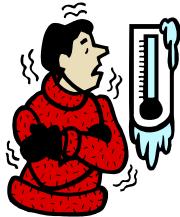


# The BurnerTip



## Gas Market Summary

### Gas Facts in Brief

Feb Settlement Price - \$6.917

Current Mar Trading \$7.911

Summer Strip '07 - \$8.142

Winter Strip '07-'08—\$8.96

Summer Strip '08—\$7.546

Gas Drilling Rig Count

Up 2 to 1,440 Rigs

Gas Storage Levels

Net Withdrawal to 2,571 Bcf

**77.9% Full**

### INSIDE THIS ISSUE:

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**Punxsutawney Phil** did not see his shadow this year, predicting an early spring and warmer temperatures on the horizon. With bitter cold temps this past weekend and predicted for the early part of this week, one has to wonder how accurate this overgrown rodent is. Of course, his record is probably as good as most meteorologists!

**January markets** were up a bit and down a bit, with February early in the \$6.25 range. With the New Year weekend to kick things off, the first week of the new trading month actually settled lower on light volumes. Falling crude and warm temps contributed to the week ending at \$6.184.

**Week 2** began strong and continued strong with a high of \$6.80 recorded for the February contract. Cooler

heads prevailed somewhat and the market settled back at \$6.601 to end the week. Still, it was an intense rally gaining more than \$.40 during the week.

**The third week** reminded us about volatility, gas storage and cold weather. Prices were as high as \$6.94 and as low as \$6.15 before finishing at \$6.886.

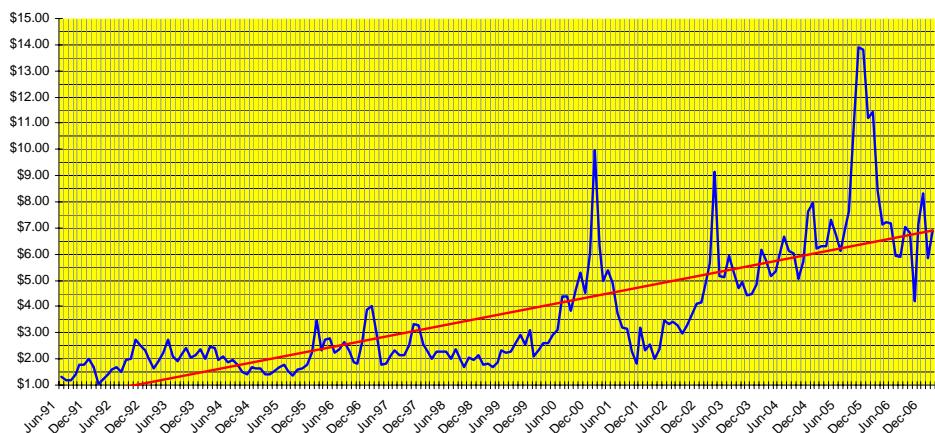
**The last full week** of trading reflected a cold weather forecast as prices rallied to \$7.319 on Monday. After generally bouncing around in the high \$6's and low \$7's, the week finished at \$7.175. The following Monday was the final trading day for the February contract and the market eased a bit with the contract finally going off the board at \$6.917.

**Overall**, prices during the month were up across the board. The

February contract gained nearly \$.75 from start to finish. The Summer strip was up roughly \$.50, from \$6.80 to \$7.27. Next winter's prices also joined in, rising from \$8.47 to \$8.69 during the month. Even the Five-Year strip was up, jumping from \$7.42 to \$7.54. Looks like short-term volatility is here to stay for awhile as weather continues to confound the market! Stay warm.

**Its almost that time of year again.** The EnergyUSA-TPC Spring Energy Conference is planned for March 7 at the University of Notre Dame Center for Continuing Education in South Bend, IN. We have put together an exiting lineup of speakers this year touching all kinds of assorted topics. See the attached agenda for the full roster and registration details. We think this will be our best event yet, so don't miss it!

## Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

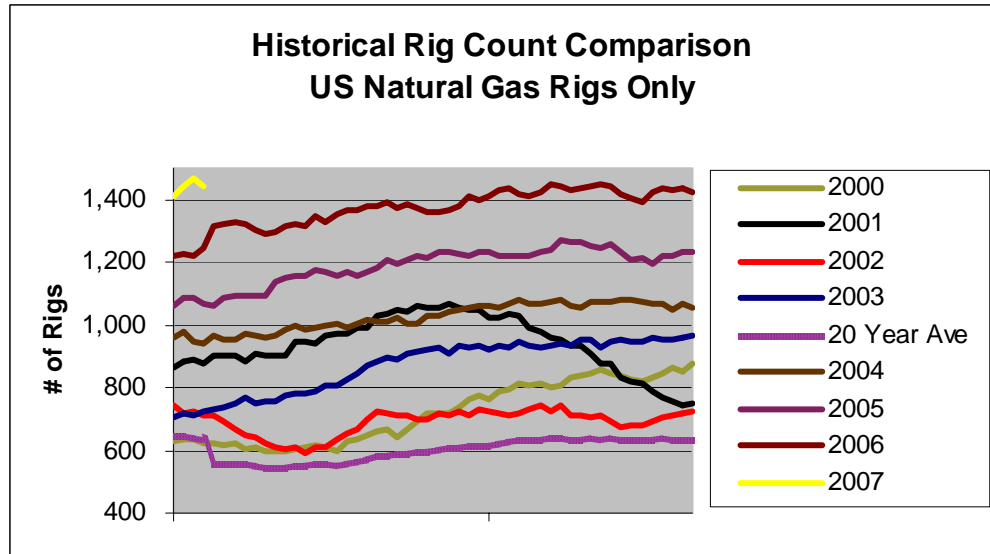
Red Line—Ongoing Price Trend Over Time

# Baker Hughes Drilling Rig Count



Change	
Feb-07	1,440
Feb-06	1,247
Change	193
% Change	15%

vs. Last Month	
Feb-07	1,440
Jan-07	1,438
Change	2
% Change	0%



## Industry Terms

Natural Gas Delivery to Your facility can be quoted several ways, depending on how the gas is actually delivered. **Henry Hub:** A pipeline interchange near Erath, LA. The Henry Hub is where a number of interstate and intrastate pipelines interconnect. This is the standard delivery point for all NYMEX futures contracts.

**City Gate:** A physical location where gas is delivered by a pipeline to a local utility for delivery to the customer. Gas priced at the city gate includes the NYMEX futures price at the Henry Hub plus the transportation delivery fee (basis). Sometimes these prices are separately detailed and other times they are bundled.

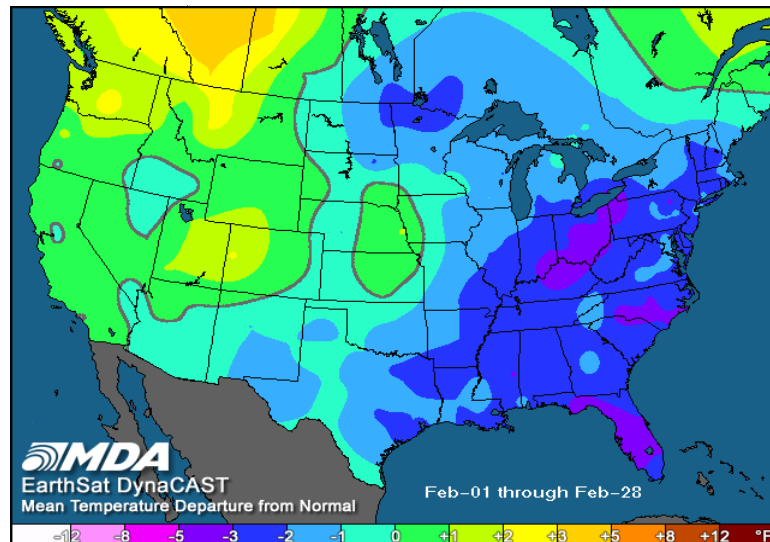
**Burnertip:** This the point

where gas is used by the customer. Burnertip delivery includes the NYMEX futures price at the Henry Hub, the basis delivery charges on the pipeline and the distribution cost on the local utility system. All burnertip deals include these 3 elements—they may be bundled or identified separately.

