Natural Gas Weekly Market Update

EIA

Energy Information Administration
Office of Oil and Gas
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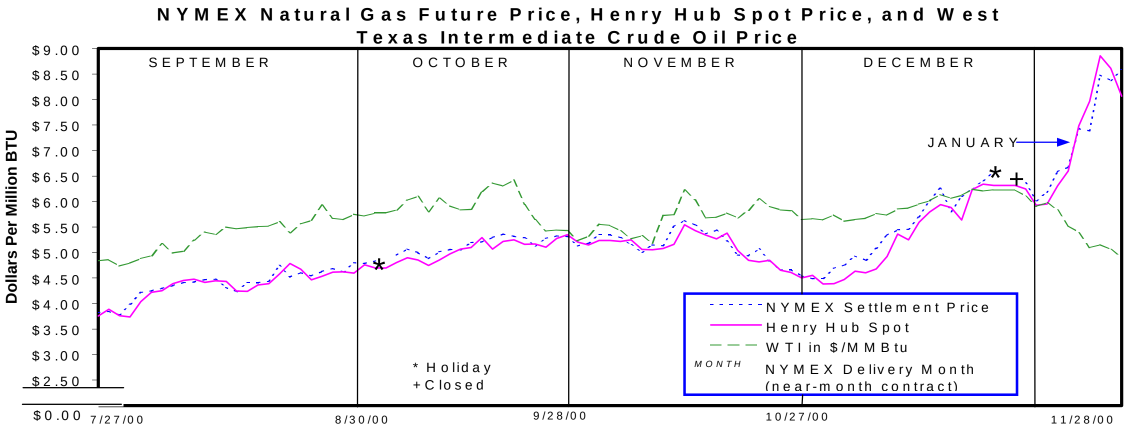
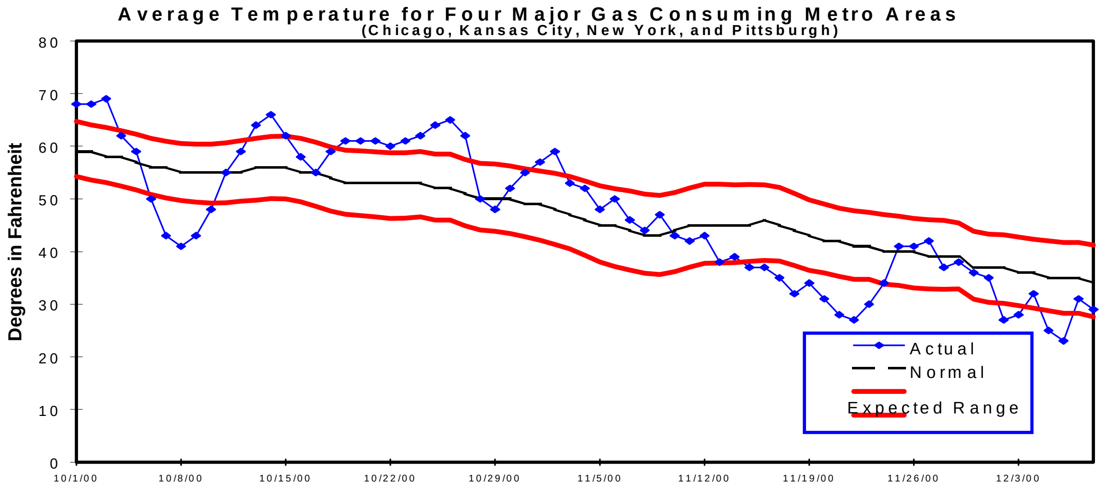
HENRY HUB PRICE ($ per MMBtu)	SPOT December Del	FUTURES January Del
12/04	7.23-7.74	7.433
12/05	7.88-8.15	7.384
12/06	8.59-9.12	8.485
12/07	8.24-8.99	8.373
12/08	7.85-8.28	8.584



Note: The Henry Hub spot price is from the GAS DAILY and is the midpoint of their high and low price for a day. The West Texas Intermediate crude oil price, in dollars per barrel, is the "sell price" from the GAS DAILY, and is converted to $/MMBtu using a conversion factor of 5.80 MMBtu per barrel. The dates marked by vertical lines are the NYMEX near-month contract settlement dates.

