

The BurnerTip

Gas Market Summary

Gas Facts in Brief

Oct Settlement Price - \$4.201
 Current Nov Trading \$5.76
 Winter Strip '06-'07 - \$7.373
 Summer Strip '07 - \$7.386
 Winter Strip '07-'08—\$8.83
 Gas Drilling Rig Count
 Up 14 to 1,450 Rigs
 Gas Storage Levels
 Net Injection to 3,254 Bcf
98.6% Full

What a difference one month makes! September turned out to be a very kind month for us all. Score one for the good guys....finally!

After the September future month settled at \$6.816, the October futures began trading in the \$5.87 range. As the month progressed, forward prices began to drop, and drop they certainly did. The long anticipated, eagerly awaited fall dip was upon us. With October finally settling at \$4.201, we knocked an incredible \$1.60 out of the front month. Even more incredible is the fact the October actually settled a full \$2.60 lower than the September settle.

Not only did October experience freefall, but all of the out periods saw dramatic drops as well. One month ago, the winter strip closed at \$9.824. That same strip is now trading

at nearly \$3 lower, having finally cracked the magical resistance level. Last month, the summer closed at \$8.60. It is currently trading \$1.50 lower, just a smidge above \$7. Even next winter has gotten into the act, closing at \$10.664 one month earlier and currently trading over \$2 lower. I said it before and I will say it again, **the fall dip is here**. Now is the time to be locking in your fall and your winter and even some of your summer. Please take some time to read Dave's corner this month for an in-depth analysis of the market and strategies to deal with this dip.

September was a busy month for the EnergyUSA-TPC family. We spent 9 days on the road conducting a series of customer update and strategy meetings. If you were one of the many customers who attended these meetings, we appreciate it. If

you couldn't make it, we missed you! The meetings featured some insightful discussion on the market coupled with strategic recommendations on dealing with this dip in prices. The most up to date handouts from the meetings are available electronically. Just let us know.

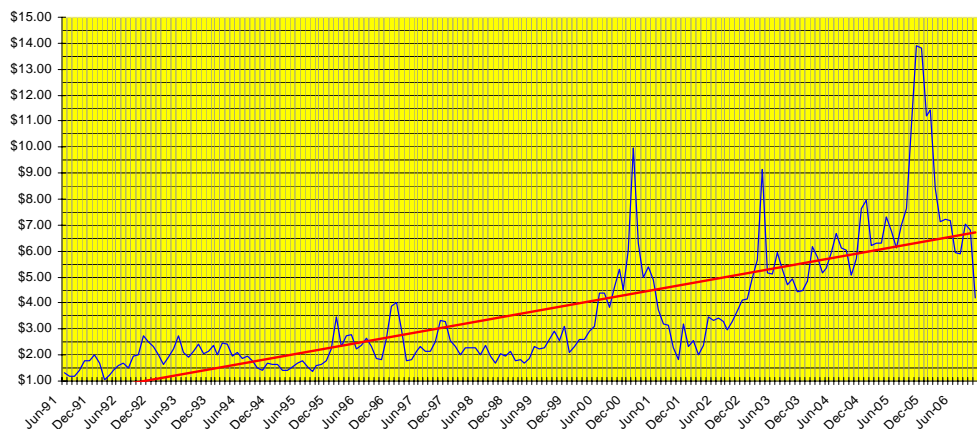
In addition to the customer meetings, EnergyUSA-TPC also exhibited at several conferences and seminars including the World Engineering Conference in Washington DC and the Indiana School Boards Association meeting in Indianapolis. Keep an eye peeled for us as you attend other energy related activities and events. You never know where you might see us!

Finally, we have been blessed with a number of new customers recently. If you are new to the EnergyUSA family—Welcome and Thank You for Your Business!

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Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

