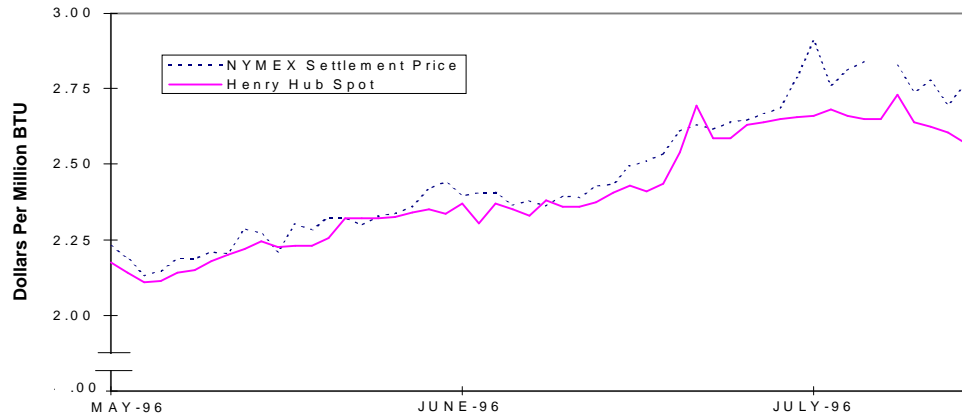


NYMEX Price Futures vs Henry Hub Spot Price

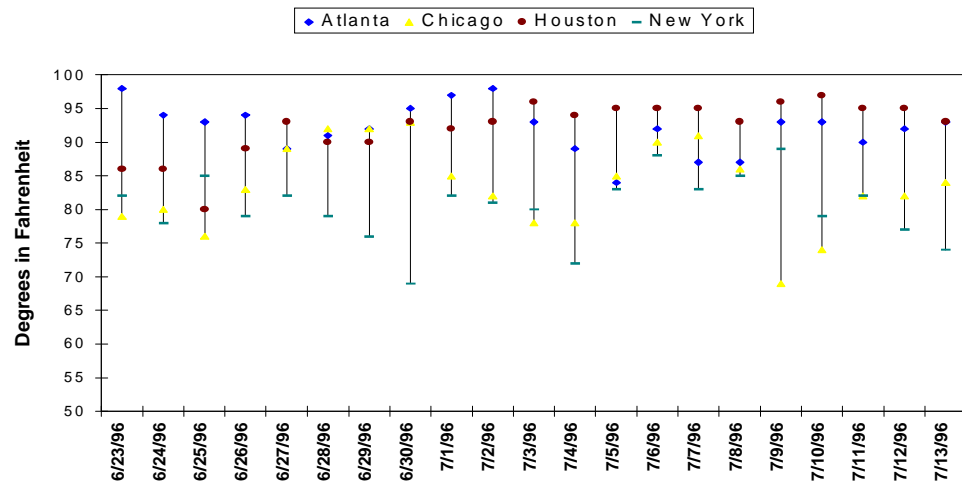
HENRY HUB PRICE		
CASH	FUTURES	
July	August	
Del	Del	
(\$ per MMBtu)		
7/08	2.71-2.75	2.827
7/09	2.62-2.66	2.739
7/10	2.61-2.64	2.777
7/11	2.59-2.62	2.696
7/12	2.52-2.62	2.761



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 Temperature for Four Major Gas Consuming Areas			
	Actual	Normal	Diff
7/07	80	78	2
7/08	79	78	1
7/09	78	78	0
7/10	75	78	-3
7/11	76	78	-2
7/12	77	78	-1
7/13	78	78	0

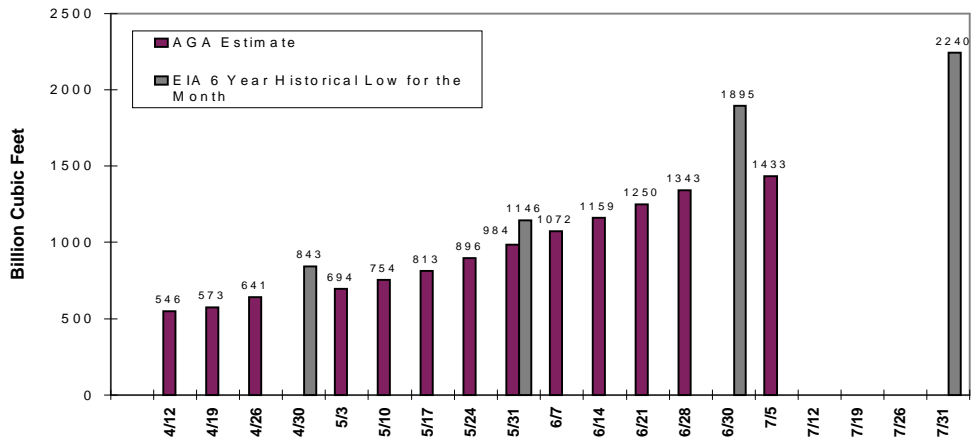
High Temperature for Four Selected Cities



