

Natural Gas Markets: What Next?

Ted Lenart
AVP Supply Ventures
Nicor Gas



- Status of Nicor Gas' Customer Select Program
- Current Natural Gas Supply/Demand Forces at Work
- Gas-Fired Power Generation

Q: What is Customer Select?

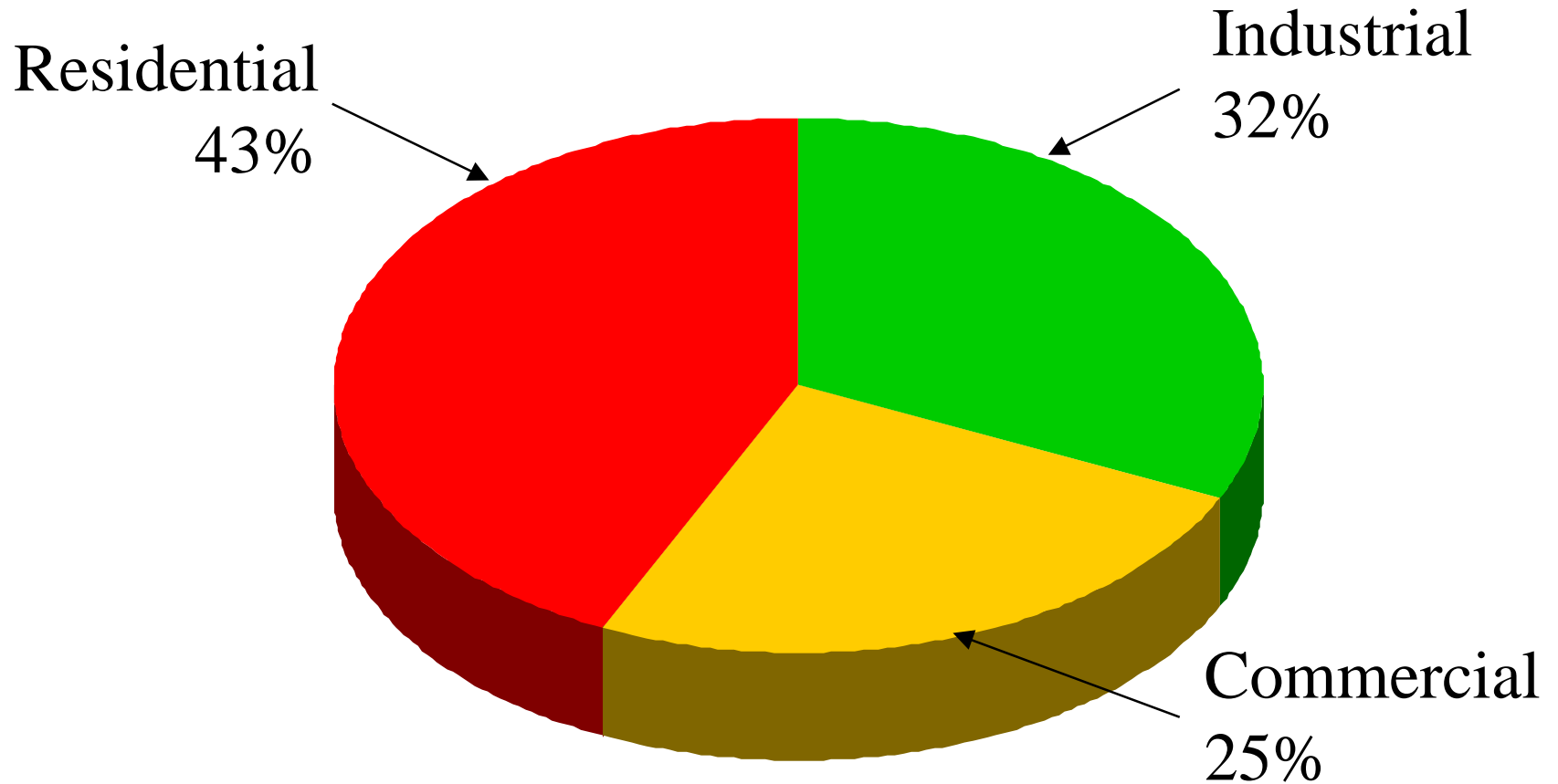
A: A Nicor Gas Program that allows eligible customers - business and residential - the opportunity to choose their natural gas provider

Why is Nicor Gas offering such a program?

- Nicor Gas still transports gas / no earnings impact
- Nicor Gas supports choice and deregulation
- Customers should benefit from competition (lower prices and new services)

