Natural Gas Outlook

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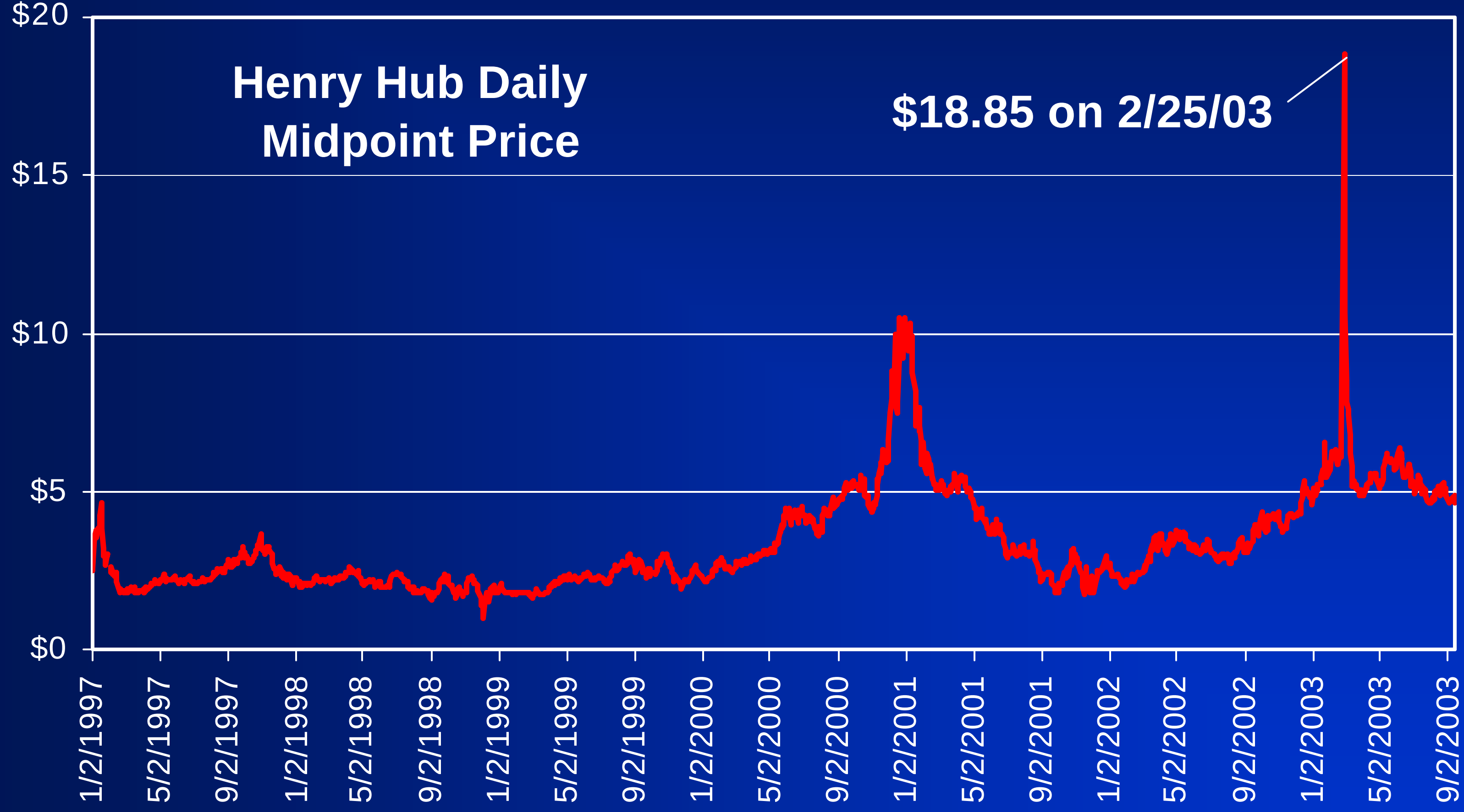
Natural Gas Spot Prices Continue to Be Volatile

(Dollars per MMBtu)



