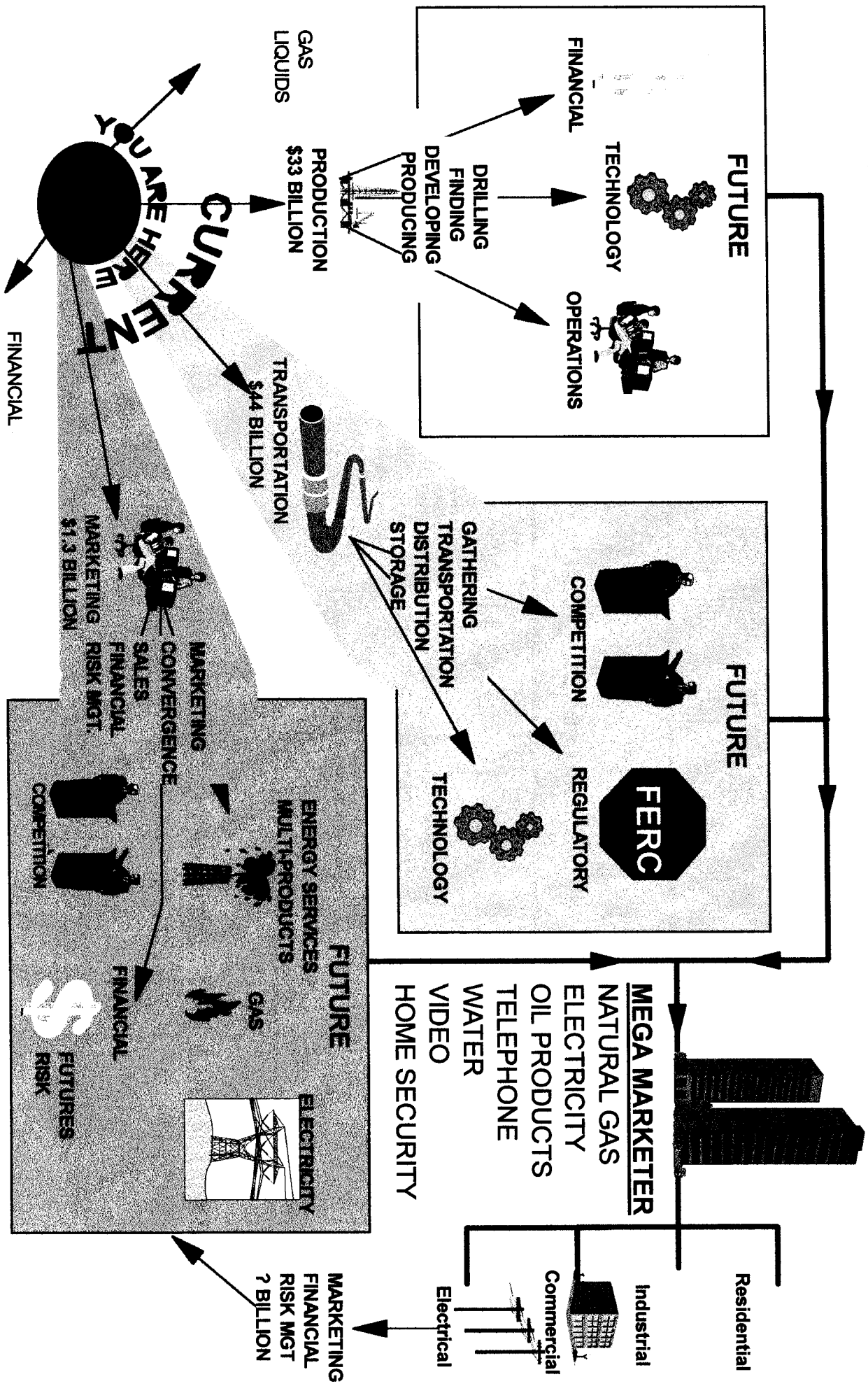


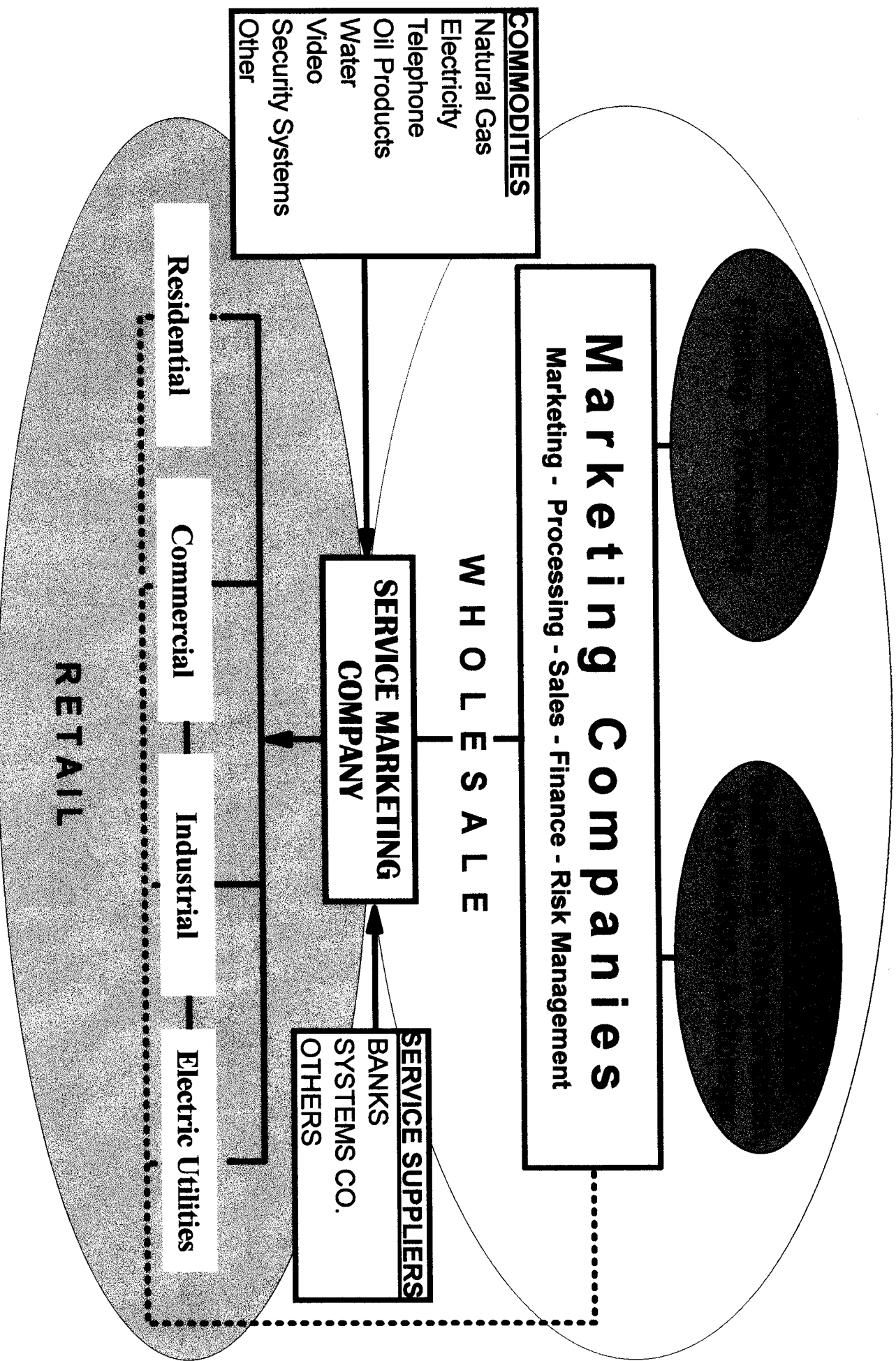
NATURAL GAS INDUSTRY TRENDS