Customer Select

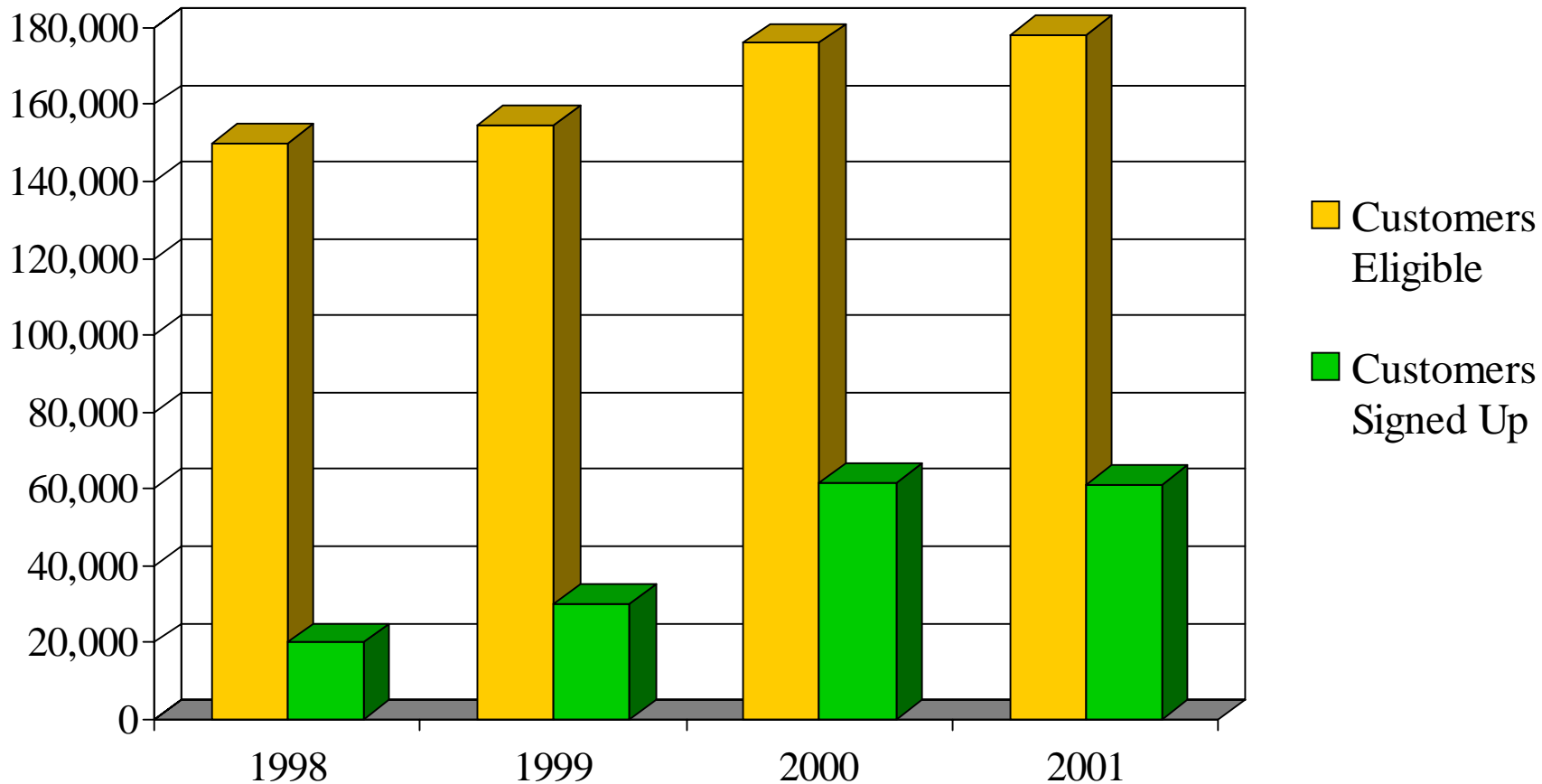
2000 Deliveries = 526 Bcf



History of Nicor Gas Unbundling

- 1984: Very large customers
- 1986: All commercial/industrial customers eligible
- 1989: Comprehensive unbundling of tariffs
- 1996: Significant tariff changes to further enhance services
- 1998: Customer Select pilot for aggregation services