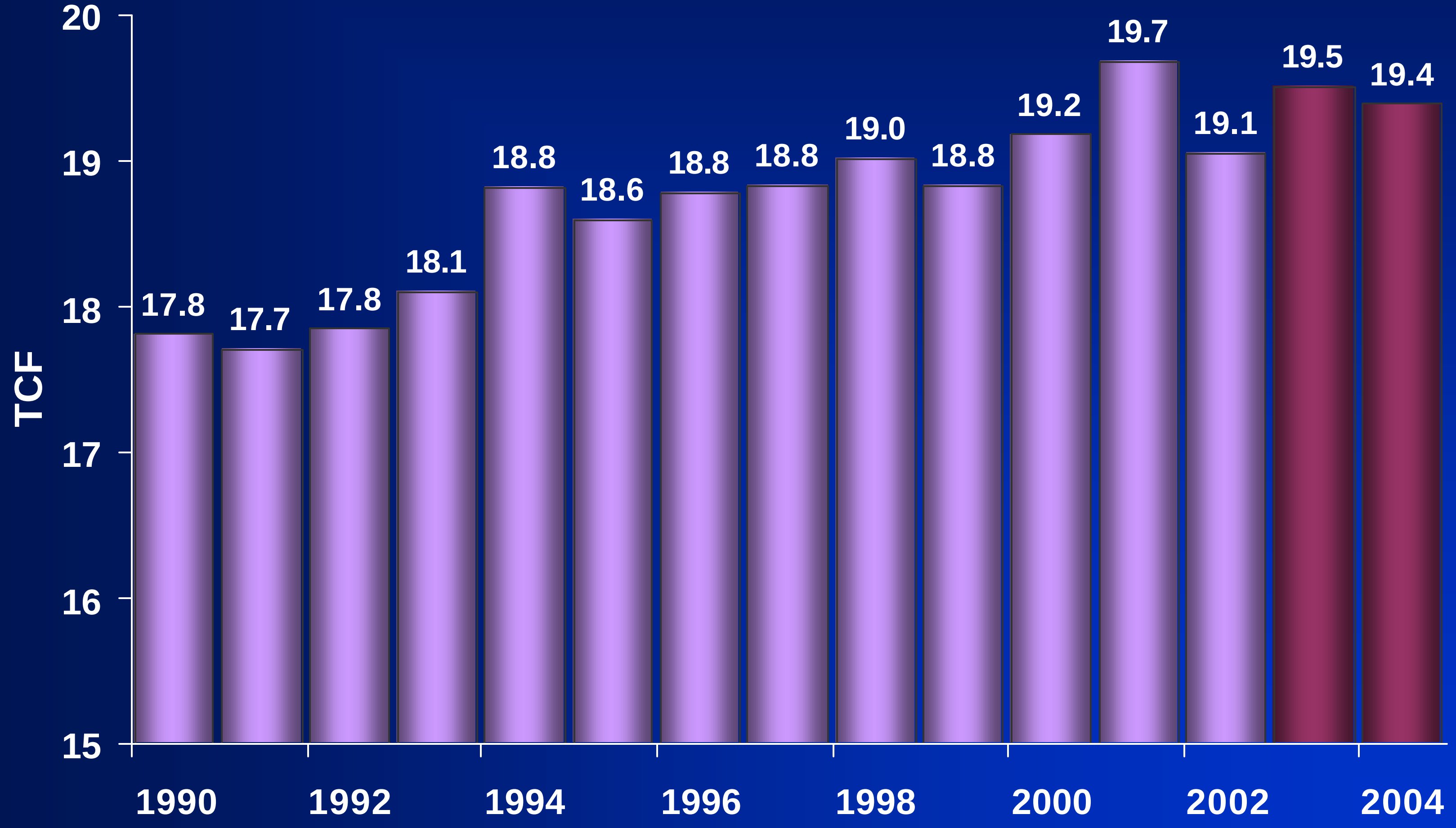
Source: *Natural Gas Intelligence*, Natural Gas Index

Short-Term Outlook for Natural Gas

- **SUPPLY** : Cautious Optimism because of the following expectations
  - Production increases in '03 (result of strong drilling)
  - Net imports (including LNG) increases in 2004
  - Storage adequate at start winter 2003 (3 Tcf)
- **CONSUMPTION** : Little change in totals for 2003, 2004
- **WELLHEAD PRICE**: $5 per Mcf in 2003, decreasing $1 in 2004
- **CONSUMER PRICES:** higher this winter v. last;

