol "TCA".

The company noted that the change will have no effect on day to day operations, services or obligations. In addition, the assets and liabilities of TransCanada PipeLines Ltd. remain with that unit. Debt holders and preferred shareholders of TransCanada PipeLines Ltd. will continue to hold these securities. TransCanada Corp. owns all of the outstanding common shares of TransCanada PipeLines Ltd.

Despite the creation of a parent company, TransCanada said it is still focused on natural gas transmission and power services. The company said it has a network of 38,000 kilometers of pipeline and transports the majority of Western Canada's natural gas production to Canada and the United States. TransCanada also has interests in more than 4,000 MW of power.

Kern River Cuts Demand Charges To Expansion Shippers by 8-11%

Kern River Gas Transmission is sending its 2003 expansion customers a little something extra in their "Thank You" notes for signing up for nearly 900 MMcf/d of new gas transportation capacity to Nevada and California markets from western Wyoming. The company said it is decreasing demand charges by 11.4% for 15-year expansion shippers and by 8.2% for 10-year expansion shippers. The proposed rate reductions reflect the lower interest rates in the final debt refinancing of the expansion, which went into service on May 1.

If approved by FERC, the rate reductions would be effective May 1, superseding the rates initially approved for the project. In Docket No. CP01-422-004, Kern told FERC the expansion shippers who signed 15-year contracts should have their base rates revised (demand component only) to 44.55 cents/Dth from the original certificate filing of 51.02 cents/Dth. Expansion shippers who signed 10-year contracts should now be paying 58.47 cents/Dth rather than the original rate of 64.24 cents/Dth. The rates do not reflect the commodity charge of 5.73 cents/Dth or applicable surcharges.

"This is great news for shippers," said Kirk Morgan, vice president of marketing and regulatory affairs for the pipeline. "This proposed rate reduction will make gas transported on the Kern River system more competitive in the marketplace."

The debt issued for the $1.2 billion expansion totaled $836 million and at a coupon interest rate of 4.89%. The project doubled the amount of natural gas transported on the Kern River system. It is backed by long-term contracts for more than 99% of the capacity of the installed facilities. The new facilities are expected to directly serve nearly 6,500 MW of new electric generation.

Kern's 1,679-mile interstate natural gas pipeline has a capacity to bring 1.7 Bcf/d of Rocky Mountain region natural gas from southwestern Wyoming to markets in Utah, Nevada and California. Kern River is a subsidiary of MidAmerican Energy Holdings Co.

Industry Brief

Dynegy Inc. has closed the sale of its U.S. communications business, including a high-capacity broadband network spanning more than 16,000 miles with access points in 44 U.S. cities, to an affiliate of **360networks Corp**. Financial terms of the deal, first announced in late March, were not disclosed. CEO Bruce A. Williamson said the sale finalizes Dynegy's exit from communications. "The Dynegy you see now — and into the future — is one built around its core energy businesses, which include power generation, natural gas liquids and regulated energy delivery."

Transportation Notes

Effective with Saturday's gas day, **Northwest** will be cutting alternate nominations north through its Green River Compressor Station in the Timely Cycle and all subsequent cycles as needed until further notice. The pipeline said Thursday it will begin moving balancing gas north from its Clay Basin storage account to the Jackson Prairie Storage Facility until adequate levels have been established in its Jackson Prairie account. "[E]xtremely low levels in Northwest's Jackson Prairie account require this action," according to a bulletin board posting.

El Paso canceled pigging of Line 1102 between the Dimmitt and Amarillo Stations that had been set for Thursday and rescheduled it for Friday. Capacity from Plains Station north will be reduced by 70 MMcf/d effective with Timely Cycle (Cycle 1) nominations for Friday's flow day.

Beginning in June **Columbia Gas** will take Unit #4 at Eagle Compressor Station out of service for repairs expected to last about one month. The work will result in zero nonfirm service in Market Areas 21, 22 and 23.

TransCanada is posting Short Term Firm Transportation (STFT) service available on the Canadian Mainline for the June 1-Oct. 31 period. Initial bids for this capacity are being taken through 10 a.m. Calgary time May 21. After that, TransCanada will accept bids for remaining STFT service each business day by 10 a.m. until otherwise notified. It reminded shippers that STFT capacity is available for minimum terms of 14 days. See the bulletin board at http://www.transcanada.com/Mainline/postings/Unsubscribed.html for further information.