PHYSICAL GAS - NO GAS LIQUIDS

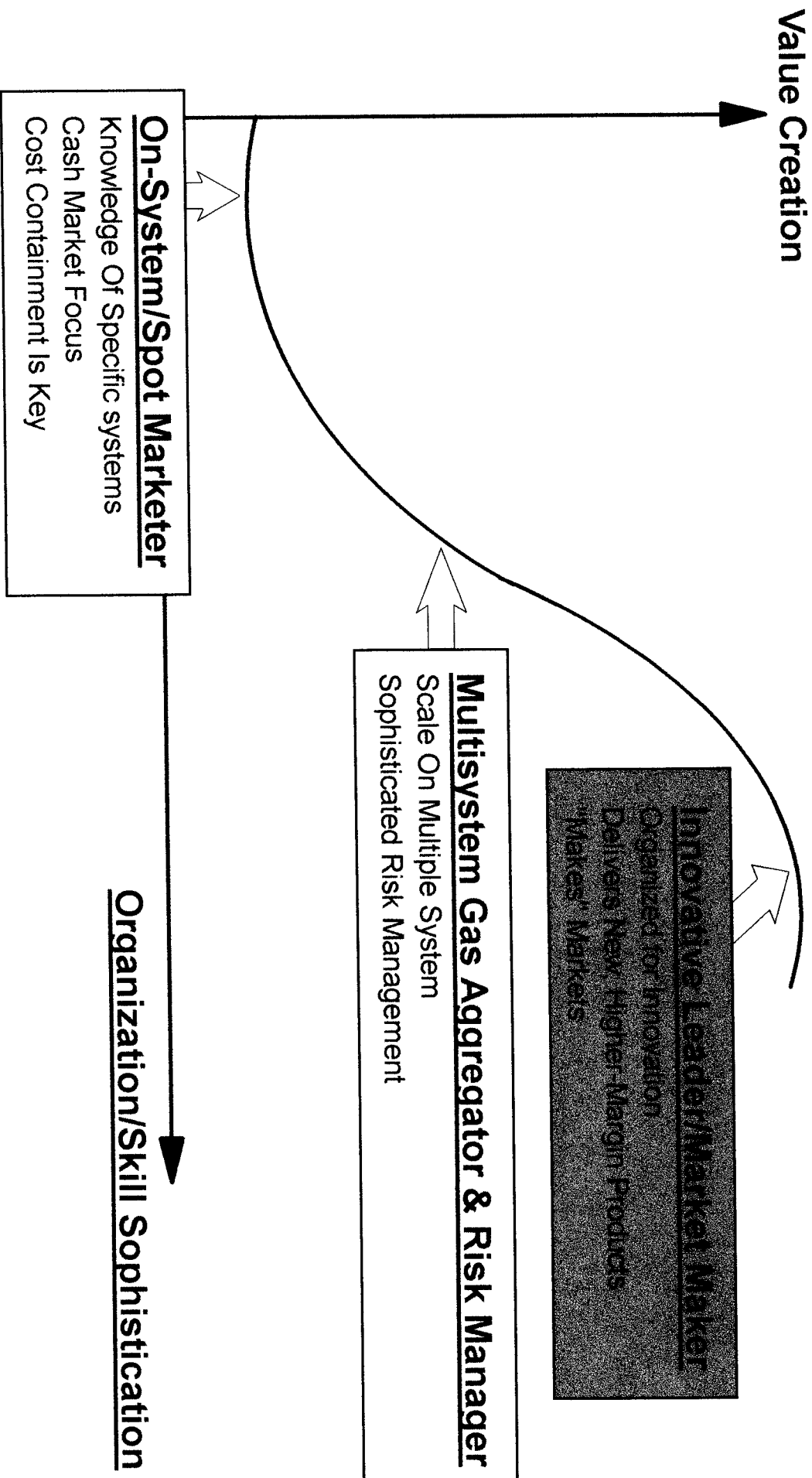


U.S. NATURAL GAS MARKETING