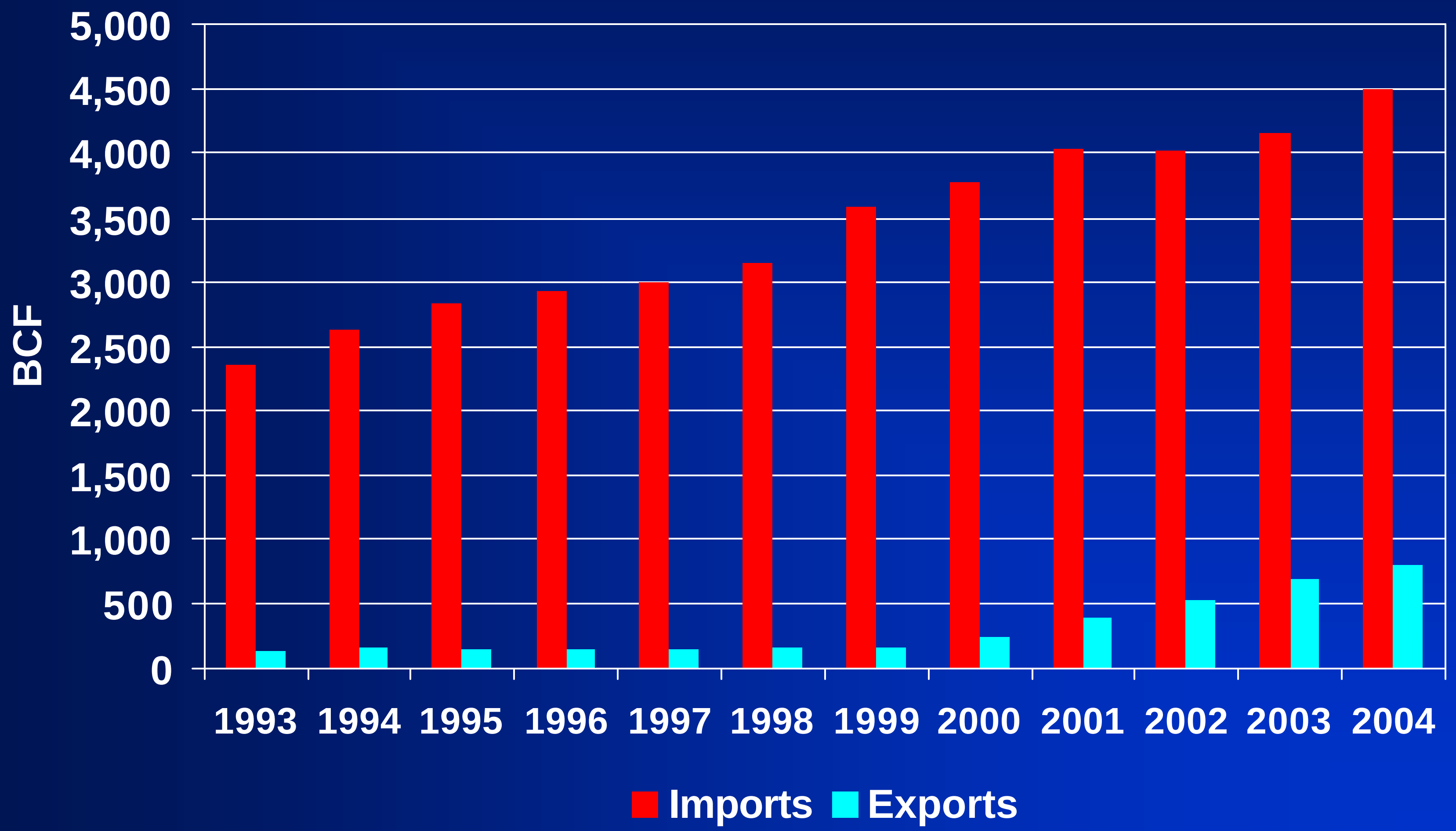
  expect relief starting in 2Q 2004
- **CAVEAT**: Extremes in market or weather conditions would change this outlook.

