

HURRICANES, UNREST AND SPECULATION: MARKET STRENGTH



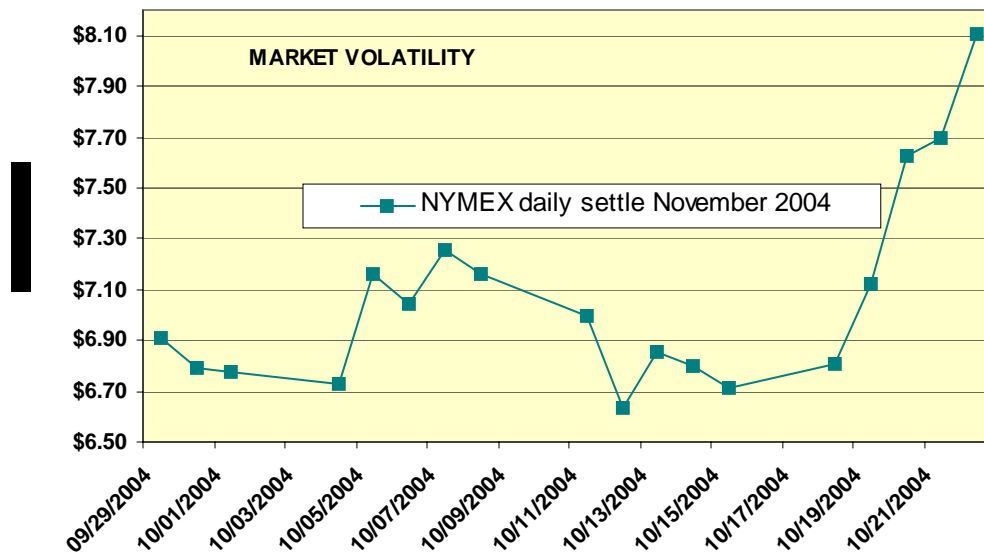
Late summer and early fall 2004 have seen natural gas prices at unprecedented levels. Reasons for "run-ups" often defy logic since they have, in many instances, been rooted in technical factors. However, fundamental factors have also contributed to an extremely volatile market.

FUNDAMENTAL "CULPRITS"

- Ø **Hurricanes:** Predictable to a certain extent, but unpredictable in the damage done this season.
 - Greater than expected damage to the Gulf reversed what had been a very negative price momentum.
 - Ivan hit the Gulf of Mexico and as of 9/30, 28.5% of the daily oil production and 18.9% of the natural gas production was still shut in as wells are being repaired.
 - Cumulative losses in the three weeks since Ivan hit have been 16.6 million barrels of oil and 72.3 bcf of natural gas with 4% of production likely to be shut in for six months.
- Ø **Unrest:** Effects of Nigerian rebels threat to crude oil supply and Iraqi saboteurs have added to market volatility.
 - Together, these nations produce 4.5 million barrels of crude oil per day (bpd).

THE SPECULATIVE INFLUENCE

- Ø **Technical Factors:** Speculative funds continue to buy into the market, despite the highest prices on record.
 - Price volatility drives profitability with traders seemingly focusing on world conditions rather than the "traditional" supply and demand/weather factors.
 - The number of hedge funds has grown from 2080 in 1995 to 7000 at the start of 2004 primarily because anyone who can attract investors can set up a hedge fund.
 - Hedge funds can use techniques that are not available to mutual fund managers, such as betting that stocks will decline in price with the result that many funds posted profits through even the worst market declines.



HURRICANES, UNREST AND SPECULATION: MARKET STRENGTH



Fall 2004 Volume V, Issue 5

Page 2

GETTING THROUGH THE WINTER

"The combination of concerns of tight supplies in heating oil and the continued lost production from the Gulf is causing the market to worry about the long-term prospect of natural gas for the rest of the winter."

Gas Daily, 10/22/04

Ø Natural Gas Storage Levels:

- As of October 21st, levels of storage are high with a surplus of 157 bcf compared to a level of a year ago.
- Overall storage levels are 7% higher than the 5-year average.
- However, gas placed in storage this year cost more to produce.

Ø *Only the future will tell:* Fundamental factors including the weather, the geo-political situation affecting crude oil prices, and the state of the economy will affect the market, with speculation continuing to rear its volatile head.

- Weather: both independent and government meteorologists have indicated "a supposedly bullish forecast for winter". *Gas Daily, 10/22/04.*
- Crude Oil: Trading on the New York Mercantile Exchange on 10/22/04 saw prices settle at \$54.93 per barrel; in contrast, prices during the 1970's oil embargo were at a level adjusted for inflation of \$70.00 per barrel.
 - ◇ Crude has climbed almost 70% this year and \$20 in four months, spurred on lately by production outage in the Gulf of Mexico.
- Geo-political situation: China's huge imports of crude oil which were a major factor in last year's price spike, could be tempered by the government's efforts to cool the Chinese economy.

LOCAL UTILITY UPDATE:

Consolidated Edison: a)transportation rates and minimum charges have been increased effective October 1, 2004 for all firm customers and b)the utility line loss factor has been increased to 2.99% from 2.35% effective October 1, 2004

NJ Natural: the Basic Gas Supply Service price for sales customers purchasing the commodity from the LDC, will increase customer bills by 5%.

IMPORTANT REMINDERS:

The Consumer Protection Department says price is just one factor when choosing an oil company. Consumers should also ask questions about how long a company has been in business and about its record for deliveries when supplies are short.

Con Edison and Keyspan NY Interruptible/Dual Fuel Customers: Important information about utility-mandated interruptions has been sent to you by your local utility. Make sure you provide emergency contact information to your LDC and take note of the increased penalties and stiffer regulations regarding these interruptions. They have been summarized in a letter sent to you recently by Castle. Please contact your Account Executive should you have any questions or wish to discuss pricing options for your energy needs.

**TO FIND OUT HOW THESE TRENDS AFFECT YOUR ENERGY PURCHASING DECISIONS,
PLEASE CALL US AT (914) 381-6600.**