

The BurnerTip



Gas Market Summary

Gas Facts in Brief

Apr Settlement Price - \$9.578
 Current May Trading \$9.611
 Summer Strip '08—\$9.772
 Winter Strip '08-'09—\$10.516
 One Year Strip—\$10.014
 Gas Drilling Rig Count
 UP 17 to 1,447 Rigs
 Gas Storage Levels
 Net Withdrawal to 1,277 Bcf
34% Full (vs. 3,703 bcf)

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The month started high, went higher for awhile, lower for awhile and finally finished higher than it started 1 month earlier. Go figure!

As the March front month expired in late February, April, the new lead month, promptly rallied nearly \$.40 to begin the week. After a few soft days, exploding crude prices and cold forecasts resulted in a strong rally that touched \$10 at one point before finishing the week at \$9.769

Week 2 saw the rally continue as \$10 briefly became a new support level. After flirting with \$10.25,

cooler heads prevailed and the week settled at \$9.868 even as crude finished over \$110.

The third full week featured the collapse of BearStearns and prices in the energy complex declined across the board. The week began with a massive \$.768 drop followed the next day by a \$.31 rally. The rally was short-lived and the week closed at \$9.065. Crude closed at \$101.84.

The final trading week featured a rally to as high at \$9.65 before April finally settled at \$9.578.

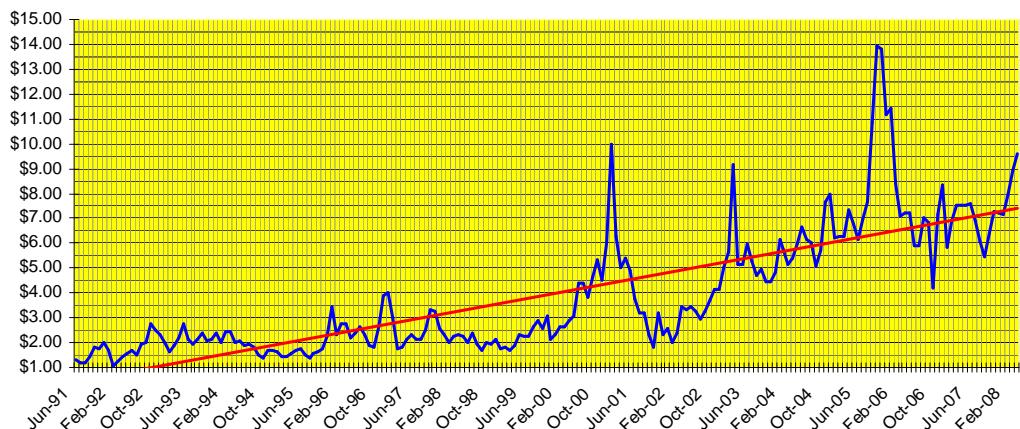
April began the month in the \$9.05 neighborhood and

gained nearly \$.52 in the interim. Crude also gained roughly \$5 during the same period with both commodities seeing the same kind of volatility. Interestingly, May became the front trading month opening about a dime higher than where April expired.

Thanks to everyone that braved the snowstorm to attend our recent Spring Energy Conference at the University of Notre Dame. In spite of hazardous conditions, we had a near record turnout and attendees were treated to the best speaker lineup we've ever presented. If you missed it, take heart. All of the presentations are available for download on our website:

www.energyusa-tpc.com.

Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

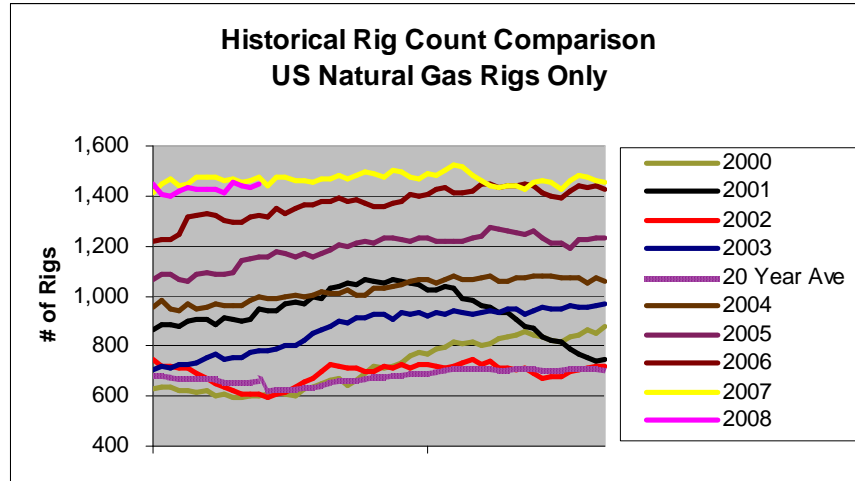
Red Line—Ongoing Price Trend Over Time

Baker Hughes Drilling Rig Count



Change	
Apr-08	1,447
Apr-07	1,472
Change	(25)
% Change	-2%

vs. Last Month	
Apr-08	1,447
Mar-08	1,430
Change	17
% Change	1%



Industry Terms

This Month—Master Limited Partnerships

What are they? A type of limited partnership that is publicly traded. There are two types of partners in this type of partnership: The limited partner is the person or group that provides the capital to the MLP and receives periodic income distributions from the MLP's cash flow,

whereas the general partner is the party responsible for managing the MLP's affairs and receives compensation that is linked to the performance of the venture.

Why MLP's? The advantage of an MLP is that it combines the tax benefits of a limited partnership (the partnership does not pay taxes from the profit - the money is only taxed

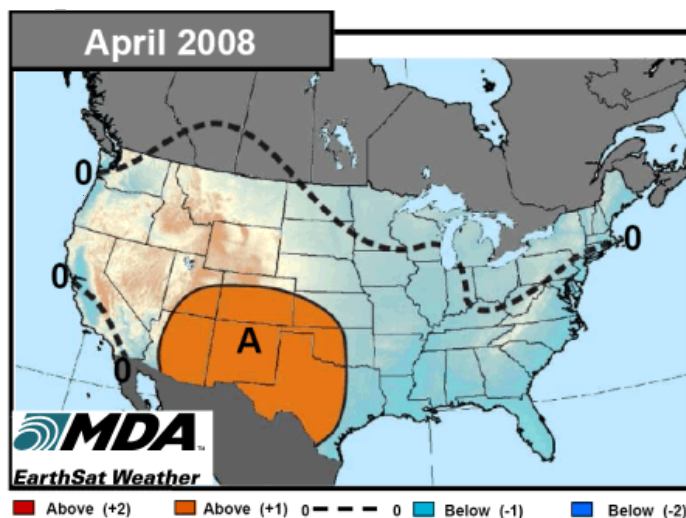
when unitholders receive distributions) with the liquidity of a publicly traded company. One of the most crucial criterion that must be met to be legally classified as an MLP is that the partnership must derive most (~90%) of its cash flows from real estate, natural resources and commodities

Courtesy Investopedia

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
- 1 Gallon Ethanol = 76,100 Btu
- 1 Bushel Corn = 314,000 Btu

**MDA EarthSat
April 2008
Forecast**



Energy News

EIA Releases Overview of the Natural Gas Industry and Markets in 2007. The Energy Information Administration (EIA) released a special report on March 26, 2008, titled *Natural Gas Year-In-Review 2007*, detailing the natural gas industry and markets in 2007. This summary article is based on the first complete set of EIA supply and disposition data for 2007, which was available in the February 2008 *Natural Gas Monthly*. According to *Natural Gas Year-In-Review 2007*, increased natural gas supply led to decreases in all end-use natural gas prices, with the exception of the electric power sector. The annual average wellhead price of \$6.39 per thousand cubic feet (Mcf) was slightly below the \$6.40 per Mcf in 2006. Marketed production increased during the year, with the highest jump occurring onshore, mostly in the Rocky Mountain Region and the Barnett Shale, which offset the sixth annual decline in Gulf of Mexico production. While marketed production increased in 2007, there was a slowdown in rigs drilling. The higher level of natural gas production was supported by the continued development of pipeline mileage and capacity. Natural gas imports increased in 2007 by 7.7 percent to 3,729 Bcf, with more than half the increase coming from liquefied natural gas (LNG) imports. As prices decreased and natural gas supply increased, natural gas consumption increased by 6.2 percent to 23 trillion cubic feet, which was the first increase since 2004. Natural gas consumption in 2007 increased between 2.1 and 9.9 percent in all sectors. Natural gas markets were characterized by lower natural gas price volatility during the year, which at 61.6 percent was the lowest level since 2002. Most of the data for this article were derived from weekly and monthly EIA products. Final data for 2007 will be released in the *Natural Gas Annual 2007*, which is scheduled to be released in October 2008.