U.S. Gas Production Is Expected to Increase in 2003 and Remain Flat in 2004



Sources: EIA, *Short-Term Energy Outlook*, September 2003

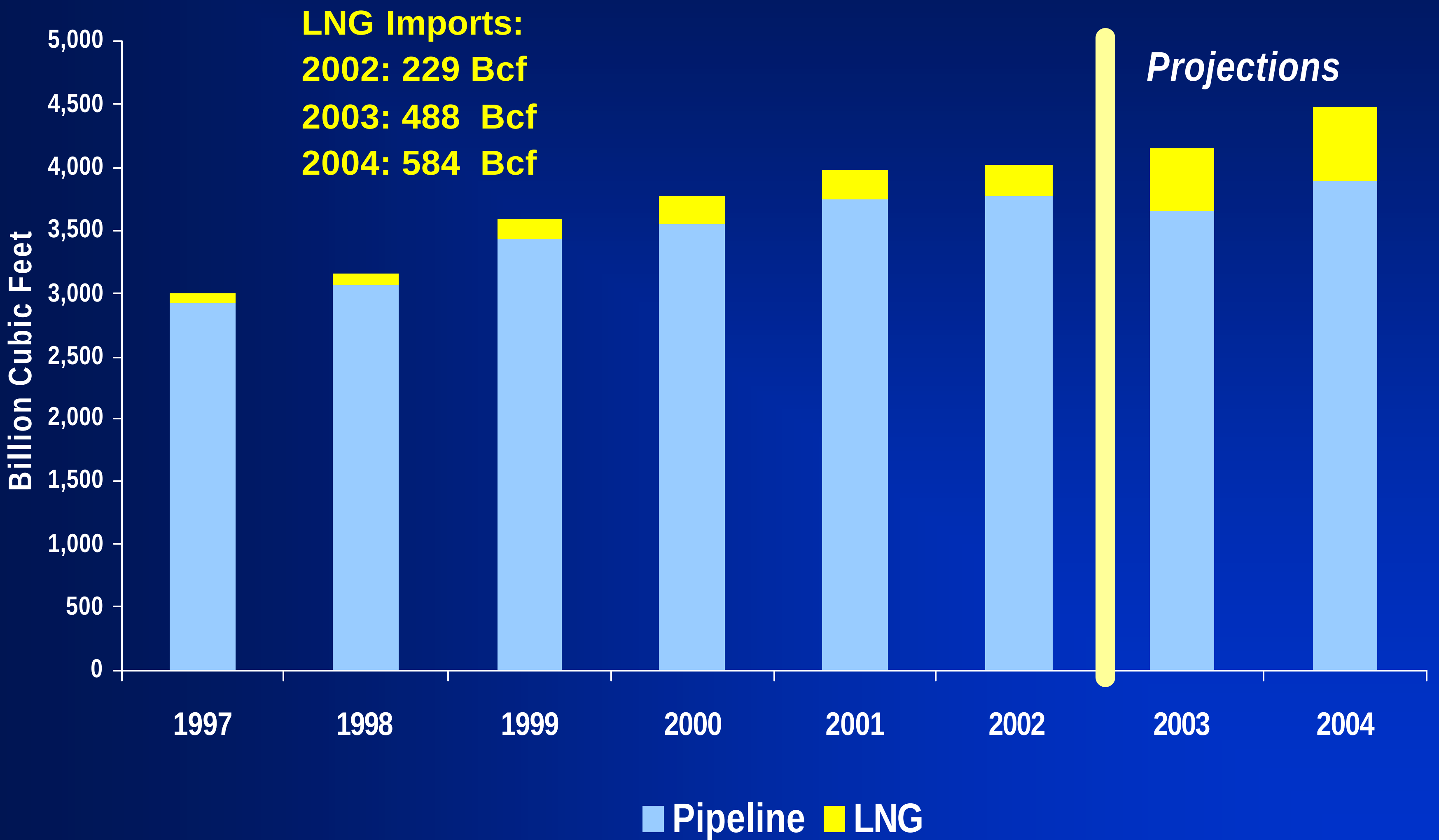
Both Imports and Exports Are Expected To Increase Through 2004



Notes: Includes LNG. Net Imports equal imports minus exports.