### 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

## MDA EarthSat February, 2007 Forecast



# Randy's Corner

Is it cold outside or is it just me? All morning I have been singing to myself the holiday classic duet by Bobby Caldwell and Vanessa Williams "Baby, Its Cold Outside." And people wonder why Chicago does not host the Super Bowl in an open-air stadium !?!

**The Market:** Given that it is the first week of February, we really should not be alarmed by frigid level of cold this Arctic blast has presented us with. Rather the surprising factor is the coverage; consuming the greater lower 48, stretching as far West as California and all the way south to the Gulf of Mexico and Florida. Are we certain Hawaii is excluded from this Siberian cold? Did you think that the relatively 'warmer-than-normal' weather would continue through the remaining Winter months?

Coming off of a \$6.917 settlement for NYMEX natural gas futures for Feb06, prices (futures and cash alike) have reacted to the cold weather blanketing the country. What has basically been range-trading, albeit some measurable ranges for intraday, for a number of weeks, the front-month (Mar07) shows signs of softening; trading as low as \$6.19, more than once in the past few weeks. Crude oil too can not seem to shake the sensitivity to weather, especially

to the dependent Northeast consuming region.

**Fundamentals:** Weather, weather, weather. We certainly need to include storage into the mix. Despite the cold-snap, which is expected to last late into the first full week of February, weather models fluctuate on the longer 11-15 day term and beyond; wavering between the cold continuing to offering a reprieve to above normal temperature in the East and South. All the same, consensus holds true for yet another push of cold air into the mid-continent around the middle of February.

Preliminary forecasts for the February 8<sup>th</sup> storage report from the EIA calls for a withdrawal above 200 Bcf. The latest report (186 Bcf withdrawal) surprised the market, coming in below the 200+ Bcf estimate. The nation has a total inventory of 2.571 Tcf. As a point of reference, the 5-year average withdrawal for the next report is 152 Bcf; and with the broadcast cold gripping the nation, we are certain to exceed -152 Bcf. The next two (2) storage reports are likely to include the coldest temps this Winter, and will ultimately have the greatest impact on the storage balance for Winter '06-'07.

**Market Indicators – Price Forecasts:** PIRA Energy Group's latest forecast predicts NYMEX settlements for Mar07

at \$7.00; Summer (Apr07~Oct07) at \$6.51. The latest technical support for Mar07 NYMEX natural gas futures are pegged at \$7.35, \$7.00, \$6.85 and \$6.60; with resistance at \$8.37, \$8.125 and \$7.94. Long Term: a) domestic demand for natural gas is increasing 3% (+/-) per year, with supply increasing 1% (+/-); b) production from older wells is rapidly declining; c) new electricity capacity is generated by natural gas, over coal, water, oil and nuclear

**Risk Management:** Supported by the EIA's recent short-term energy outlook, stressing that natural gas will remain sensitive to any periods of sustained cold weather during the remainder of this Winter heating season, I remain 'bearish' once the current cold-snap runs its course. We have a few more weeks of storage and Winter weather before gearing-up for a Summer forecast. Remember, hurricanes and shut-in's are looming out there; however, buy opportunities that satisfy your goals and objectives will likely occur and we are here to help you achieve them. Diversification (layering) is key to minimizing risk, from a fluctuating market driven greatly by weather and geopolitics; neither of which buyers have control over.

Finally, while we do not advocate attempting to outguess the market, understand that our entire staff stands ready, willing and able to assist you with making the most informed decision possible with regards to managing your expense for natural gas.



