

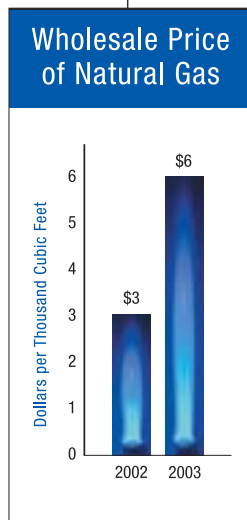
What's Up With Natural Gas Prices?

Many of our customers are wondering what has been happening with natural gas prices lately — it has been a hot topic in the news and you may have heard warnings about higher prices in the next few months. We think prices will be higher this winter — depending on the weather and other factors — and we are doing everything we can to line up energy supplies.

Below are some of the questions we are hearing most often:

Q: Last summer, wholesale natural gas prices were at \$3.00 per thousand cubic feet. In June 2003 they were twice that. What's happening?

A: Natural gas is increasingly popular for use in homes, businesses, factories and electric power generation because it is efficient, clean, and reliable. However, natural gas production has not kept pace with rising demand, and the market price of natural gas reflects this.



The wholesale price of natural gas (around \$6 per thousand cubic feet) is twice as high as it was this time last year (around \$3).

Natural gas meets one-fourth of the United States' energy needs, and is our country's fastest-growing major energy source. In addition to home-heating, natural gas is a backbone of American manufacturing

— used to make a wide range of things, such as fertilizer, aspirin, automobiles, steel, plastics, processed food and even electric power. Thus, natural gas helps to fuel economic growth.

There are ample quantities of untouched natural gas resources in the United States and Canada. However, as actively-drilled natural gas wells reach their "golden

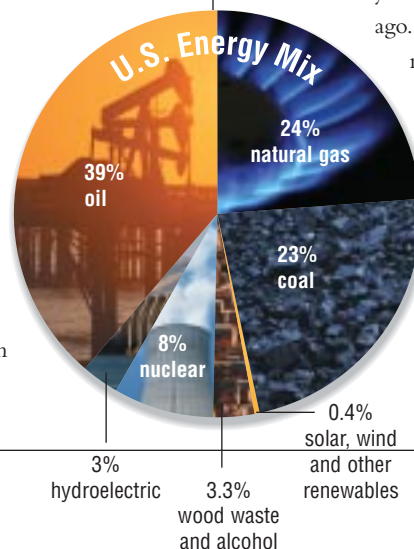
years" it becomes increasingly difficult for the companies that get natural gas out of the ground to deliver our customers the energy they need and want. Companies that produce natural gas need more access to fresh natural gas supplies.

ECONOMIC IMPACT

Q: What is the impact of these price swings on the U.S. economy?

A: Federal Reserve Board Chairman Alan Greenspan made a strong statement in Congress on May 21, calling the natural gas supply crunch "a very serious problem." It's tough to rebuild the U.S. economy when some manufacturers are paying nearly three times as much for natural gas as they did just a few years ago.

A number of manufacturers have slowed production, laid off workers and even gone out of business because of natural gas prices.



It's a pocketbook issue for millions of families, too. When some families paid \$100 more to heat their homes last winter, it meant they had \$100 less to spend on other things.

ARE THERE SHORTAGES?

Q: Some news reports say there is a natural gas "shortage." Is this true?

A: No. This is a poor use of words. The word "shortage" makes you think you're running out of something, when in fact North America holds abundant supplies of natural gas. What we are experiencing now is a period of tight supplies. Homes and businesses will continue to receive the natural gas they want and expect — but it may cost them more than it did last year.

THE MAIN SOLUTION

Q: How do you bring natural gas prices down?

A: There is a short answer: **INCREASE SUPPLY.** It's in consumers' best interest to do so.

During the 1990s, consumers enjoyed natural gas at affordable prices because available supplies of natural gas were greater than demand. Supply and demand are now in a very tight balance, and changes in the weather or



economic activity have an almost immediate impact on the wholesale price of natural gas. More supply = lower prices.

SHORT-TERM OPTIONS

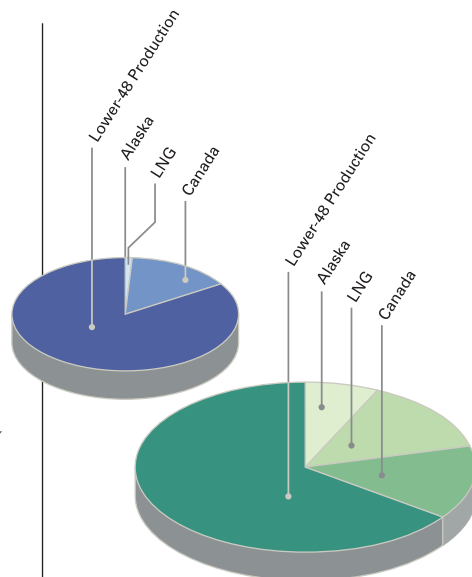
Q: What can be done to alleviate the price crunch this year?

A: Unfortunately, options are pretty limited for the next few years. Efforts that can be taken in the short-term include:

Increase supply — Even with dramatic production efforts, it typically takes 6-18 months before there is a sustained supply response to higher prices. A fraction of the natural gas we use is imported from other countries in a condensed liquid state; efforts can be made to increase these liquefied natural gas (LNG) imports.

Decrease demand — Another way to alleviate the supply crunch is for factories and other customers that use large amounts of natural gas to slow down production lines or move their operations overseas. However, this obviously has a harsh impact on American workers, local economies and corporate earnings.

Energy conservation — Encouraging natural gas customers to use energy more efficiently



2001 | **22 trillion cubic feet**
(total U.S. natural gas consumption)

2020 | **33 trillion cubic feet**
(projected U.S. natural gas consumption)

AS U.S. NATURAL GAS DEMAND GROWS, SOURCES OF SUPPLY MUST EXPAND

Source: Meeting the Gas Supply Challenge for the Next 20 Years — Lower-48 and Canada, and Non-Traditional Sources, studies conducted for the U.S. Department of Energy by the American Gas Foundation (2002)

can help, too. For example, during hot weather, consumers can cut back their use of electricity in order to ease the amount of natural gas needed to generate electricity. Before the winter, consumers can improve their home insulation. While efficiency alone can help it isn't a long-term solution — only increased supplies will make a major difference as demand for natural gas continues to grow.