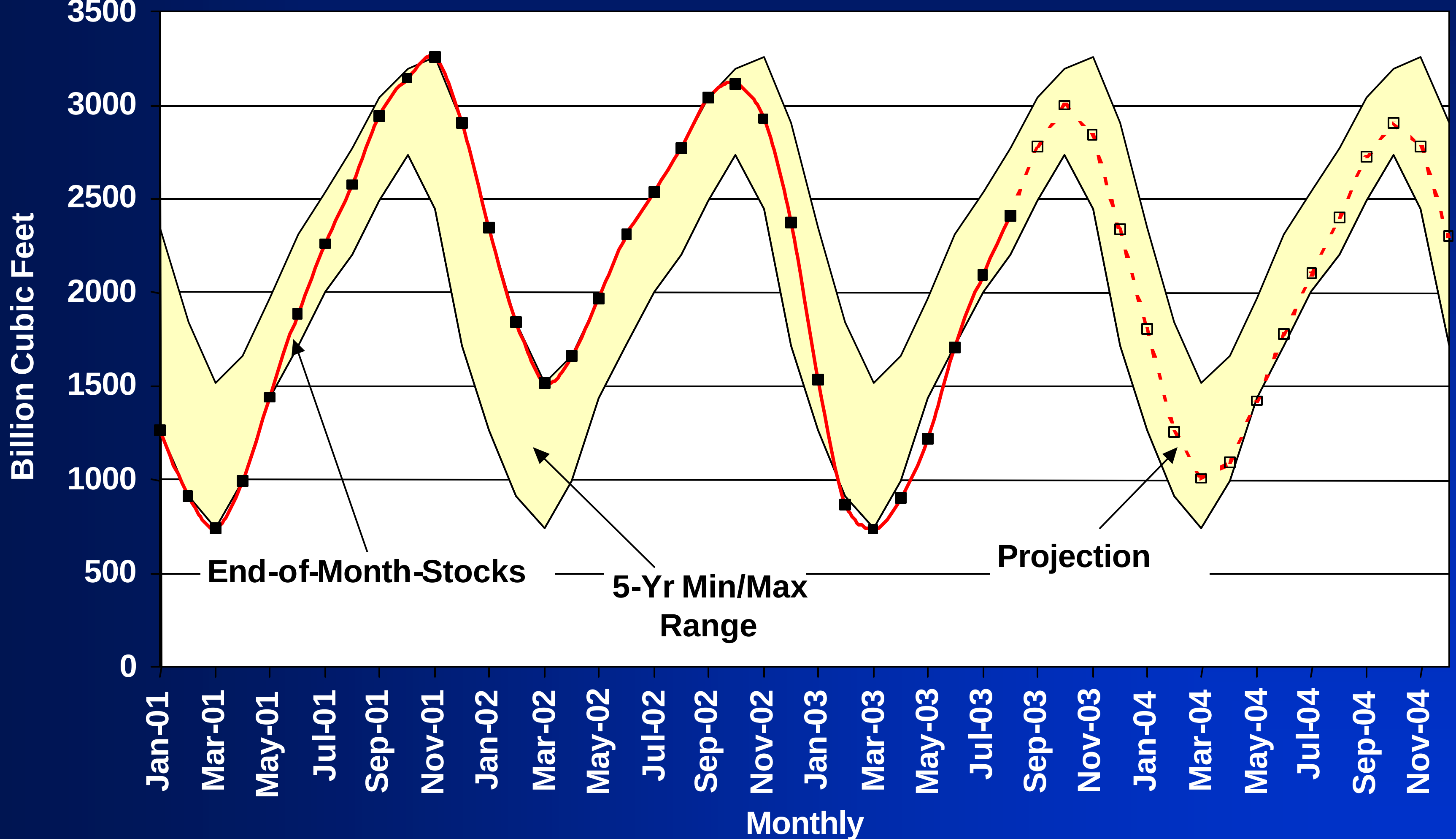
Sources: EIA, *Short-Term Energy Outlook*, September 2003