TO CONSUMERS

FUTURE

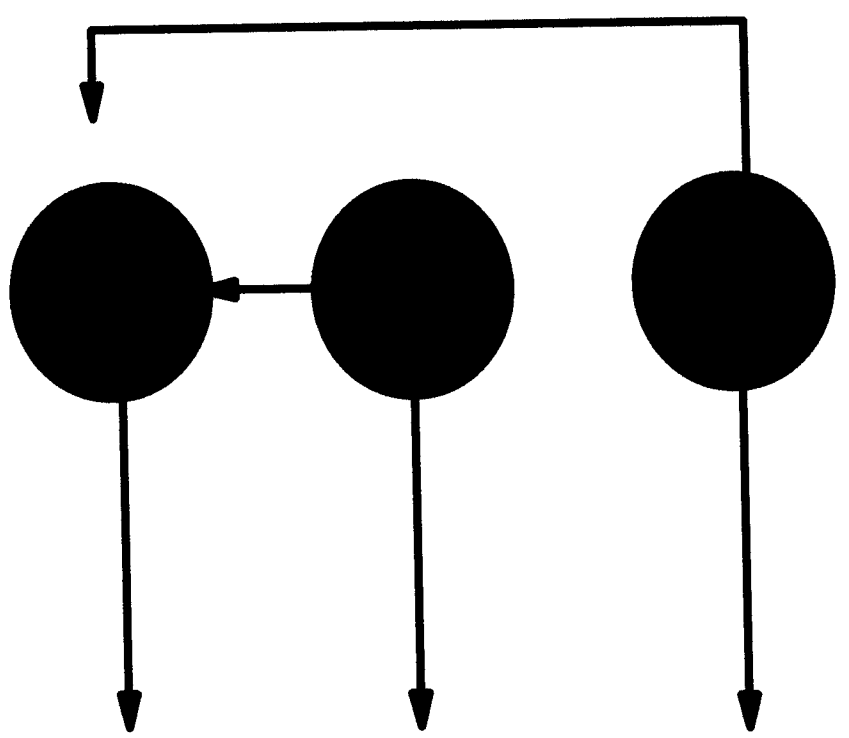


MARKETING "S" CURVE



1997 Natural Gas Physical & Financial Marketing

Supply Sources
Bcf/Year



Financial Markets
"Futures Trading Day"