Working Gas Volume as of 7/05/96		
	BCF	% Full
EAST	806	45
WEST	305	63
Prod Area	322	35
U. S.	1433	45

Source: AGA

Working Gas In Storage 1996



The NYMEX futures price for August delivery at the Henry Hub opened Monday, July 15, at \$2.775 per MMBtu. Although changes in the futures settlement price between days and daily price volatility continue to be high, spot prices at the Henry Hub have remained relatively stable, generally near \$2.65 per MMBtu since June 24. Net injections of gas into storage continue at a steady pace, and temperatures remain near or below normal. The first Atlantic hurricane of the season to hit the U.S. mainland struck most forcefully near North Carolina and adjacent states on July 12. Unlike the Gulf of Mexico, this part of the country has limited gas infrastructure so the impact of the hurricane is likely to be relatively minor for the gas market.

Storage: For the week ending July 5, AGA estimated net storage injections were 90 Bcf, with 78 percent of net injections occurring in the East consuming region. Storage injections continue at a steady and robust pace. The rate of net injections is very similar to a level established more than a month ago.

Futures Prices: After wide variations on Monday and Tuesday, futures prices for August delivery stabilized near \$2.75 per MMBtu on Wednesday, dropped on Thursday, but moved back up on Friday. What now appears to be unfounded fears about the impact of Hurricane Bertha on gas markets had boosted prices to \$2.92 per MMBtu at the beginning of trading on Monday, July 8. Prices were as low as \$2.75 per MMBtu during the day before settling at \$2.827 per MMBtu. Prices were almost as volatile on Tuesday, ranging from \$2.84 per MMBtu to \$2.72 per MMBtu. Although futures price volatility in recent days has subsided, it still remains higher than for most other commodities.

Spot Prices: Day-to-day spot prices at the Henry Hub for July delivery to eastern markets had not changed much for weeks until Monday, July 8, when prices rose \$0.08 per MMBtu. This was the day when many in the gas industry returned from an extended 4th of July holiday vacation and early reports of Hurricane Bertha appeared in the news. Generally daily prices have been near \$2.65 per MMBtu. On the other hand, spot prices for July delivery at San Juan along the El Paso Pipeline System serving western markets continue to increase as cooling-related demand and temperatures remain above normal. Prices have been quoted above \$2.00 per MMBtu, which is 33 percent higher than prices at the end of June. Overall, spot prices have been generally less volatile and lower than futures prices, which is opposite to the pattern this past winter when spot prices were very volatile and exceeded futures prices by a significant amount. These differences in summer and winter price behavior are traceable to the much greater demand volatility in the winter than in the summer.

Residential Prices and Residential Demand for Gas: Recent EIA data indicate that residential prices have been trending upwards relative to year-earlier levels since November 1995. The average price paid by residential customers in November 1995 was \$5.59 per MMBtu, \$0.68 **less** than the year-earlier level. By March 1996, the residential price was \$0.05 per MMBtu **greater** than the year-earlier level. Because spot prices have continued to be high relative to year-earlier levels since March 1996, this trend is likely to continue into the fall. Thus, the average residential price in November 1996 is likely to be higher than in the previous November and higher than what had been expected by many just a few months ago. This increase may lead to additional conservation measures by residential consumers, which would reduce gas demand from previously expected levels. Most importantly, any reduction in demand would also tend to reduce upward pressure on prices in the fall when space heating demands begin to increase.

Summary: If temperatures continue to remain relatively mild in the eastern part of the United States, there is a very good chance that upward pressure on prices at the Henry Hub will abate. Although net injections into storage and spot prices appear to have stabilized, futures prices have not. The natural gas industry is still experiencing uncertainty on at least two fronts. First, there is an uncertainty associated with the possible occurrence of such events as hurricane-induced gas infrastructure damage and unexpected electricity outages or nuclear plant shut downs. Second, there is a persistent uncertainty associated with relatively low storage levels and continued industry restructuring. Thus, futures prices are likely to remain volatile even if they start to decline.