Natural Gas Import Sources



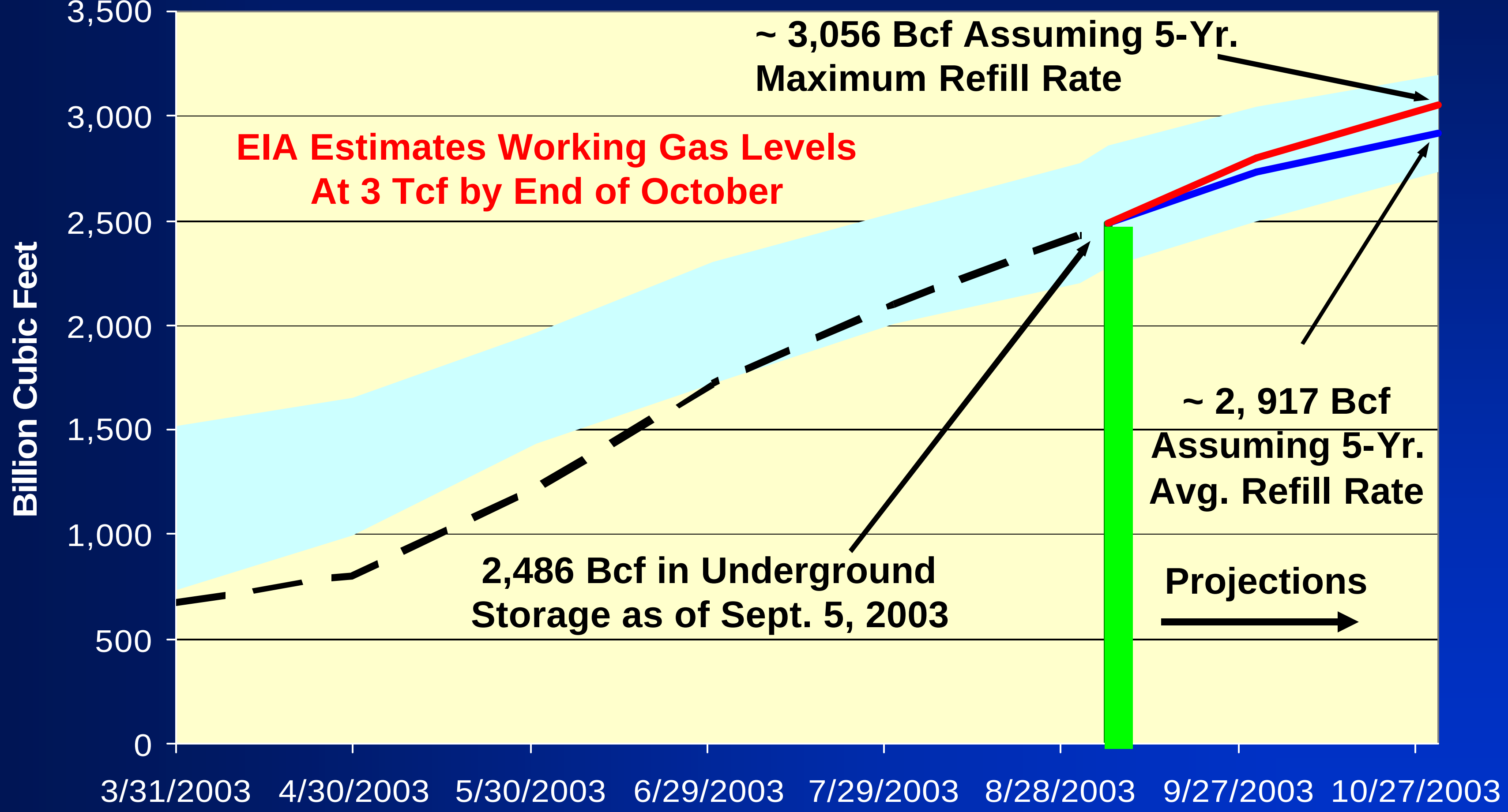
Sources: History: EIA; Projections: *Short-Term Energy Outlook* September, 2003.