Average Temperature for Four Major Gas Consuming Areas

	Actual	Normal	Diff
12/02	27	37	-10
12/03	28	36	-8
12/04	32	36	-4
12/05	25	35	-10
12/06	23	35	-12
12/07	31	35	-4
12/08	29	34	-5

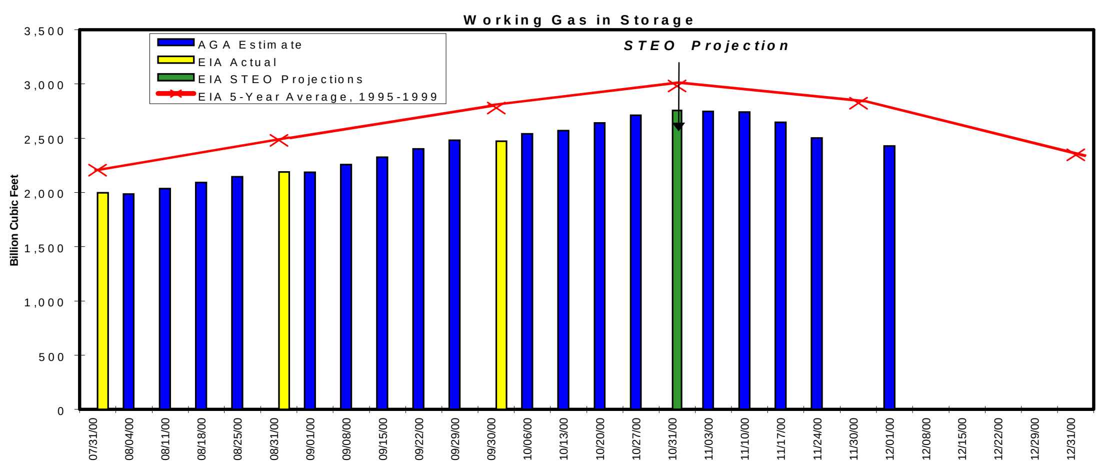


The bounds are computed by adding and subtracting from the average temperatures for the last 10 years an amount equal to twice an estimate of the standard deviation for temperatures on a day.

Working Gas Volume as of 12/01/00

	BCF	% Full
East	1495	81
West	323	64
Prod Area	611	64
U. S.	2429	74

Source: AGA



Prices in both cash and futures markets reached unprecedented levels last week, as spot prices as high as $61 per MMBtu were seen in southern California, and the NYMEX futures contract for January delivery edged above $9.50 in after-hours "Access" trading just before the opening of Thursday's regular trading session on the NYMEX. Spot prices surged on Monday, soaring higher each day through Wednesday, as temperatures cooled significantly over the weekend of December 2-3 in the Midwest and Northeast and tended to hover at or below normal for the week, moderating slightly by week's end. In the four cities monitored for this report, composite daily average temperatures ranged from 4 to 12 degrees below normal. Prices also seemed to derive strength from forecasts for a huge, frigid Arctic air mass–termed a "Polar Pig"–to move into the lower 48 states beginning early this week. Except in California and market locations serving that state, spot prices turned down on Thursday and Friday, influenced in part by moderating temperatures and by the American Gas Association's (AGA) storage withdrawal estimate of 73 Bcf that was toward the lower end of the market's expectations. Through Wednesday, spot prices at the Henry Hub had gained $2.26 per MMBtu from the previous Friday, but gave back 79 cents of this gain by Friday, ending the week at $8.07. Price volatility in the futures market was unprecedented, with trading in all contracts being suspended for an hour on both Monday and Thursday as price changes (up Monday, down Thursday) exceeded NYMEX limits. Daily price swings for the January contract ranged from $0.650 to $0.865 per MMBtu; Wednesday's trading produced an unheard-of settlement-price gain of $1.101. The January contract ended the week at $8.584 per MMBtu, a gain of $1.911 from the previous Friday. Meanwhile, the price of West Texas Intermediate crude oil continued to erode, dipping below $30 per barrel for the first time since the second week of August, dropping $3.60 per barrel to end the week at $28.45, or $4.91 per MMBtu.

