

The BurnerTip

Gas Market Summary

Gas Facts in Brief

May Settlement Price - \$7.198
 Current June Trading \$6.770
 Summer Strip Price - \$7.292
 Winter Strip '06-'07 - \$10.812
 Summer Strip '07 - \$9.418
 Gas Drilling Rig Count
 Up 32 to 1,353 Rigs
 Gas Storage Levels
 Net Injection to 1,851 Bcf

INSIDE THIS ISSUE:

Drilling Rig Count	2
Industry Terms	2
Weather Data	2
The Corner	3
Electric Update	3
Gas Storage Levels	3
Presentation Summaries	4
Upcoming Events	5

Another crazy month has come and gone. After April settled at \$7.23, many thought (hoped?) that May futures would continue to slowly drift down. And then world events intervened and crude oil began marching upward. May began trading in the low to mid \$7's even as crude traded in the \$67-\$68 range. The first bit of unsettling news was a stronger than expected storage withdrawal to end the season.

In spite of this news, in the first trading week of April forward prices flagged a bit, closing the week at \$6.743. Despite the softness in the front months, the winter strip actually closed up for the week.

The second full week started meek enough with May futures trading around \$6.90 and crude rising to over \$68.

Late in the week, the report of the first full injection of the year being less than expected coupled with continued strength in crude pushed the NYMEX back up over \$7. With the market closed on Good Friday, it was hoped that a bit of time off would give everyone some perspective.

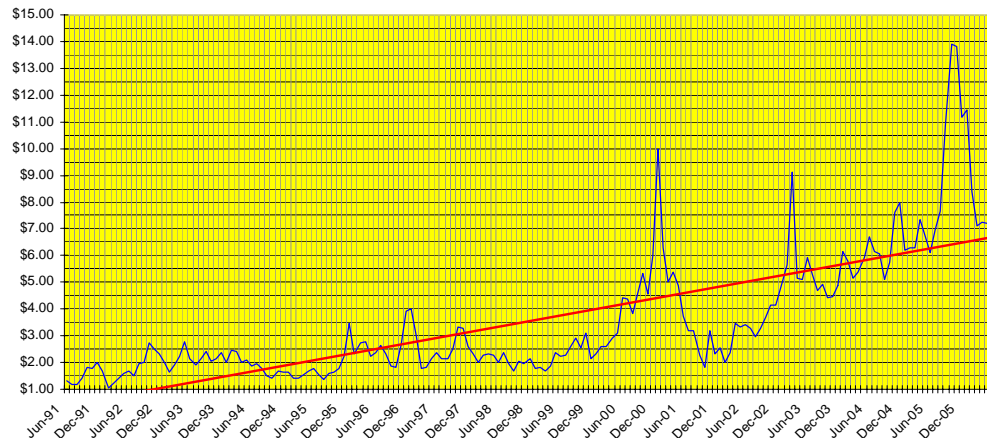
That was not to be. Prices on Monday morning exploded up over \$7.60 as crude topped \$70 on unsettling political news. Tuesday, prices continued to rally to close over \$8 and crude traded above \$71. The trend continued through the week as May futures traded north of \$8.25 and crude reached \$75. Throw in the MMS news that 13% of natural gas production remains off-line in the gulf and the ingredients were there for continued strength. And....of course, that didn't happen! Prices dropped to close at \$7.98

to end the week.

The final trading week was anybody's guess. With crude remaining strong, gas could go pretty much anywhere. With moderate to heavy trading all week, prices fell on day 1, fell on day 2 and fell on day 3. The month finally closed at \$7.198, just a shade under where it started 1 month earlier. Trading really became intense just before the market closed as prices dropped to the closing level. Evidently, everyone decided they wanted a piece of the action!

With June taking over as the front month, trading quickly dropped to the mid/high \$6's. Where will it go from here? Read Bill's corner on page 3 of this newsletter to get an updated perspective on the market and strategies to protect your company in the future. It continues to be a rocky ride so... Let's be careful out there!

Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

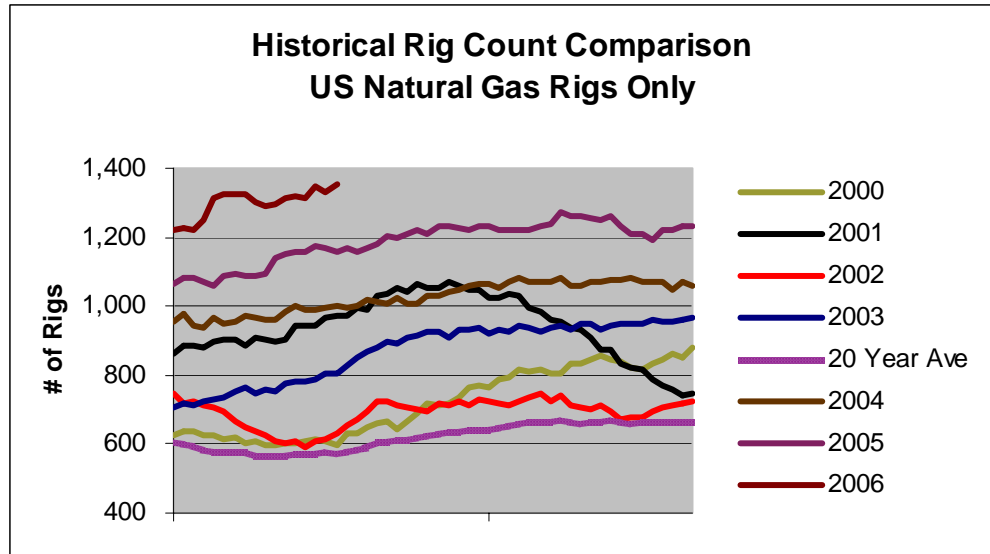
Red Line—Ongoing Price Trend Over Time

Baker Hughes Drilling Rig Count



Change	
May-06	1,353
May-05	1,156
Change	197
% Change	17%

vs. Last Month	
May-06	1,353
Apr-06	1,321
Change	32
% Change	2%



Industry Terms

It seems like us energy folks like our abbreviations. Below, some common abbreviations and what they mean.

AFV—Alternative Fueled Vehicle
 API—American Petroleum Institute
 Bcf—Billion Cubic Feet
 Btu—British Thermal Units
 CERCLA—Comprehensive Environmental Response, Compensation and Liability Act
 CF—Cubic Foot

EIA—Energy Information Agency.
 EPACT—Energy Policy Act of 1992
 FASB—Financial Accounting Standards Board
 FERC—Federal Energy Regulatory Commission
 IEA—International Energy Agency
 LDC—Local Distribution Company
 LHV—Lower Heating Value
 HHV—Higher Heating Value

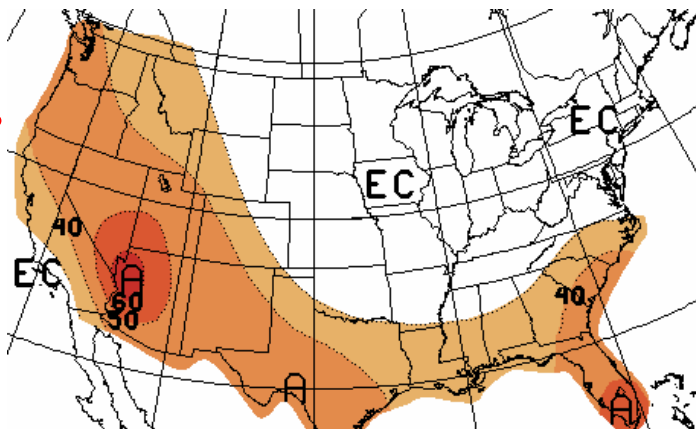
LNG—Liquified Natural IGas
 LRG—Liquified Refinery Gas
 M—Thousand
 MM—Million
 NGL—Natural Gas Liquids
 NOAA—National Oceanic and Atmospheric Administration
 NYMEX—New York Mercantile Exchange
 RDF—Refuse Derived Fuel
 SNG—Synthetic Natural Gas
 USACE—US Army Corps of Engineers

Energy Equivalents

- 1 CF of natural gas = 1,000 Btu
- 1 Ccf (100 CF) gas = 100,000 Btu
- 1 Therm = 100,000 Btu
- 10 Therms = 1 Dekatherm
- 1 DTH = 1,000,000 Btu = 1 MMBtu
- 1 Mcf = 1 Dekatherm
- 1BCF = 1 billion CF of natural gas
- 1 Gallon of #2 fuel oil = 140,000 Btu
- 1 Gallon of Propane = 91,500 Btu
- 1 kWh electricity = 3,413 Btu
- 293 kWh electricity = 1,000,000 Btu

June, July & August 2006 NOAA Forecast

Browns/Reds—Above Normal Temps
 Blues—Below Normal Temps



Bill's Corner

The April rally two weeks ago was not completely unexpected. In fact, spring rallies that follow late winter declines are not uncommon. The thing about this rally that made it so darn unnerving was how far it ran, and how quickly it did so. It was another humbling reminder that this market can punish bottom feeders and speculators... and in a rush.