Working Gas in Underground Storage Compared with 5-Year Range



Source: EIA, *Short-Term Energy Outlook*, September 2003

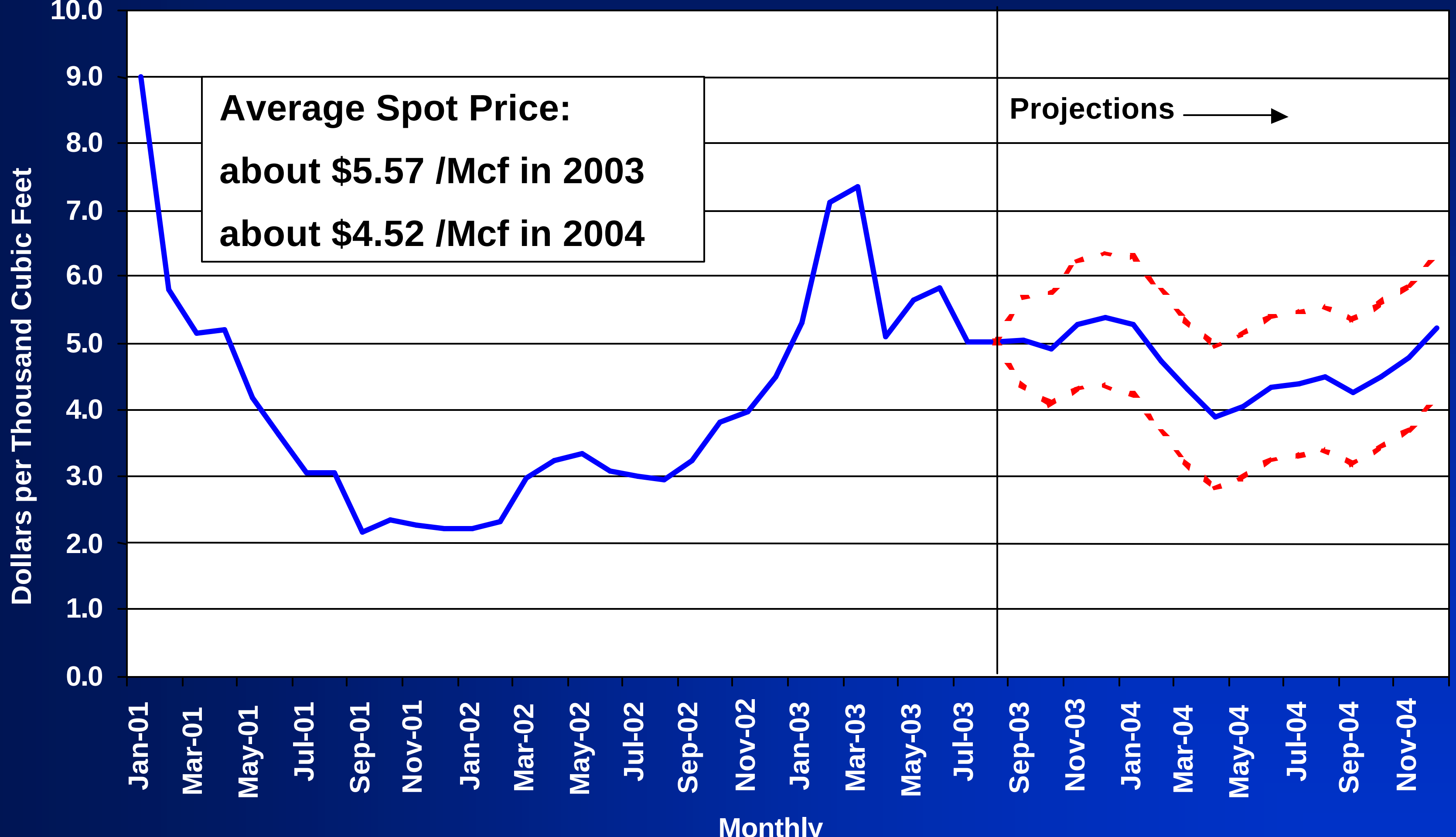
Gas Storage Projections For Winter 2003, Compared to Historical Levels



Note: The blue shaded area represents the range of working gas in storage levels during the years 1998 to 2002. Source: EIA Weekly Natural Gas Storage Survey and EIA estimates. Max refill rate is the max monthly rate observed between 1998 and 2002. EIA estimate is based on EIA's STEO forecast September, 2003.