Customer Select Small Commercial/Industrial

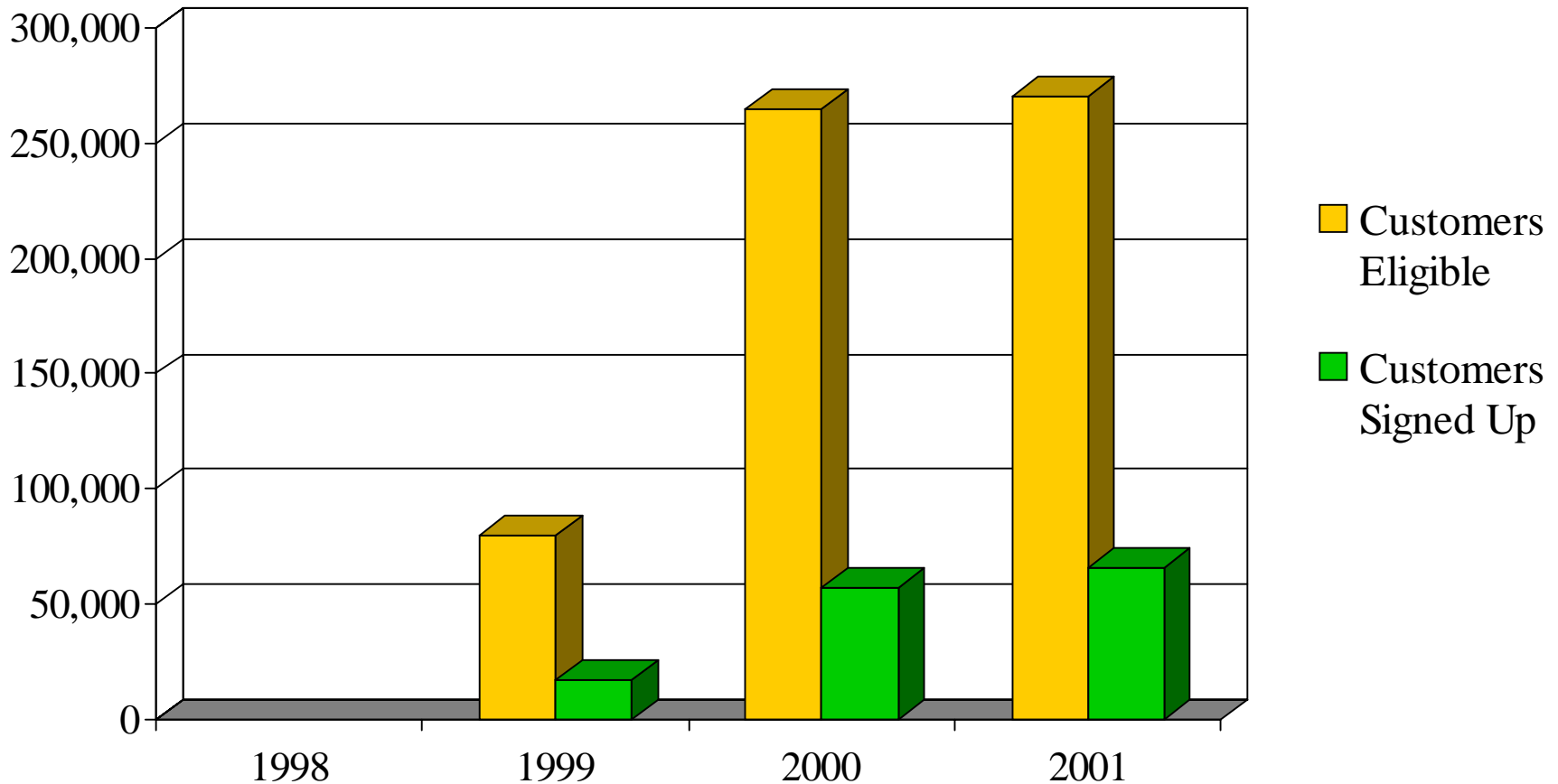


Customer Select Residential

nicor
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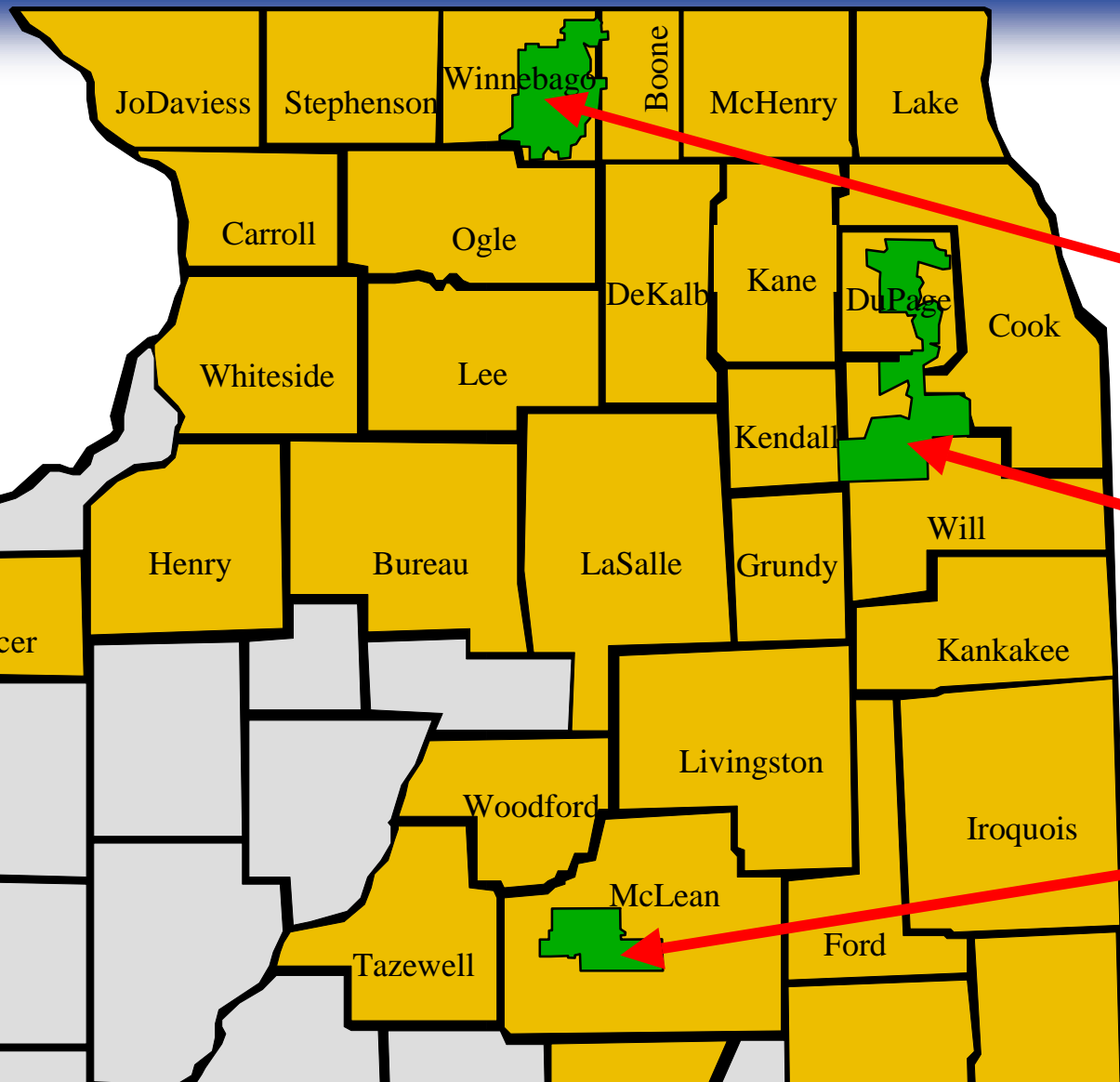



Eligible Residential Towns (2000)


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 Eligible Towns (2000)

 Nicor Territory

Roscoe
Machesney Park
Loves Park
Rockford

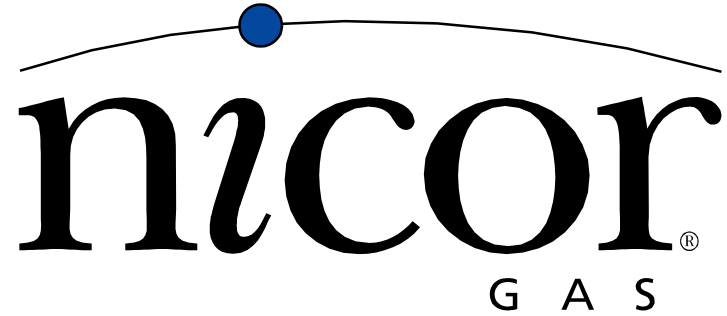
Bloomington	Glen Ellyn
Carol Stream	Downers Grove
Glendale Hts.	Bolingbrook
Addison	Lockport
Wheaton	Joliet