The catalyst this time appeared to be crude oil's rally to headline-grabbing, record-setting levels. When crude took off, NG decided to conveniently reconnect with it and go along for the ride. However, just seven trading days after the peak of the rally, NG has now sold off by \$1.86 and is trading back at the bottom of the \$6.50 - \$7.50 trading range.

EnergyUSA-TPC continues to advise NG risk managers to take advantage of such price softness... to protect all/some of their (especially early) summer at the bottom of the current trading range. Regardless of how low prices ultimately go, current front month prices (which are the lowest in a year) make for very defensible short-term hedges.

We also continue to advise risk managers to wait for winter prices to soften prior to hedging. With the possible exception of Nov (and perhaps Dec), we feel the winter holds excessive premium given such weak short-term fundamentals. Indicative of these weak fundamentals may be the over-delivery OFO's called by utilities all over the country, due to mild weather/low demand, distribution "line pack" and bloated storage facilities.

It's always prudent to pay attention to what respected industry analysts are saying about the market. One optimist, Thomas Driscoll of Lehman, predicts the current price decline will continue into summer... bottoming at ~\$5.00. He supports this by stating that NG demand is 10% below 2000's peak levels, supply is increasing, and storage is strong (32% higher than last year, 62% higher than the 5-year average). Driscoll believes power generation growth has only offset about one third of industrial demand destruction.

While fundamentals continue to exert pressure on NG prices, breaking down through the bottom of the trading range (\$6.50) prior to the first summer heat may pose a challenge. If that price break does occur, a front month test of \$6.00 is likely... a break into the \$5.00's is possible. Assuming the summer/winter price spread (of \$3.00+) remains, these front month breaks could result in winter prices in the \$9.00's... possibly \$8.00's. Note: A significant winter price break will likely not occur until hurricane fears subside.

Bottom line. Risk managers (conservative buyers): Front month prices at the bottom of the \$6.50 - \$7.50 trading range make the summer (esp. the early summer) a defensible hedge. Given the (apparent) winter premium, consider waiting for low-\$10.00's... \$9.00's... possibly \$8.00's. Speculators (aggressive buyers): Fundamentals are weak and the current trend appears down. Wait for a front month test of \$6.00, or a break into the \$5.00's, before protecting summer... post-hurricane before protecting winter.



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Electric Update

Forward electricity prices continued to climb slightly from last month's trading levels as summer heat comes closer to reality. Prices were higher earlier in the month in sympathy with strong natural gas prices. As gas prices fell off, electricity generally followed suit. Supply should be ok through the summer as a number of units are finishing spring maintenance and refueling outages.

LONG-TERM FORWARD ASSESSMENTS (\$/MWH)				
Trading Point	Jun	Jul	Jul/Aug	Sep
Cinergy	\$ 56.00	\$ 67.20	\$ 69.90	\$ 56.30
NI Hub	\$ 54.40	\$ 66.15	\$ 68.65	\$ 56.30
Entergy	\$ 60.00	\$ 66.15	\$ 68.65	\$ 62.10
ERCOT	\$ 65.05	\$ 72.85	\$ 75.35	\$ 67.60
PJM West	\$ 65.80	\$ 80.00	\$ 82.50	\$ 67.50
TVA	\$ 55.45	\$ 63.10	\$ 65.60	\$ 56.90
MASS Hub	\$ 73.80	\$ 86.60	\$ 88.60	\$ 78.00

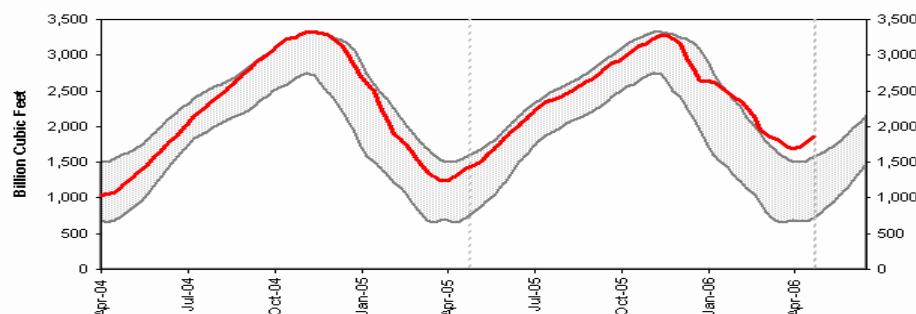
Prices Traded April 28, 2006 MegaWatt Daily