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## Electric Update

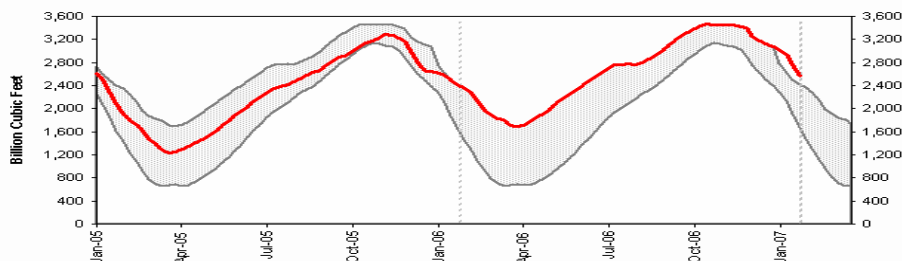
The forward electricity markets seem to be trying to follow the volatility in the natural market. Generally, prices are relatively flat through Spring into the first part of Summer. The March-June spread is a bit tighter than in previous months. There has also been noticeable price movement in the day-ahead market in response to the cold weather currently blanketing most of the country.

LONG-TERM FORWARD ASSESSMENTS (\$/MWH)					
Trading Point	Mar	Apr	May	Jun	
Cinergy	\$ 58.00	\$ 57.50	\$ 56.50	\$ 58.25	
NI Hub	\$ 56.75	\$ 57.75	\$ 57.85	\$ 59.50	
Entergy	\$ 64.50	\$ 65.25	\$ 64.75	\$ 68.25	
ERCOT	\$ 62.00	\$ 64.00	\$ 70.25	\$ 80.00	
PJM West	\$ 66.50	\$ 66.00	\$ 65.63	\$ 72.75	
TVA	\$ 60.25	\$ 61.25	\$ 61.50	\$ 64.00	
MASS Hub	\$ 77.20	\$ 76.20	\$ 74.20	\$ 80.25	

Prices Traded February 1, 2007 MegaWatt Daily

## Gas Storage Levels

Working gas in storage was 2,571 Bcf as of Friday, January 26, 2007, according to EIA estimates. This represents a net decline of 186 Bcf from the previous week. Stocks were 152 Bcf higher than last year at this time and 454 Bcf above the 5-year average of 2,117 Bcf. At 2,571 Bcf, total working gas is above the 5-year historical range.



**Gas Supply Facts**—The EIA proposed a new survey that will collect information on the status and operations of natural gas processing plants for use during periods of supply disruptions in areas affected by an emergency. The notice of the proposed collection seeks to solicit comments on the proposed form, "Survey of Natural Gas Processing Plants." Information collected will include plant characteristics, operation capacity and utilization rates, operating constraints, and restoration timeframes.

**DOE Microhole Initiative:** The U.S. Department of Energy's (DOE) Microhole Initiative, a 2-year-old program launched to reduce costs and environmental impacts of oil and gas well drilling, is yielding new tools that are expected to be commercially available soon. The program's aim is to develop technologies to further the application of coiled-tube drilling in the United States, in turn improving the economics of recovering previously unattainable oil and natural gas resources in marginal or declining fields throughout the Nation. Some of these tools, designed to drill ultrasmall-diameter natural gas and oil wells, have been successfully field-tested and await full-scale commercialization. Several other microhole projects are being completed and will soon move into the field-test stage. Microhole drilling entails using coiled-tube drilling rigs, which are small, easily transportable rigs that unspool coils of thin tubing to drill wells with diameters of less than 4.5 inches or equally small-diameter "sidetrack" boreholes from existing wells. This approach leaves a much smaller footprint in environmentally-sensitive areas and produces much less drilling waste compared with conventional rigs that deploy standard-size drill pipe to drill larger-diameter holes. The main purpose behind the program was to find a way to economically develop the vast untapped oil and natural gas resource lying at shallow depths in tens of thousands of declining or depleted reservoirs. The United States has trillions of cubic feet of bypassed natural gas. Similarly, there are more than 218 billion barrels of bypassed conventional oil at less than 5,000 feet subsurface that is not recoverable with current technology. Recovering one-tenth of that oil would equal roughly 10 years of OPEC imports at current levels.