Normal
Bloomington

Customer Select: Proposal for Expansion

- August 2000 – Nicor Gas filed expansion program with the Illinois Commerce Commission (ICC)
 - All 2 million customers eligible
 - Signup to begin March 2001
- September 2000 – ICC suspended proposal/opened investigation
- July 2001 – ICC decision expected
- March 2002 – Enrollment would begin (if program approved)

- Number of retail marketers has remained relatively stable
- No fixed price offerings in 2001
- Nicor Gas is a leader in retail unbundling
- Nicor Gas will continue to offer a sales service
- Customers benefit from choice



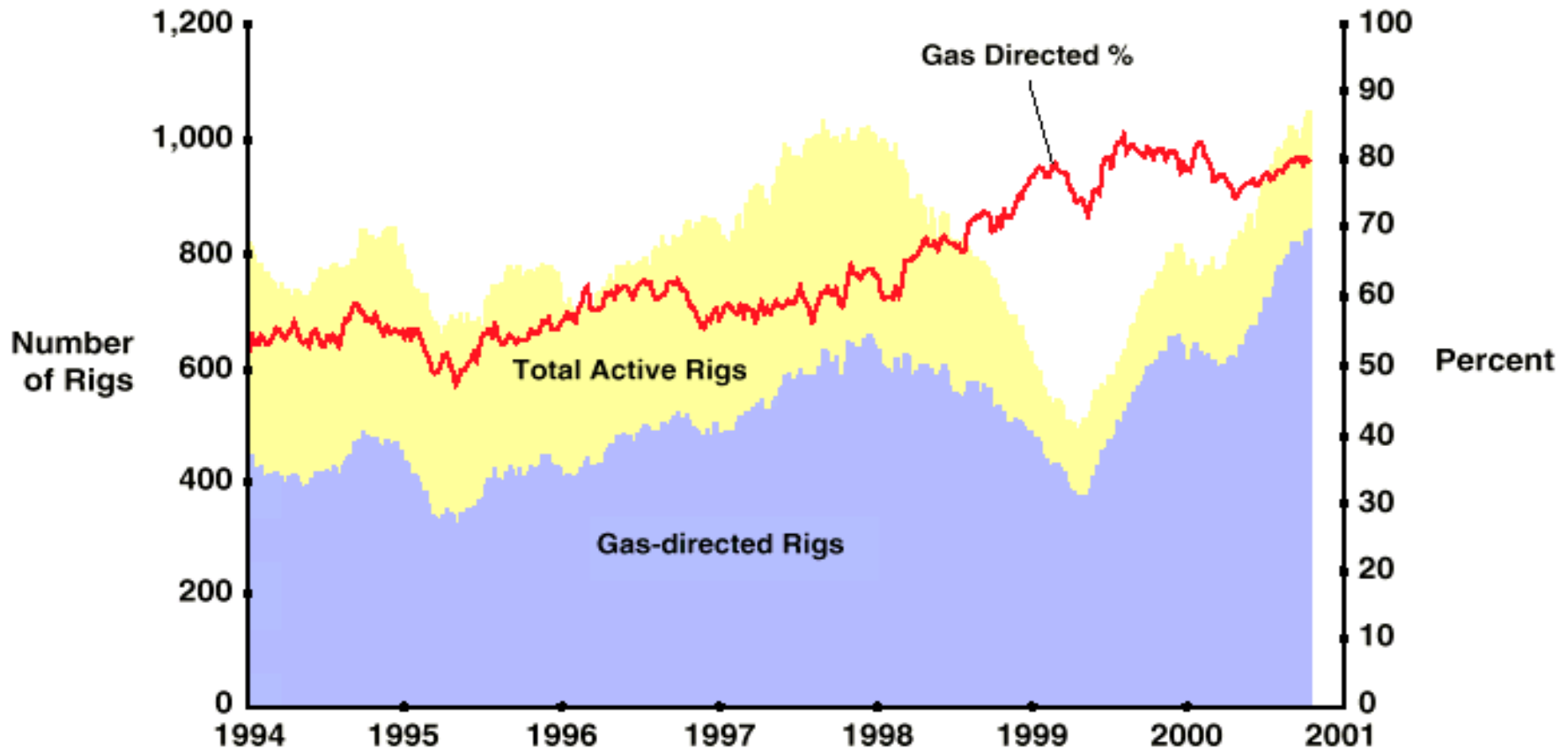
Gas Supply/Demand and Midwest Power Generation