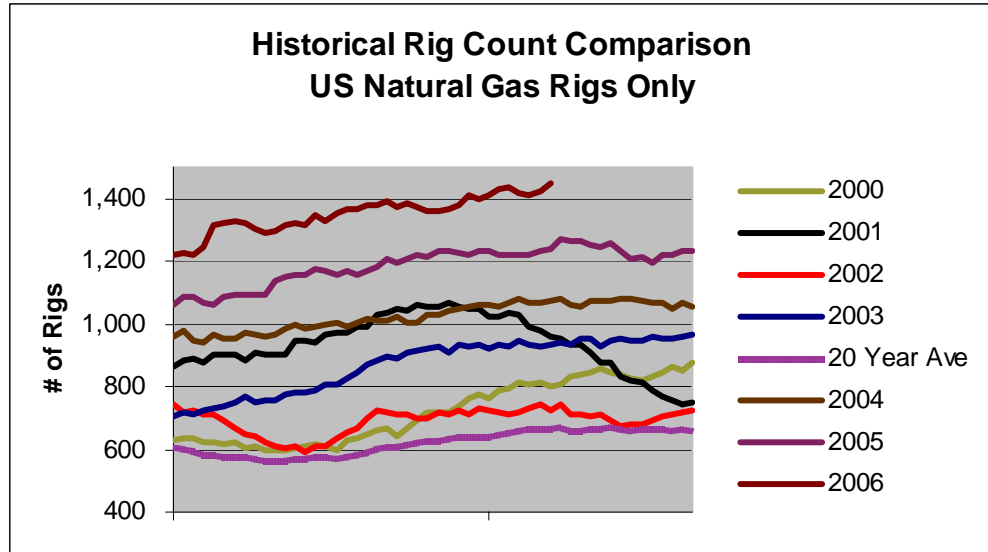
Red Line—Ongoing Price Trend Over Time

Baker Hughes Drilling Rig Count



Change	
Oct-06	1,450
Oct-05	1,239
Change	211
% Change	17%

vs. Last Month	
Oct-06	1,450
Sep-06	1,436
Change	14
% Change	1%



Industry Terms

Since renewable energy seems to be "in" now, a few terms:

Active Solar Energy System—a system in which the collector and thermal storage components are separated and require a fan or pump to circulate the thermal fluid/air between them.

Concentrating Collector—a device that concentrates the sun's rays on an absorber surface that is significantly smaller than the overall collector area.

Direct Gain—when solar energy enters a building, usually through windows, and is absorbed and stored by thermal mass inside the

building.

Horizontal Axis Machine—a windmill whose axis of rotation is parallel with the ground—the common farm windmill is an example.

Passive Solar Energy System—a system where the collector and thermal storage components are integrated requiring no heat transfer device.

Radiative Cooling—cooling that occurs when warm surfaces radiate excess heat to cool surfaces. Water bodies and massive construction materials absorb heat from interior spaces during daytime hours and radiate it at night.

Solar System Efficiency—the percentage of solar radiation reaching the collector area that is actually delivered to the building as heat.

Thermal Chimney—a vertical cavity through which heated air moves as a result of the stack effect. Used as a means of passive heat distribution or induced ventilation.

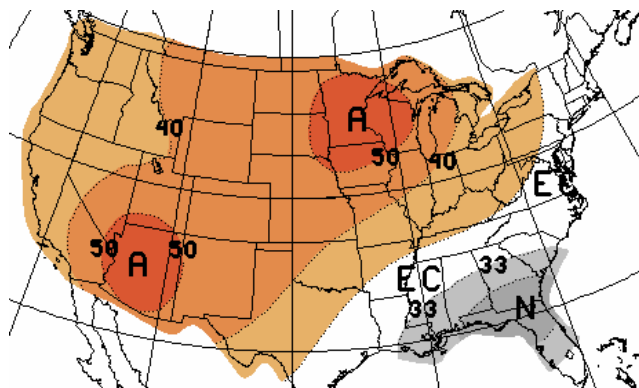
Vertical Axis Machine—a windmill whose rotor axis is perpendicular to the ground, the egg beater type of windmill is an example of this.

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

November, December, January NOAA Forecast

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



Dave's Corner



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Bloodbath, carnage, panic, massacre – no, these aren't terms that describe the latest Halloween horror flick playing at your favorite movie theatre, but words that accurately depict what's occurred in the volatile world of natural gas commodity trading the past several weeks. The October '06 natural gas futures contract rolled off the board this week at \$ 4.201, the lowest settlement of a prompt-month in four years (since Nov. 2002). Remember last year at this time? Our nation was still reeling from the nasty sisters named Katrina and Rita, propelling the October '05 futures contract to a mind-numbing closing price of \$ 13.907. What a difference a year makes!!

Adding to the selling frenzy was news that Amaranth Advisors LLC, a large hedge fund based in Greenwich, Connecticut, lost nearly \$ 6 billion, betting wrong on the March '07/April '07 natural gas price spread (i.e., buy Mar. '07, sell Apr. '07). Earlier this summer, that spread was as much as \$ 2.25; today it's less than \$0.50. One of the best quotes came from the 32-year old trader at Amaranth responsible for this debacle. In late July '06 when his returns were still positive, he said "Every time you think you know what these markets can do,

something else happens". Famous last words!!! We have a feeling Amaranth won't be the last speculative energy hedge fund crushed by the recent energy meltdown.