*EIA Natural Gas Weekly Update—February 1, 2007*

MOSCOW — President Vladimir Putin said Thursday that Russia had no existing plan to build a global cartel of natural gas producers like the OPEC oil group and rejected suggestions that the Kremlin is using its vast energy reserves as a political weapon. Iranian officials had raised the idea when Igor Ivanov, the secretary of Russia's presidential security council, visited Tehran last week. "The idea of a gas OPEC is interesting, we will think about it," Putin said during his annual news conference in the Kremlin. He added, however, that Russia has no immediate plans to build such a group. "We aren't going to create a cartel, but coordinating our activities would be a right thing to do," Putin said, responding to a question on whether he would discuss the idea during his trip to the Persian Gulf set for next month. Putin said such coordination should help ensure stable supplies.

*Houston Chronicle—February 1, 2007*

DURANGO, Colo. — BP announced plans this week to spend \$2.4 billion in coal-bed methane natural gas development in Colorado over 13 years. Company officials say the massive investment will trickle down into the hands of local government as well as regional oil and gas service companies in New Mexico and Colorado. "Once we get this program up and running, we could see an increase of as much as 20 percent in terms of the total gas we make," said BP spokesman Dan Larson. "That gives an assurance to local businesses, employees and government that we will manage our business in a stable, predictable way."

Overall, BP operates 3,400 wells in the San Juan Basin and produces 900 million cubic feet per day of natural gas. One trillion cubic feet of natural gas can heat 500,000 homes for 25 years. The company recently replaced an old drilling rig with a new one capable of doubling the number of wells drilled to about 100 per year. BP expects to drill 700 wells over the investment period. "This investment will allow us to continue the responsible development of one of the largest gas fields in the U.S. while enhancing our ability to continue delivering clean-burning natural gas to domestic markets," said Tony Hayward, chief executive of BP Exploration and Production.

BP said it will minimize the environmental impacts by drilling nearly all the new wells from existing well pads using directional drilling and where possible, use existing roads and pipelines. It will continue tests of horizontally drilled wells, which holds the potential for further reduction of surface impacts.

*Farmington Daily Times—February 1, 2007*

CenterPoint Energy and Spectra Energy have dropped plans for a pipeline to carry natural gas from West Texas to the Eastern U.S. after failing to land enough customer commitments. The 1,600-mile project, known as the Mid-Continent Crossing, was to have carried as much as 1.75 billion cubic feet of gas a day from the Barnett Shale gas fields in West Texas to the Oakford and Delmont area of Pennsylvania. But other pending projects to move gas from the central U.S. to Eastern markets — including Boardwalk Pipeline Partners' 167-mile Fayetteville Expansion project and Kinder Morgan Energy Partners' 500-mile Midcontinent Express Pipeline — were competing for many of the same customers. In a joint statement, Houston-based CenterPoint and Spectra said they would continue to evaluate other projects to move Midcontinent gas in the future. "We continue to believe that there is a need for infrastructure that supports producer efforts to bring these nontraditional natural gas supplies to the Eastern markets, and should the appropriate project present itself, we would be willing to look at it jointly," the companies said.

*Houston Chronicle—January 31, 2007*

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

## Upcoming Events & News

The thought of cold weather and snow getting you down? Think Spring! The 2007 EnergyUSA-TPC Annual Energy Conference is now just 5 weeks away. The agenda is complete and we have an exciting lineup of speakers. Reserve your spot now and mark March 7, 2007 in your calendar. For those coming into town the evening before, EnergyUSA-TPC is hosting an informal get-together at one of the local establishments. Food, drink and great fellowship will start at about 6:30 on the evening of March 6. We look forward to seeing you in South Bend on the beautiful University of Notre Dame campus.

GasMart 2007 is coming to Chicago and EnergyUSA-TPC is a Corporate Sponsor. Pencil in May 9-11, 2006 at the Hyatt Regency McCormick Place. Come hear Val Trinkley, our illustrious General Manager, discuss market issues! While there, stop by our display booth and say Hi. Best of all, end energy users attend the conference for FREE! Visit [//gasmart.com/gasmart2007/](http://gasmart.com/gasmart2007/) for more information. We'll see you there!



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