Supply/Demand Forces

- Supply

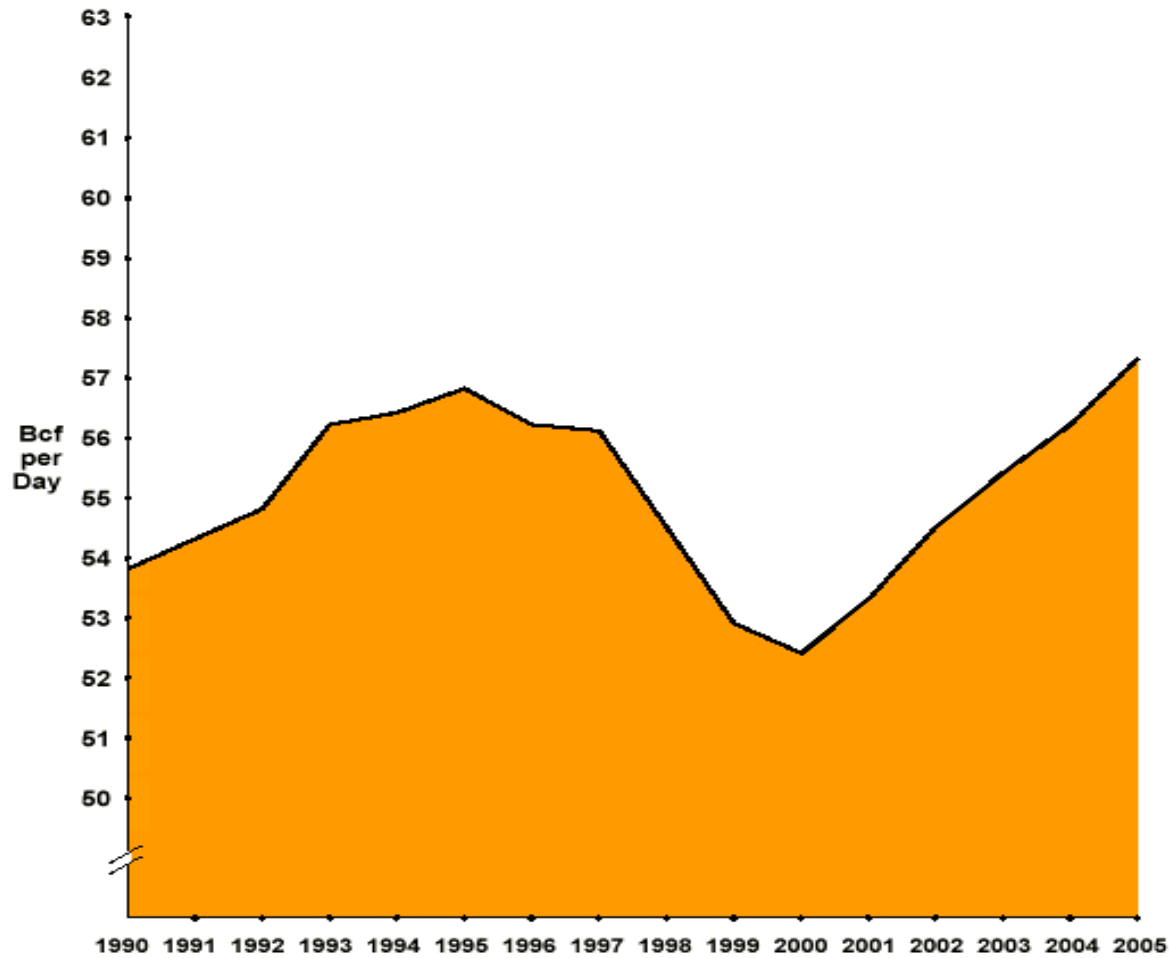
- Natural Gas rig count @ 994 vs. 634 this week last year
- 2001 Production expected to average 600 MMcf/d more than last year

US Rig Fleet and Gas-directed Activity



Source: Baker Hughes.

US Lower-48 Average Annual Wet Gas Productive Capacity



Source: Cambridge Energy Research Associates.
Updated February 2001
90523.06



Supply/Demand Forces

- Demand

- Summer Storage Fill Requirements

- Need to exceed last year's summer (May-Oct) injections by 1.1 Bcf/d to meet October 30, 2000 levels

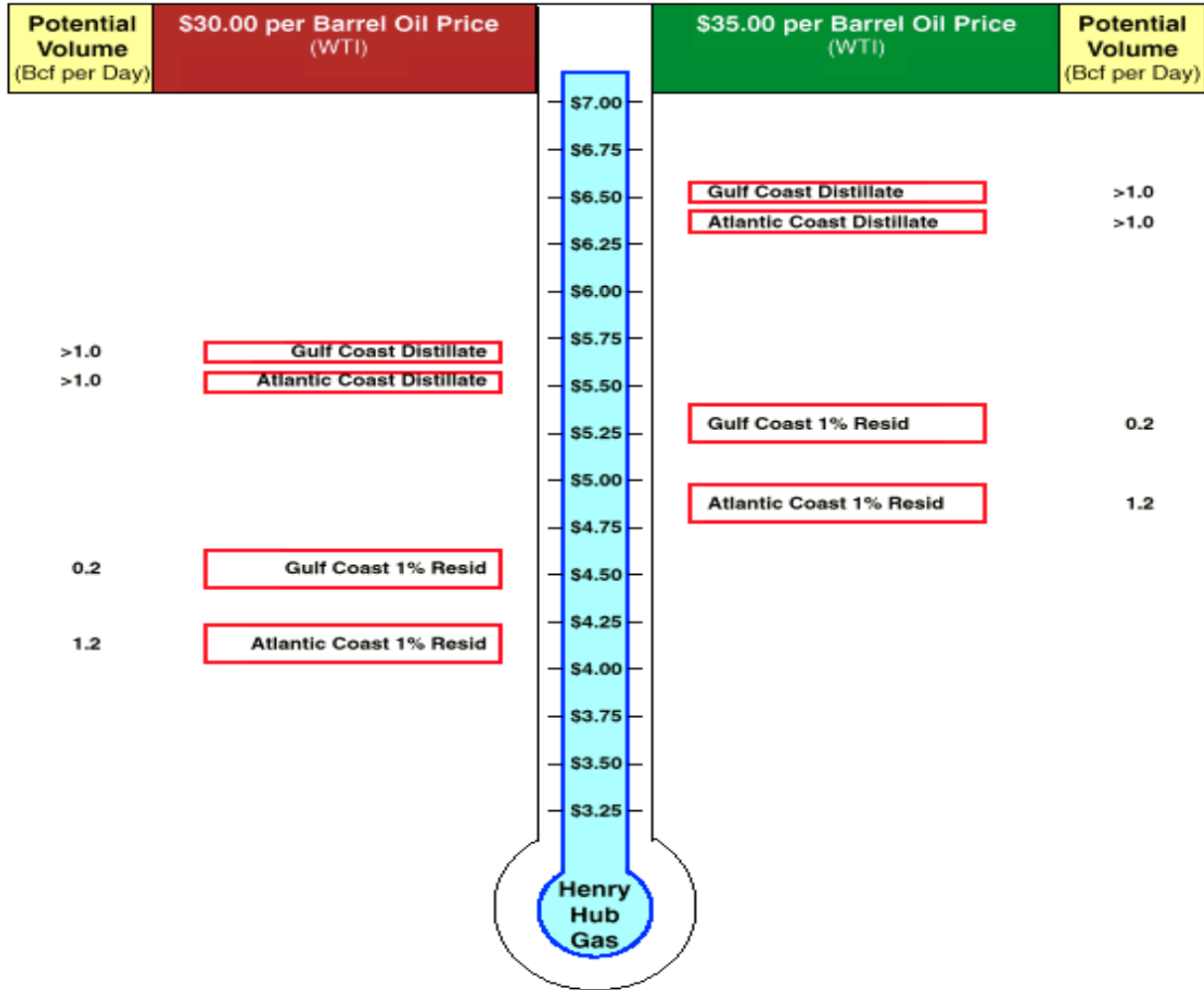
- Reduced Industrial Demand

- 2.8 Bcf/d lower than last year
 - Fuel Switching (#6 @ \$3.65-\$3.75)
 - Economic slowdown