What's this mean to commercial and industrial end-users? Simply put, it's finally time to start thinking longer-term. We haven't seen a buying opportunity like this for years, so now is a great time for conservative and moderate risk buyers to take action. The NYMEX natural gas futures price curve is about as flat as it can get, with strip prices trading at:

- One-year (11/06 thru 10/07) at \$ 7.38
- Two-year (11/06 thru 10/08) at \$ 7.62
- Three-year (11/06 thru 10/09) at \$ 7.63

As we transition from summer to the winter and considering how extremely oversold this market is right now, don't be surprised to see a corrective rally sometime in October '06, followed by additional selling if winter temperatures turn out to be normal to above-normal. There's no question that storage levels will be at record levels, probably 3400 to 3500 BCF, as we enter the winter heating season, but guessing a market bottom is impossible. We've always preached risk-management as opposed to market speculation.

The process of managing energy market risk can be broken into five discreet steps:

- Step 1: Analyze your risk
 - Quantify the risk facing your company
 - Define your company's tolerance for risk
 - Identify risk gaps between your risk exposure and risk management objectives
- Step 2: Develop risk-reducing strategies (e.g., hedging strategies, validate the accounting treatment of selected hedging strategy)
- Step 3: Transact, document and report your hedges
- Step 4: Monitor your portfolio and positions
- Step 5: Report your results (e.g., hedge effectiveness, savings reports, etc)

Enjoy the ride down and we hope all of you are tremendously successful in achieving your company's energy budget goals. If we can help you through this process, please don't hesitate to contact your account manager.

Electric Update

Forward electric prices have moderated at all trading points. However, winter prices in the northeast remain strong on fears of cold winter weather and a potential shortage of electricity. Several long-range forecasts are calling for moderate winter temperatures throughout the country EXCEPT for the northeast where unseasonably cold weather is projected in January and February.

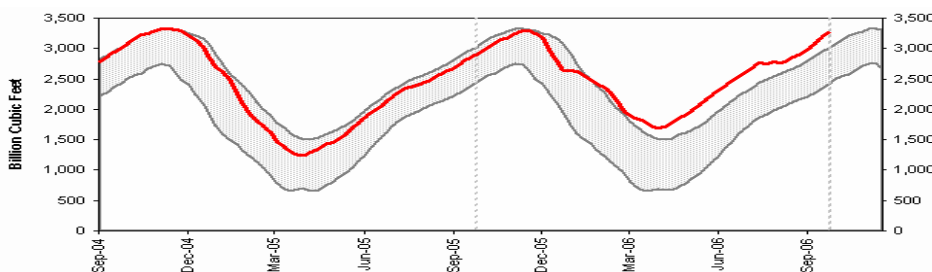
LONG-TERM FORWARD ASSESSMENTS (\$/MWH)					
Trading Point	Oct	Nov	Q406	Jan/Feb 07	
Cinergy	\$ 38.00	\$ 42.75	\$ 42.50	\$ 58.05	
NI Hub	\$ 35.70	\$ 42.05	\$ 43.25	\$ 58.80	
Entergy	\$ 35.30	\$ 40.70	\$ 41.55	\$ 59.30	
ERCOT	\$ 35.05	\$ 42.00	\$ 42.60	\$ 55.30	
PJM West	\$ 41.10	\$ 50.00	\$ 51.45	\$ 72.55	
TVA	\$ 39.15	\$ 42.15	\$ 44.55	\$ 58.25	
MASS Hub	\$ 51.60	\$ 59.40	\$ 62.60	\$ 103.05	

Prices Traded September 29, 2006 MegaWatt Daily

Gas Storage Levels

Working gas in storage was 3,254 Bcf as of Friday, September 22, 2006, according to EIA estimates. This represents a net increase of 77 Bcf from the previous week. Stocks were 377 Bcf higher than last year at this time and 354 Bcf above

the 5-year average of 2,900 Bcf. At 3,254 Bcf, total working gas is above the 5-year historical range.



Gas Supply Facts—EIA released the report, [Advance Summary: U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Reserves 2005 Annual Report](#) on September 26, 2006. The report presents highlights of petroleum industry activity that affected oil and natural gas production and proved reserves in 2005 and key data tables showing domestic proved reserves. According to the report, proved natural gas reserves were up by 6 percent in 2005, continuing the 7-year trend of increases and marking the largest annual increase in natural gas proved reserves since 1970.