Natural Gas Spot Prices Are Expected to Average About $4.50 in 2004

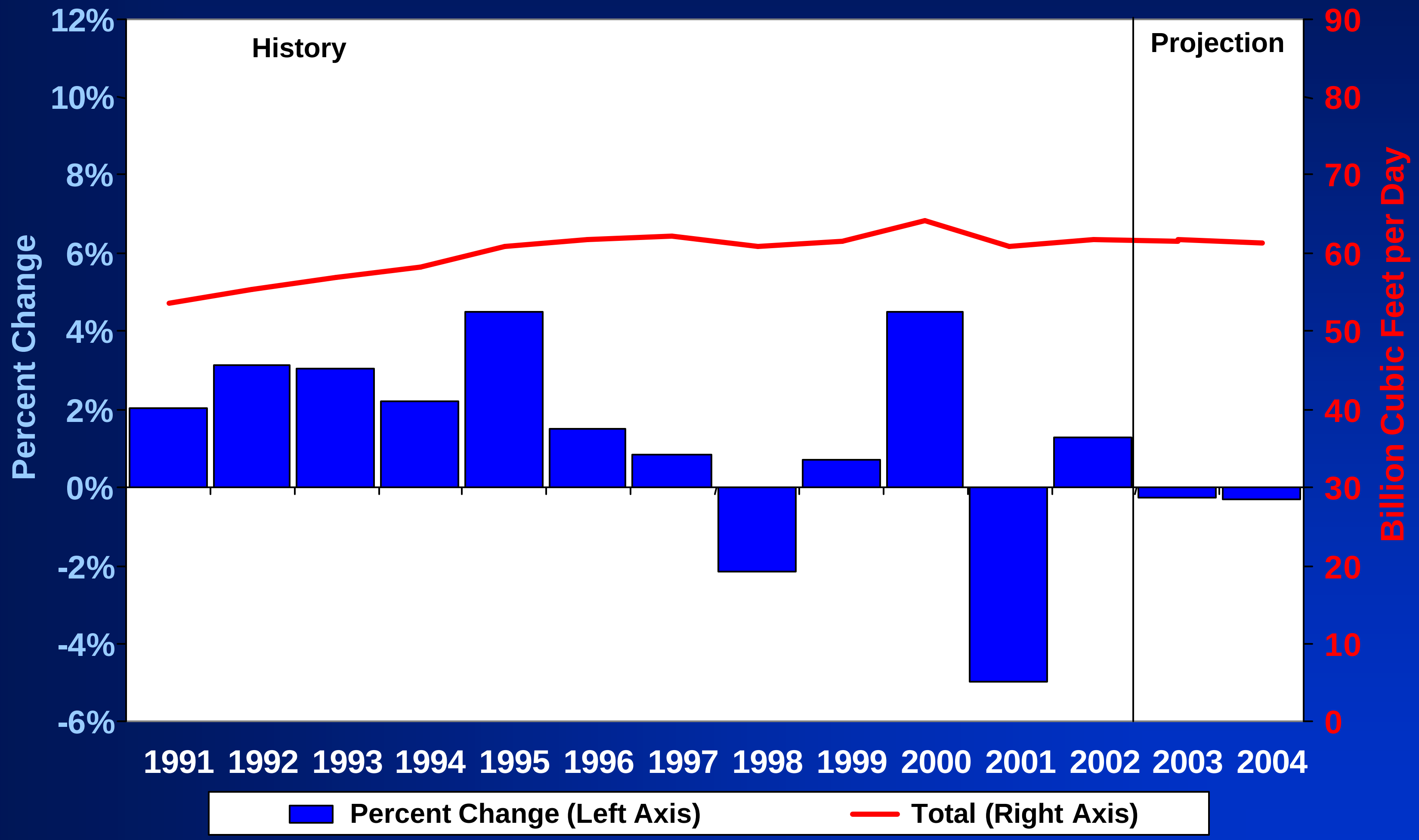
(Base Case and 95% Confidence Interval*)



The confidence intervals show +/- 2 standard errors based on the properties of the model. The ranges do not include the effects of major supply disruptions.

Sources: History: EIA; Projections: Short-Term Energy Outlook, September 2003.

Total Natural Gas Demand Is Expected to Remain Flat For the Next Two Years



Sources: History: EIA; Projections: *Short-Term Energy Outlook*, September 2003.

Households Are Expected to Pay More For Gas Service This Winter

Winter	1999-00	2000-01	2001-02	2002-03	2003-04
Midwest	Actual	Actual	Actual	Actual	Forecast
Consumption (Mcf)	81.7	99.1	81.3	95.2	91.8
Avg. Price ($/Mcf)	6.69	9.53	7.38	8.37	9.41
Expenditures ($)	546	944	600	797	864

Notes: Consumption based on typical per household use for the Midwest, and New England & New York.
Sources: History: EIA; Projections: *Short-Term Energy Outlook* September, 2003.

Summary

- Wellhead prices remain high and vulnerable to spikes resulting from developments like severe weather or disruptions in supplies.

- Storage is expected to be near the 5-year average level by Nov 1.

- LNG holds significant potential as a supply source.

- Consumers will pay more for gas this winter v. last. Rate reductions expected in 2004.

- A substantial boost in supplies from production or imports will take time and may require additional infrastructure.