- Reduce residential demand

- 5 to 15% reduction due to conservation

Gas Demand on the Margin: Relieving Pressure on Gas Markets



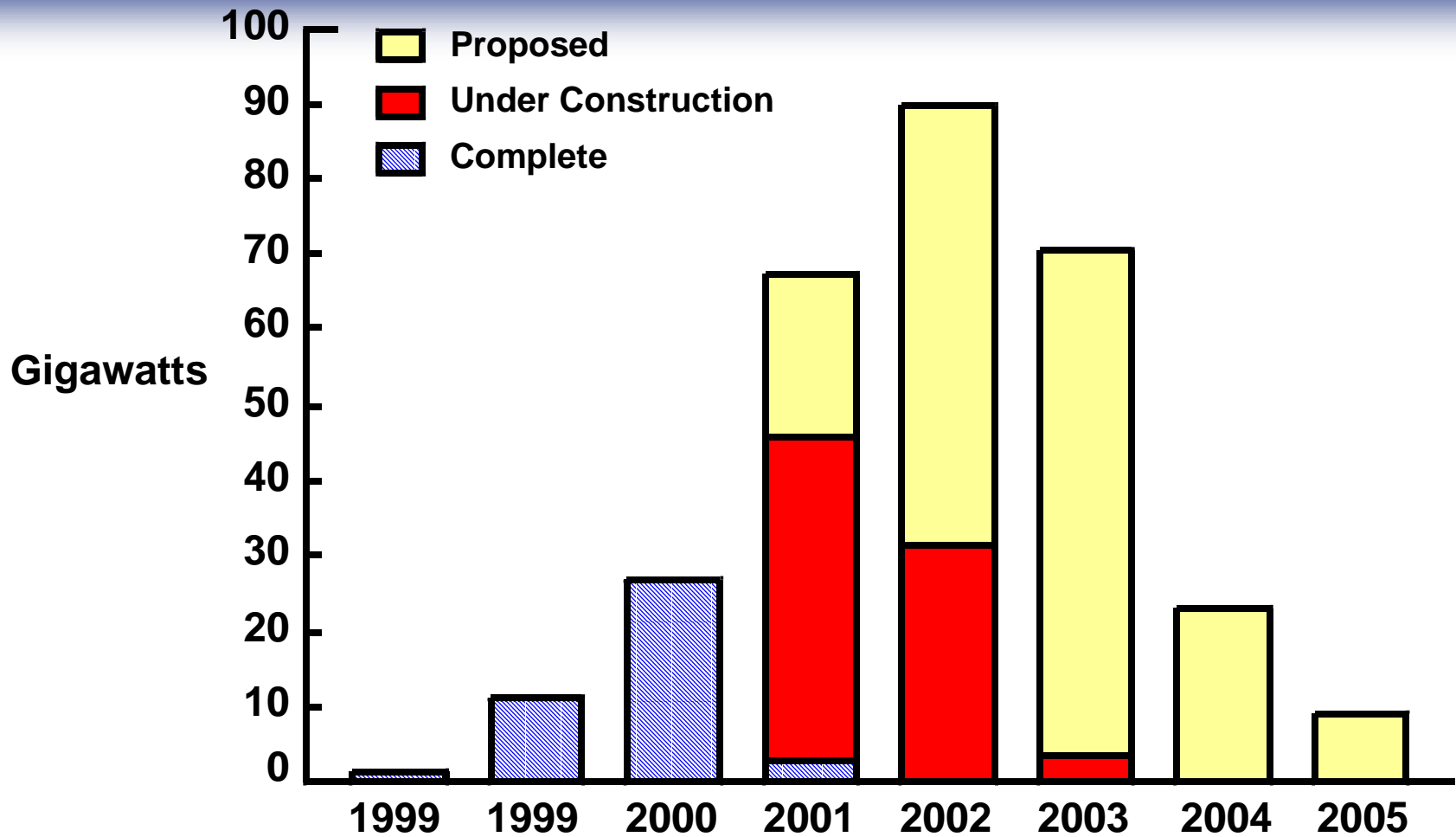
Source: Cambridge Energy Research Associates.