Gas Storage Levels

Working gas in storage was 1,851 Bcf as of Friday, April 21, 2006, according to EIA estimates. This represents a net increase of

80 Bcf from the previous week. Stocks were 445 Bcf higher than last year at this time and 710 Bcf above the 5-year av-

erage of 1,141 Bcf. At 1,851 Bcf, total working gas is above the 5-year historical range.



Gas Supply Facts

Imports of LNG this winter were well below year-ago levels, serving as a reminder that stiff competition may develop in the global industry even with high prices in the United States. In January and February 2006, LNG imports averaged 1.3 billion cubic feet (Bcf) per day for a total of 78 Bcf, according to the Department of Energy's Office of Fossil Energy. This is nearly 30 percent less than the 1.9 Bcf per day, or 111 Bcf overall, delivered during the first 2 months of 2005. In fact, total imports in February 2006 of 38.7 Bcf were the lowest monthly level of imports since April 2003.

The U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy (EERE) publishes a wealth of information on energy efficiency issues for all types of buildings—from single family homes to the largest factories. This month, we thought it might be prudent to review a few generic EERE recommendations for managers and plant engineers. These ideas are geared towards improving Combustion performance in your plant.

Short-Term Opportunities (implement today for immediate results)

Operate furnaces and boilers at or close to design capacity - Decreases fuel consumption per unit of production

Estimated energy savings range: 1-5% Cost: Low

Reduce excess air used for combustion - Measure and control air-fuel ratio or oxygen and carbon monoxide content of flue gases from furnaces, ovens, and boilers, et cetera for the entire range of operation

Estimated energy savings range: 2-15% Cost: Low

Clean heat transfer surfaces - Lowers flue gas temperature and increases efficiency by improving heat transfer

Estimated energy savings range: 1-5% Cost: Moderate

Reduce radiation losses from openings - Saves energy

Estimated energy savings range: 1-2.5% Cost: Low

Mid-Term Opportunities (get results in 1 week to 6 months)

Use proper furnace or boiler insulation to reduce wall heat losses - Saves energy

Estimated energy savings range: 1-2% Cost: Moderate

Adequately insulate air or water-cooled surfaces exposed to the furnace environment and steam lines leaving the boiler - Reduces losses from piping

Estimated energy savings range: 1-5% Cost: Moderate

Longer-Term Opportunities (get results in 6 months or more)

Install air preheat or other heat recovery equipment - Recovers available heat from exhaust gases and boiler blowdown and transfers it back into the system by preheating

Estimated energy savings range: 1-25% Cost: High

For more good energy efficiency ideas, visit the EERE website at:

<http://www.eere.energy.gov/>

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Don't Waste Your Energy
Trying to Manage It

EnergyUSA-TPC is a wholly owned subsidiary of NiSource, Inc. NiSource is the largest natural gas energy company east of the Rocky Mountains. We own, operate and maintain a complete natural gas portfolio including storage, pipeline transportation and distribution to nearly 4 million customers.

EnergyUSA-TPC offers a full line of commodity and energy management products primarily focused on larger commercial and industrial customers in the Midwestern and Eastern areas of the country.

We value our relationships with customers and place high emphasis on customer satisfaction, service and education.

Upcoming Events & News

GasMart 2006—Denver—May 3-5. It's that time again. Be there when the natural gas industry convenes in Denver, Colorado at the 20th anniversary GasMart 2006 Conference and Showcase in the brand new Hyatt Regency Denver. GasMart attendees will gain insight into the latest developments in supply—both conventional and alternative, as well as new infrastructure, with a special focus on the Rockies. Attendees will also hear about developments and current issues in the current natural gas market from wellhead to burnertip—from people who are making it happen.

All info is on this website: gasmart.com or call GasMart at 800-427-5747. Booking your room at the hotel will entitle you to a \$50 discount on your conference attendee registration. Your registration includes: access to all program sessions, the exhibit hall and receptions, continental breakfast each morning and the NGI Natural Gas Pipeline Map.



For Other Energy Ideas—Visit us on-line @ www.energyusa-tpc.com