EIA Releases Short-Term Outlook

EIA Releases Its September Short-Term Energy Outlook: According to the Energy Information Administration's (EIA) latest *Short Term Energy Outlook (STEO)*, released on September 12, 2006, natural gas spot prices at the Henry Hub averaged about \$6.74 per thousand cubic feet (Mcf) in the summer of 2006 and are expected to increase in the upcoming winter owing to winter heating fuel demand. However, the projected average spot price for 2006 of \$7.51 per Mcf is lower than the 2005 average by \$1.35 per Mcf. The 2007 spot price average is expected to increase to about \$8.30 per Mcf, assuming sustained high oil prices, normal weather, and continued economic expansion in the United States. Total U.S. natural gas consumption in 2006 is expected to fall by about 240 billion cubic feet (Bcf) or 1.1 percent below the 2005 level and then increase by about 880 Bcf or 4.1 percent in 2007. The relatively low consumption in 2006 is the result of a large dropoff in residential consumption, which is expected to decline in 2006 by 360 Bcf, or 7.5 percent, from 4.84 trillion cubic feet (Tcf) in 2005. This decline is attributable largely to the mild weather during the early months of 2006. By 2007, residential consumption is expected to rebound to 4.89 Tcf, increasing by 8.4 percent on the year. The mild weather, in conjunction with economic incentives posed by the relative positions of NYMEX futures contract prices and spot prices, also resulted in working gas stocks in storage that have been well above the 5-year average throughout this year. The high storage levels are expected to continue, with natural gas working inventories projected to start this winter's heating season at the highest levels since 1990. Inventories are expected to total 3,429 Bcf at the end of October, 298 Bcf above the 5-year average. Domestic dry natural gas production in 2006 is expected to increase by 1.1 percent to 18.45 Tcf and by another 1.5 percent in 2007 to 18.73 Tcf. *EIA Natural Gas Weekly Update, September 14, 2006*

Nymex warned Amaranth in August on gas trades

NEW YORK: The New York Mercantile Exchange told Amaranth Advisors LLC that the hedge fund's natural gas bets were too big a month before the trades led to a \$6bn loss, said two people with knowledge of the meeting. Amaranth closed out some of its natural gas positions after the warnings, according to the people, who asked not to be named because the communications were confidential. Nymex cited rules about the number of contracts a single company or fund may hold. "People are free to lose their shirt if they don't make good trading decisions," said Geoffrey Aronow, the head of enforcement at the US Commodity Futures Trading Commission from 1995 to 1999. The regulatory oversight worked the way it was supposed to because the losses were borne by Amaranth's investors and didn't spread, Aronow said. US lawmakers complained this year that speculators are boosting energy prices and avoiding oversight with trades that are not done on exchanges. They have cited Amaranth's biggest- ever hedge fund loss as an example of the problem. Legislation has been proposed to expand the reach of regulators to electronic trading that is not as closely monitored as the Nymex. Nymex spokeswoman Anu Ahluwalia said the exchange "routinely conducts market surveillance," and declined to discuss Amaranth specifically. Amaranth spokesman Shawn Pattison declined to comment. Natural gas touched a record \$15.78 per million British thermal units last December and has dropped 72% since then. Oil is down 22% from an all-time high of \$78.40 a barrel in July.

Members of Congress including Senators Dianne Feinstein of California and Carl Levin of Michigan, both Democrats, want greater authority for the Commodity Futures Trading Commission to monitor energy trading, especially on the all-electronic Intercontinental Exchange Inc. Timothy Geithner, president of the Federal Reserve Bank of New York, said two days ago the central bank may need to extend its supervisory authority to securities firms and hedge funds because of their increased role in the financial system.

Bloomberg, September 28, 2006

Coal Mine Signs 20 Year Contract

After three years of planning and negotiating, the planned coal-to-synthetic natural gas facility near Waltonville is a step closer to reality after a 20-year agreement has been executed with another energy company resulting in 100 percent of the facility output being subscribed. Power Holdings LLC announced Monday that Oneok Energy Services Co. LLC of Tulsa has signed on to the project. This agreement, along with prior agreements from Ameren and Nicor Gas, means all output has been sold. The Southern Illinois SNG facility, to be located west of Rend Lake, will convert approximately 4 million tons of Illinois coal into 50 BCF of pipeline-quality natural gas. This 50 BCF is approximately 5% of the annual consumption of Illinois, according to Power Holdings. The plant will require 1,200 construction employees over three years, will ultimately employ over 200 full time plant operators, and will necessitate the opening of a new mine creating 400 coal-mining positions. With the execution of this 20-year supply agreement, Power Holdings has taken another important step forward in its development of the SNG facility planned to begin construction in 2007," said Steve Shaw, CFO of Power Holdings.

Benton Evening News, September 29, 2006

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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

Northern Ohio Energy Management 2006 Conference Tradeshow and Workshops—Akron—October 3 & 4. Sponsored by the Cleveland Engineering Society, this event is geared towards commercial and industrial energy purchasers concerned with rising costs. Visit Booth 620 and visit! For more information, call 216-361-3100 or visit the website: www.cesnet.org.

The 2006 Midwest Healthcare Engineering Conference and Trade Show takes place November 1-3, 2006 at the Indiana Convention Center in beautiful downtown Indianapolis, Indiana. The theme this year is "Framework for Success" and the show features a number of presentations supporting the theme. Questions? Call 317-713-1551 or visit the website: www.midwest-healthcare-engineering.org. If you attend the show, come by booth 201 and introduce yourself!



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