Supply/Demand Forces Observations

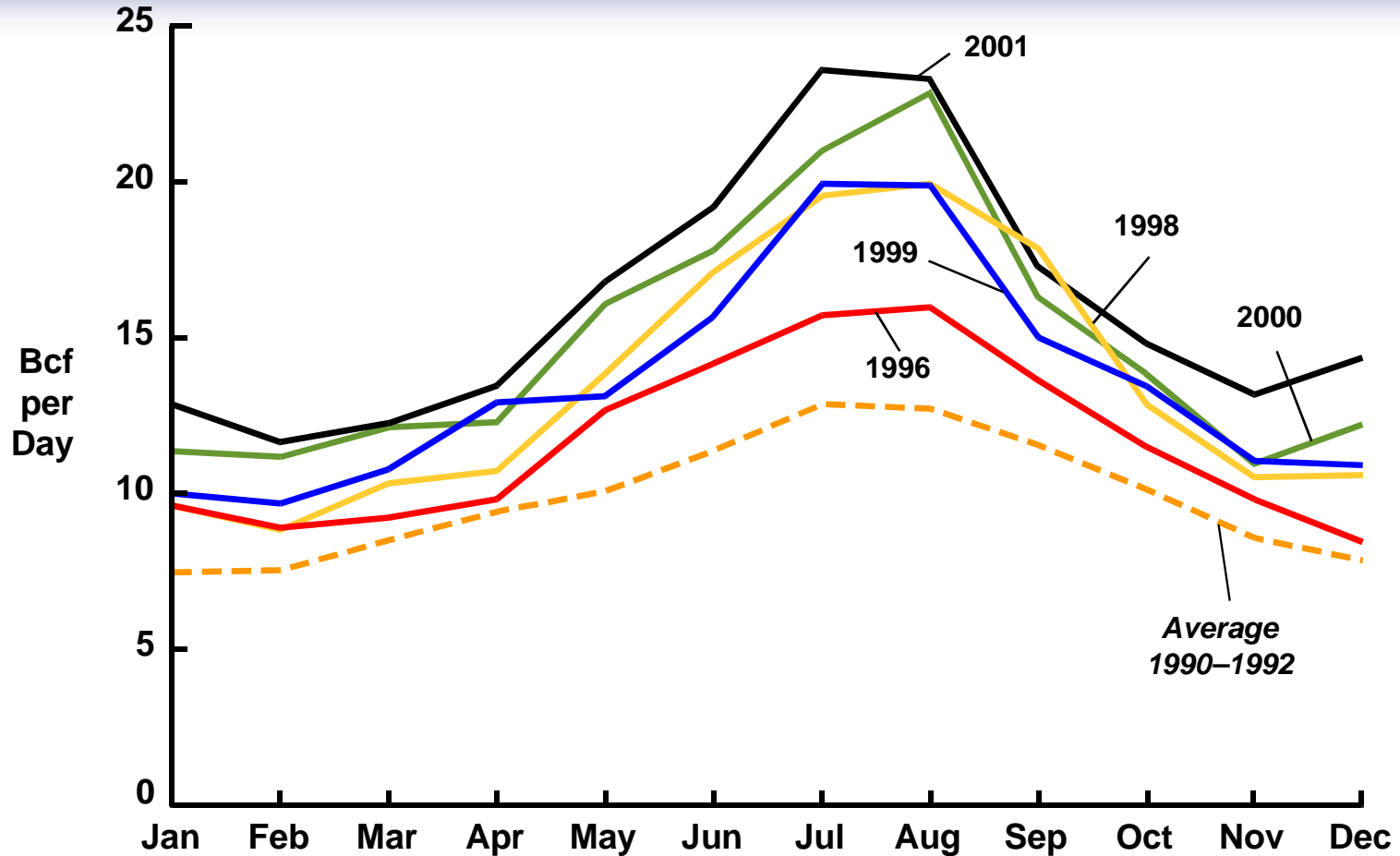
- April 2001 storage injections exceeded April 2000 injections by 7 Bcf/d
- Prices have moderated with improving level of storage inventory

North American Generation Project Status



Source: Cambridge Energy Research Associates.

