Natural Gas Weekly Market Update

EIA

Energy Information Administration
Office of Oil and Gas
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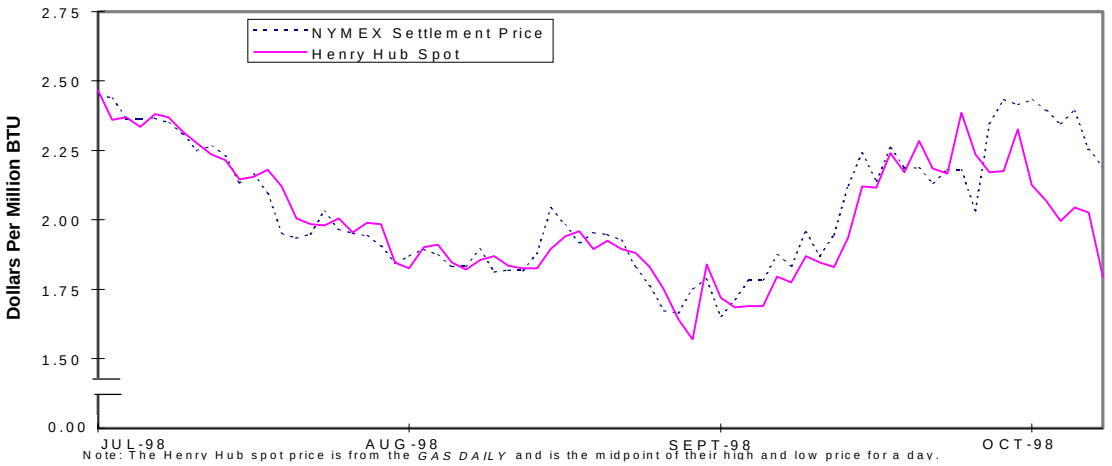
HENRY HUB PRICE	SPOT	FUTURES
	October	November
	Del	Del
	($ per MMBtu)	
10/5	2.04-2.10	2.393
10/6	1.97-2.02	2.346
10/7	2.02-2.07	2.393
10/8	1.99-2.06	2.254
10/9	1.77-1.82	2.191

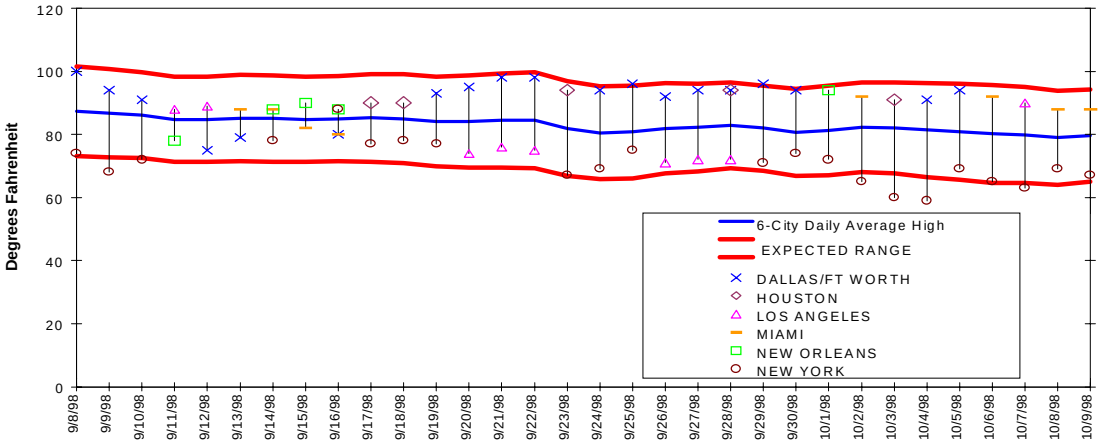
NYMEX Future Prices vs Henry Hub Spot Prices



Note: The Henry Hub spot price is from the *GAS DAILY* and is the midpoint of their high and low price for a day.

Average High Temperature for Six Major Electricity Consuming Cities			
	Actual	Normal	Diff
10/3	81	82	-1
10/4	82	81	1
10/5	87	81	6
10/6	80	80	0
10/7	80	80	0
10/8	79	79	0
10/9	80	80	0

Ten-Year Average of High Temperatures, and Daily Highest and Lowest High Temperatures for 6 Cities, May-September
(Dallas/Ft Worth, Houston, Los Angeles, Miami, New Orleans, New York)