The Energy Information Administration—March 26, 2008

Alaska Governor Mulls TransCanada Gas Pipeline Bid. ANCHORAGE, Alaska, March 28 (Reuters) - Alaska Gov. Sarah Palin said on Friday her administration would decide in two months whether to support TransCanada Corp.'s proposal for shipping natural gas from the North Slope to domestic markets. The administration will present its findings on the company's application for a state license to build the massive new pipeline during the week of May 19, the governor said, giving lawmakers time to review them before they convene in special session June 3.

The North Slope holds about 35 trillion cubic feet of proven natural gas, most of that within the Prudhoe Bay oil field, and is believed to hold poten-

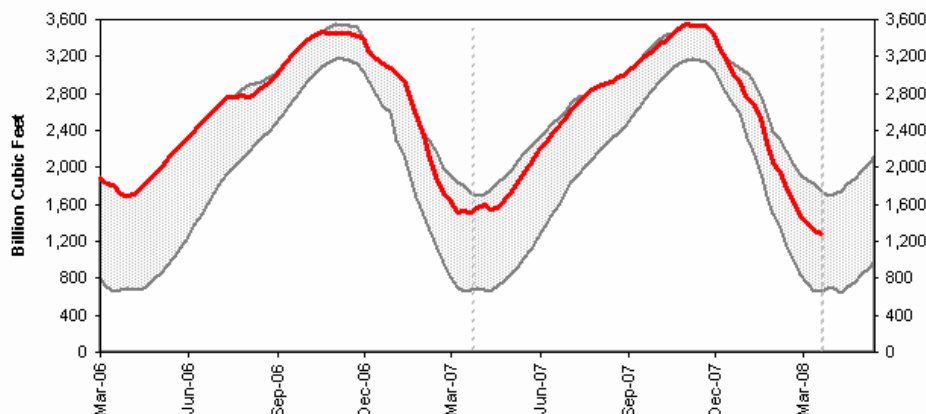
tial for much more. But there has been no method to ship the natural gas to any markets, so it has languished on the North Slope. TransCanada's proposal was the only plan of five that met all the requirements of the government's Alaska Gasline Inducement Act launched last year, the latest in a series of efforts over the past three decades to get the state's natural gas to a major market. ConocoPhillips submitted a separate proposal outside the state's AGIA process, which Palin's administration said fell "critically short of meeting the state's objectives." Since TransCanada submitted its bid, some critics have questioned the company's wherewithal to sponsor such an expensive project, which TransCanada estimates will cost \$26 billion, as well as the company's expressed hope for new federal assistance to limit financial risks. "The gasline team faces a truly monumental effort in comprehensively analyzing TransCanada's application, considering the public comments received and reviewing the all-Alaska LNG options for comparison purposes," Palin said in a prepared statement. *Reuters—March 28, 2008*

Another Rockies Pipeline Coming to the Midwest? CHEYENNE, Wyo. - Two pipeline companies have announced plans to construct an 800-mile pipeline that would transport natural gas from Wyoming to Canada and U.S. markets in the Midwest and Northeast. Alliance Pipeline Inc. and Questar Overthrust Pipeline Company said the 42-inch Rockies Alliance Pipeline would start at Wamsutter in south-central Wyoming and traverse Wyoming, Montana and North Dakota en route to the Emerson trading hub on the Minnesota-Canada border. The project, estimated to cost \$3.5 billion, would interconnect with downstream lines to provide direct access to midwestern hubs and storage facilities, including the Chicago Hub, Michigan and Dawn storage, officials said.

The companies touted the project's ability to connect the Rocky Mountain region - the nation's fastest-growing natural gas producer - and hungry markets in the United States and central Canada. The companies are targeting the fall of 2011 for opening the entire length of the pipeline, pending financing and regulatory approval. The pipeline could be built in stages if customers are interested in connecting to certain lines along the Rockies Alliance route and is another indicator of the importance that the private sector is placing on natural gas for the nation's energy supply in the coming decade. *Sand Diego Union Tribune—March 26, 2008*

Gas Storage Levels

Working gas in storage was 1,277 Bcf as of Friday, March 21, 2008, according to EIA estimates. This represents a net decline of 36 Bcf from the previous week. Stocks were 240 Bcf less than last year at this time and 33 Bcf above the 5-year average of 1,244 Bcf. At 1,277 Bcf, total working gas is within the 5-year historical range.