The US Summer Power Peak: Gas Demand for Power Generation

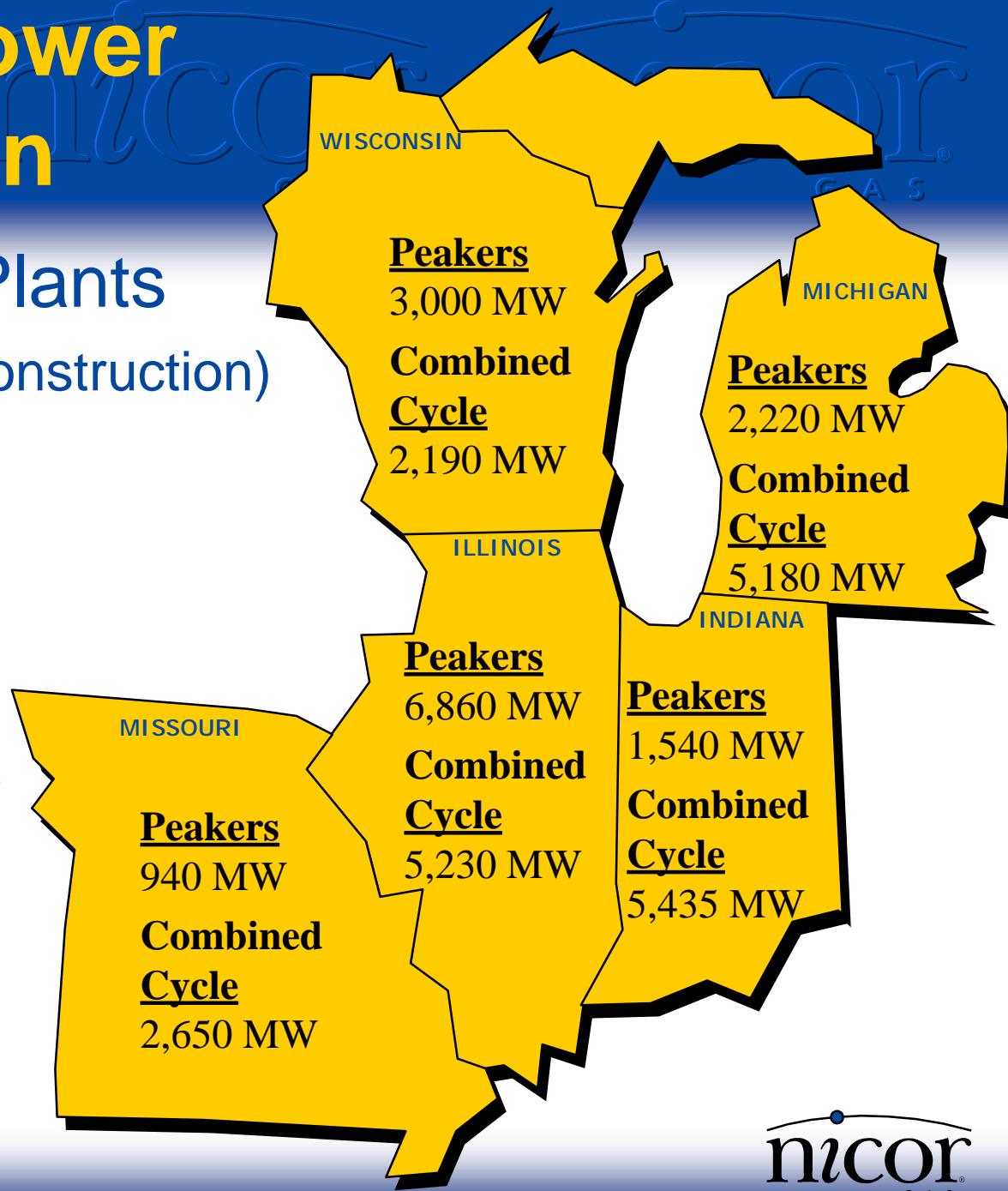


Source: Cambridge Energy Research Associates.

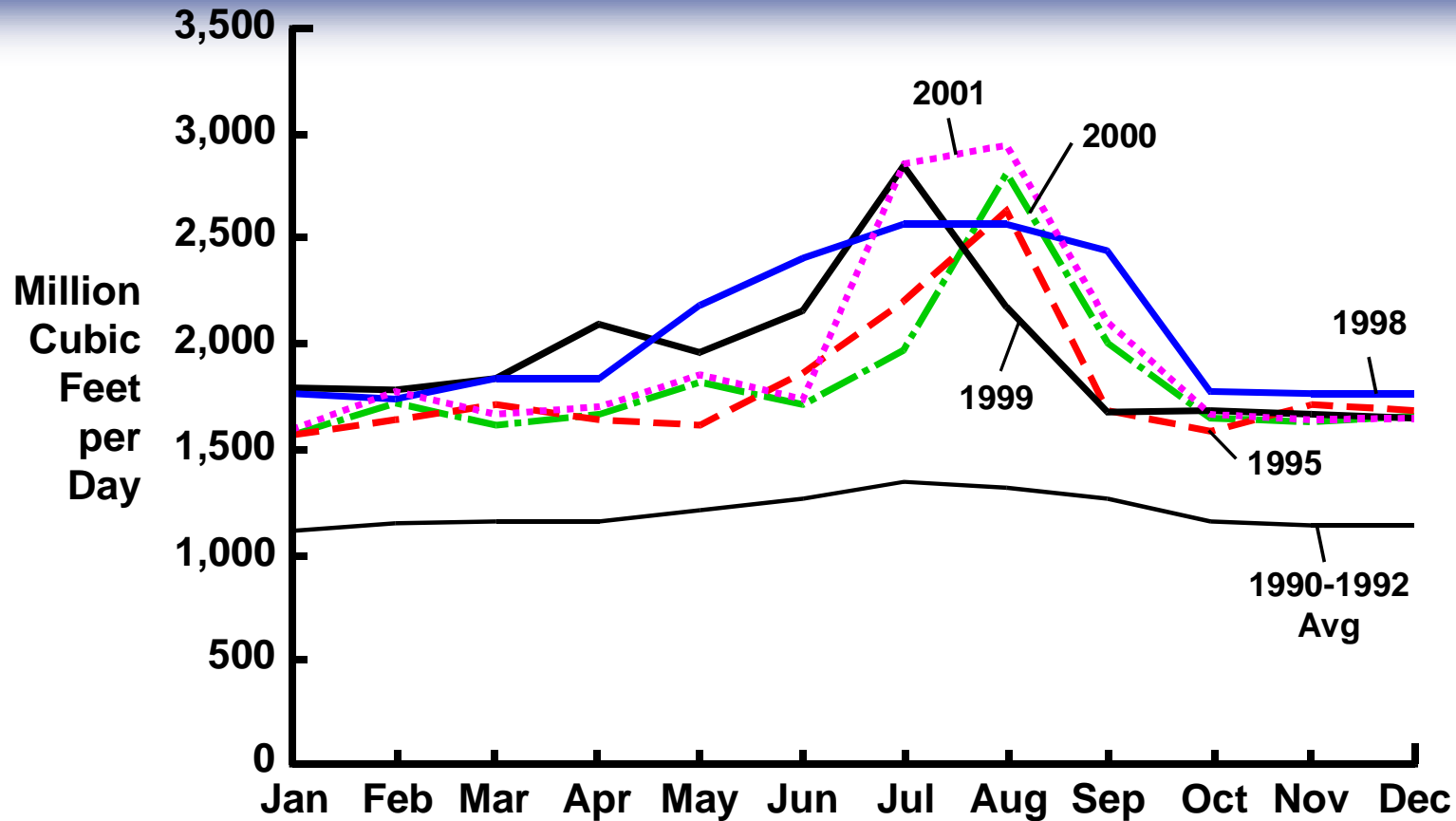
Gas-Fired Power Generation

Midwest Power Plants (Proposed or Under Construction)

	<u>MWs</u>
Peakers	14,560
Combined Cycle	<u>20,685</u>
Total	35,245



The Growing Surge in Midwestern Summer Power Demand for Gas



Source: Cambridge Energy Research Associates.
10310-4

Gas-Fired Power Generation

- Incremental Demand (Midwest)
 - Summer 2001
 - Peaking - 10 Bcf (Assumes avg. plant burns 680 hrs)
 - Combined Cycle - 30 Bcf (Assumes avg. plant burns 1,875 hrs)
 - Summer 2002
 - Peaking - 15 Bcf (Assumes avg. plant burns 680 hrs)
 - Combined Cycle - 40 Bcf (Assumes avg. plant burns 1,875 hrs)

- Strong early storage refill has improved short-term outlook
- Summer power generation demand will slow storage refill rate
- Growing natural gas supply is needed to satisfy new power generation demand and to moderate prices in the future