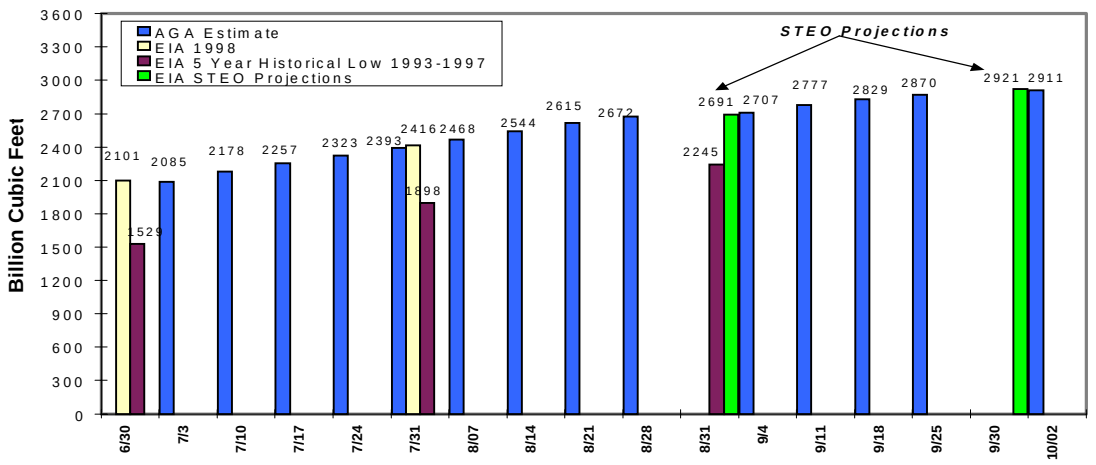


The bounds are computed by adding to and subtracting from the daily average high temperatures for the last 10 years an amount equal to twice an estimate of the standard deviation for high temperatures for each day.

Working Gas Volume as of 10/2/98		
	BCF	% Full
EAST	1666	93
WEST	406	84
Prod Area	839	94
U. S.	2911	91

Source: AGA

Working Gas In Storage



The NYMEX futures contract for November delivery at the Henry Hub opened on Tuesday, October 13, at $2.05 per MMBtu, $0.039 less than the settlement price on Monday, October 5. Seasonal weather was present in most areas of the country last week as moderate early fall temperatures were dominant. Virtually all of the offshore production and transmission facilities in the Gulf of Mexico that had been interrupted as a result of hurricane "Georges" have been restored. Also returning to full operation are the gas-processing plants located in southeast Louisiana. With the restoration of ample supply resources and a continuation of low demand, the pre-storm market fundamentals again prevail. Prices on both the Henry Hub spot and futures markets began last week down about 5 cents per MMBtu and continued to trend down the rest of the week. At the end of the week, the decrease accelerated as prices moved down more than $0.20 per MMBtu by Friday with spot gas trading at $1.80 and the November futures contract at $2.191. Net additions to storage again were estimated to have averaged about 6 Bcf a day in late September. With the return of interrupted offshore production, the price of West Texas Intermediate crude oil moved down about $1.00 per barrel and on Friday was trading for $14.60—roughly equivalent to $2.55 per MMBtu.

Storage: The American Gas Association (AGA) reported that for the second consecutive week estimated net injections to storage totaled 41 Bcf for the week ended Friday, October 2. These added volumes brings working gas on hand in early October to 2,911 Bcf, or 268 Bcf more than at the same time last year. Based on EIA's storage capacity estimate of over 3,700 Bcf, working gas capacity utilization is about 80 percent. The remaining 4 weeks of the refill season should see somewhere between 100 to 200 Bcf in additional net injections. This would bring the working gas level at the beginning of the heating season (Nov.1) to more than 3,000 Bcf—the highest level in 4 years. EIA data indicate that net injections in October 1997 were 211 Bcf. In Canada, where the refill season has concluded, storage facilities began the heating season with inventories at 475 Bcf, 10 percent above last year.

Spot Prices: In response to the current market fundamentals—ample supply situation, continued low demand, and elevated storage levels—prices at the Henry Hub and most other major market locations were below $1.80 per MMBtu at the end of last week. These price levels are about $1.00 per MMBtu lower than last year at this time. Also, for the second consecutive week, the price differential between the spot market price and the near-month November futures contract continues to increase. The near-month contract price exceeded the spot price by $0.40 per MMBtu on Friday, Oct. 9. This is a good indication of the strength of supplies relative to current low demand and the expected demand increases as winter begins.

Futures Prices: Prevailing market fundamentals also are having an impact on futures market price levels. The November contract moved down $0.20 per MMBtu last week and is now trading for almost $0.30 less than at the end of September when it became the near-month contract. The solid supply situation and low demand have futures contracts for the early winter months of November and December trading for more than $0.90 per MMBtu less than at the same time last year. At this time last year, concerns about storage levels, natural gas replacing coal supplies to Texas electric utilities, and the vagaries of an "El Nino" weather pattern had the November and December contracts trading at $3.10 and $3.19 per MMBtu, respectively.

Summary: Prices moved down and ended below $1.80 per MMBtu at most major spot markets as natural gas supply remains ample. The early winter futures contracts also trended down as storage stock levels continue to grow, increasing the likelihood that stocks at the beginning of the heating season will reach a 4-year high of more than 3,000 Bcf.