Gas Supply Facts— The EIA's latest *Short-Term Energy Outlook* projects that the Henry Hub spot price will average about \$8.18 per thousand cubic feet (Mcf) in 2008 and \$7.95 per Mcf in 2009. Overall in 2008, total natural gas consumption is expected to grow by 0.7 percent, slowing down significantly from the 6.4-percent growth observed in 2007. In 2009, however, natural gas consumption is expected to reach a record high of 23.4 trillion cubic feet (Tcf), or about 0.8 percent higher than the 2008 total consumption. Marketed natural gas production is projected to increase by 2.9 and 0.3 percent in 2008 and 2009, respectively.



Over the past eight weeks, the near strips (Summer 08 and Winter 08/09) rallied ~\$2.50, fell off ~\$1.00, and rallied back ~\$1.00. Wow... what a ride! Even the far strips (Winter 09/10 thru Winter 12/13) participated with some real volatility of their own. Why is this happening... what are the analysts saying... what should you do?

Why the rally/volatility? This has been the result of a unique set of **global** and domestic market conditions - (crude oil at \$110 (in fact, over \$100 thru 2011), massive hedge fund short-covering, a weakening U.S. dollar, equities money moving to commodities, and, several weeks of unexpected/sustained/widespread cold weather).

NG traders/analysts have been frustrated and confused. *"I would guess we are somewhere between greed and delusion."* *"We continue to shake our heads as we watch the futures market price strength."* *Natural gas is currently in the throes of a speculative manic phase."* *"Since it (the rally) is so rare, I honestly never saw it coming."*

In defense of un-hedged end-users... most analysts were forecasting softer near-term prices just a couple of months ago. Additionally, while the two-year bear market presented low front month/near term prices, it never really presented moderate/aggressive end-users a "no-brainer" opportunity to hedge the Summer 08 thru Winter 09/10 strips.

End-users/risk managers have been reminded of the importance of a diversified, long-term hedging plan. After (perhaps) doubting themselves through a lengthy bear market, conservative-leaning end-users have been reminded of why they hedged. Meanwhile, aggressive-leaning end-users have been anxious... and hoping for another chance.

Will there be another chance? Historically, extreme rallies have "mirrored" themselves. They have corrected as quickly as they have rallied. Some analysts look for that again. *"I certainly expect it to pop sooner than later."* *"...due for a pullback..."* **Warning: Recently, the market seems to be "compressing" several weeks' worth of movement into a few hours. Assuming a correction occurs, you may not have much time to ponder/act.**

However, there is no real consensus (which screams diversify/layer hedges). PIRA forecasts a bullish Summer 08 and Winter 08/09 (\$9's and \$10's). **Dr. James Duncan** forecasts short-term softening (*perhaps* a 100% "retracement" of the rally). Note: He is very long-term bullish (\$15 in five years). The **EIA** forecasts prices to average ~\$8 in Cal 08 and Cal 09. **Raymond James** forecasts a possible 3Q price collapse. Stephen Smith Energy feels summer prices may be \$10 - \$12 if hot summer weather occurs.

My advice... Summer 08 and Winter 08/09 prices feel high right now ("double digits", and, in the middle of the \$8 to \$12 range). However, be prepared to act quickly in the next month or so. Your plan of action should not bet too much on summer weather, hurricanes, and a fall dip. It should include 1-3 years of diversified/layered hedges. Consider protecting some Summer 08 in the low-\$9's/high-\$8's, and more in the mid to low-\$8's... some Winter 08/09 in the high to mid-\$9's, and more in the low-\$9's/high-\$8's. **Any \$8 "handle" is very defensible... any \$7 "handle" is a "no-brainer"**. Focus on prices you like (or at least can live with)... not on "the bottom of the market"... **seriously.**

A Publication of the Commercial/Industrial Sales Team

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**Don't Waste Your Energy
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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 is coming soon!—Join us in downtown Chicago on May 20-22 at the Sheraton Chicago Hotel and Towers. EnergyUSA is a proud sponsor of this event and we will have an information booth open during show hours. Plus, our own Val Trinkley is presenting a Workshop for Gas Purchasers on Thursday from 10 to 12. He will discuss:

How to develop a successful hedging and risk management strategy.

- Managing Energy Risk: Price, Supply, Tariff - LDC Balancing, and Weather
- Analyzing Fundamentals: Storage, Rig Counts, Global Warming and Demand Destruction
- Technical Indicators: Moving Averages, Implied Volatility, Seasonality and Trends
- EnergyUSA-TPC Price Targets for 2008
- A Hedgers' Tools: Futures, Fixed Price, Swaps, Basis and Options
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