"Near Month"
738 Bcf/d Max
73 Bcf/d Min

12 Month Strip
1,597 Bcf/d Max
143 Bcf/d Min

Annual Average
@ 330 Bcf/d

1997 Total
NYMEX
Volume 121 Tcf

WHOLESALE

RESALE

Approx. 140 Bcf/d

RETAIL

Burner Tip



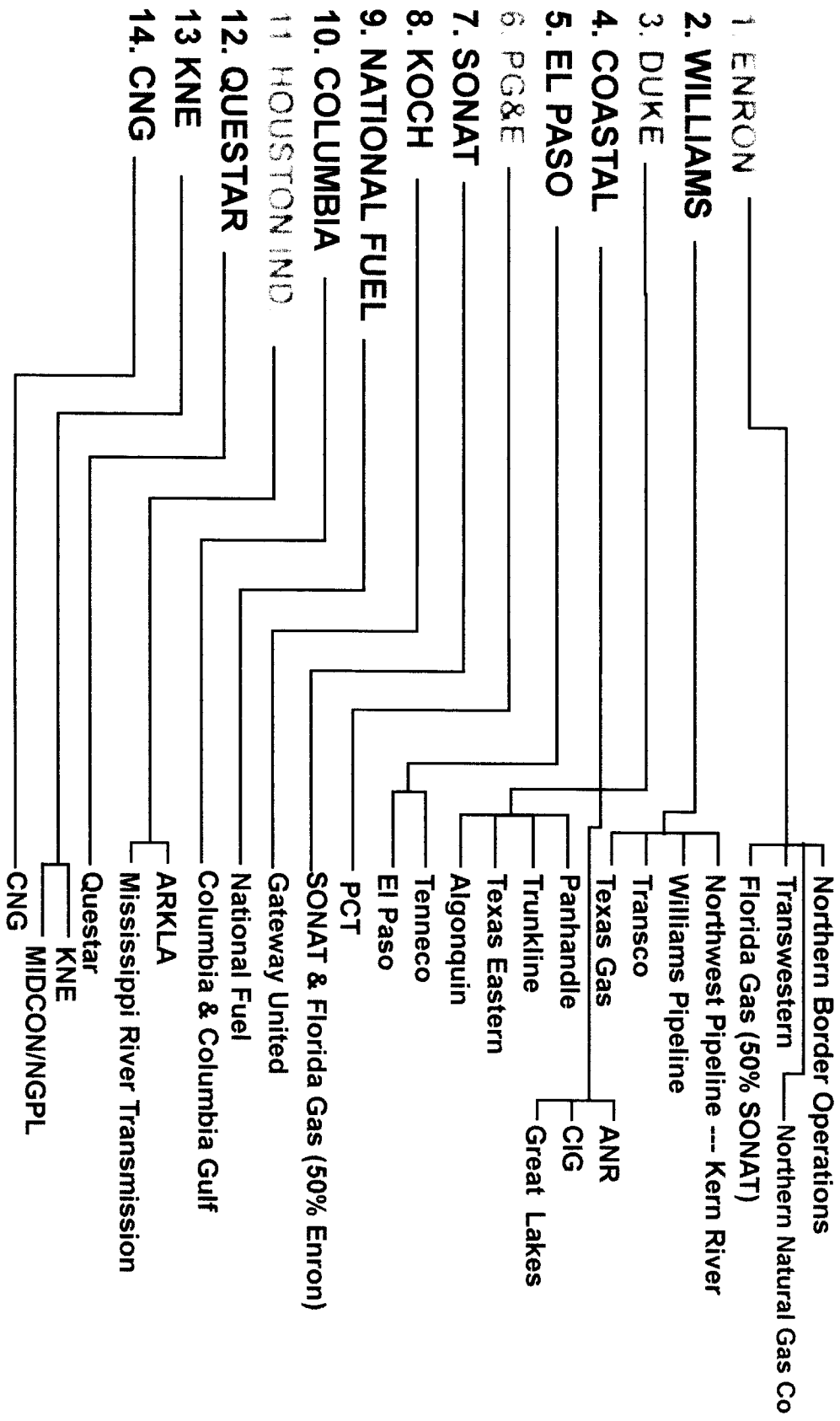
Annual Average
60 Bcf/d
Seasonal Range
48 to 81 Bcf/d

Total Consumption 1997
21,994 Bcf*
*Includes Field and Plant

Today's Interstate Pipeline Industry

HOLDING COMPANIES

PIPELINES



ELECTRIC ALSO

Physical Vs Contractual World

★ Physical World:

- Move gas from wellhead to consumer
- Produce per agreement
 - Pipeline transport as agreed
 - Receive per agreement
 - Store per agreement

★ Contractual

World: Marketing

- agreement
- Contracts to sell, buy, and transport gas
 - Agreements between marketers, consumers, transporters, storage operators, etc.

Physical Vs Contractual World

- ▶ Disconnects cause problems.
 - No or too much/too little delivery or take
 - Bankruptcy of one of contracting entity
 - Force Majeure
 - Refusal or inability to perform
- ▶ Contractual Issues/Problems
 - Loose terms and conditions
 - Credit worthiness
 - Failure to understand risks
 - Naive buyer

Physical Vs Contractual World (Continued)

- ▶ Current non-performance recourse
 - Imbalance penalties
 - Law Suite
 - Arbitration
 - Refuse service
 - Negotiation

Conclusions

- Energy Industry consolidation will continue and accelerate in electric utilities and gas LDCs.
- The Gas Industry is reaching a new plateau in business sophistication with even more to come
- Level of sophistication will enable companies to improve efficiency
- Drive for efficiency will cause more consolidation of the industry

Conclusions (Continued)

- Niche or regional companies will exist in some areas of the country
- The number of broad based energy marketing companies will decrease
- Exciting times are ahead

Average Henry Hub Price minus Near Month Futures Close Price