Storage: Net withdrawals of 73 Bcf for the week ended Friday, December 1 left nationwide natural gas inventories at an EIA-estimated 2,414 Bcf–14 percent below EIA's average of 2,808 Bcf for this point during the previous 5 years (1995-1999). While this withdrawal estimate is half that of the previous week, it is nonetheless relatively large for this point in the year. The heavy gas-consuming East region accounted for 78 percent of the stock drawdown with estimated withdrawals of 57 Bcf–the second highest draw for that region for this particular week of the heating season over the past 5 years. As of December 1, East region stocks were 7.3 percent below the 5-year average (1,714 Bcf). The West region's 5 Bcf draw provided some respite from the unusually high early-season withdrawal rate featuring three straight weeks of double-digit withdrawals. Likewise, the Producing region's 11 Bcf draw was modest in comparison to this point in 1995 or 1996, but contrasts sharply with the results of 1998 and 1999, in which the region achieved net injections (7 and 5 Bcf, respectively) for the week.

Spot Prices: In the first 3 days of the week, many markets across the country saw increases in a $0.30 to $1.50 per MMBtu range, with prices ranging from the $9-teens to $9.31 per MMBtu on Wednesday in the Southwest production basins and well over $8.50 in most other locations. In the Northeast, increases ranged from over $1.00 to over $5.00 per MMBtu each day, with prices spiking as high as $36 on Transco Zone 6 for New York delivery on Wednesday. But California was in a league by itself: price *increases* grew from a range of $3.11-$3.86 on Monday to an incredible $11.19-$17.16 on Friday, with some trades reported at prices of $61.01 and $61 per MMBtu, respectively, on Friday on SoCal and at PG&E citygates. Prices at Kingsgate and Sumas in Washington State–import points for Canadian gas bound mainly for California–spiked to $42.50 and $62.00 per MMBtu, respectively. On Thursday, San Diego Gas & Electric Co. filed a request with the Federal Energy Regulatory Commission for emergency price relief from the astronomical prices, asking for a price cap to be imposed through the end of March, 2001. California continues to be plagued by extremely tight electricity markets, with an estimated 11,000 MW of generating capacity off-line, some of it at petroleum-fired plants that have exhausted their pollution-emission credits. After a series of Stage 2 alerts, the state's electrical-grid Independent System Operator instituted its first Stage 3 electrical emergency on Thursday, forcing the interruption of electricity customers where possible and bringing on-line rarely-used backup capacity. On Friday, in anticipation of the weekend arrival of the Polar Pig, the Regional Emergency Response team for electricity supply in the Pacific Northwest issued a warning of a potential emergency alert status 2. It is anticipated that California and the Pacific Northwest will remain at varying levels of alert status into the beginning of this week.

Futures Prices: Operating in uncharted territory last week, the futures market saw settlement prices reach above $7, then above $8 per MMBtu, for the first time ever. Only profit taking on Tuesday and Thursday prevented a string of 5 record-highs in a row. Trading in the near-month contract twice exceeded the 75-cent or greater single price-change limit, halting trading for an hour on both Monday and Thursday and prompting the NYMEX to change the limit, effective Friday, December 8, to $1.00 and to shorten the suspension time to 15 minutes. Further, as the value of the futures contracts has risen, the NYMEX has increased its margin requirements for traders five times since November 17. The January contract reached an all-time high price of $9.539 per MMBtu in Access trading Thursday morning, before settling on Friday at $8.584. The February contract gained $1.733 from Friday to Friday, settling at $8.266 per MMBtu.

Summary: Both spot and futures prices reached record levels in many locations with almost two full weeks before the official start of winter. With the near-term weather forecast calling for below-normal temperatures for the entire nation everywhere West of a line between New York and Mississippi, still higher prices could be in the offing.