

The BurnerTip

Gas Market Summary

Gas Facts in Brief

Nov Settlement Price - \$7.153

Current Dec Trading \$7.621

Winter Strip '06-'07 - \$7.945

Summer Strip '07 - \$7.619

Winter Strip '07-'08—\$8.789

Gas Drilling Rig Count

Flat at 1,450 Rigs

Gas Storage Levels

Net Injection to 3,461 Bcf

105% Full

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The October market was downright “spooky” as unexpected strength ruled. The November trading month began just where October left off with the November futures pricing trading around \$5.35.

The first full week of trading saw the market slowly drift upward, finally closing at \$6.427, more than \$1 higher than the opening. The fear of cold weather in the short-term evidently led to this strength.

Week two began just about where the first week ended, in the mid \$6.50 range. As the week progressed, the cold weather fears abated and strong storage numbers led to slowly dropping numbers. The week finally ended at \$5.65, nearly \$1 below where the week began. This led to renewed hope that the market

would continue its downward trend in the next week.

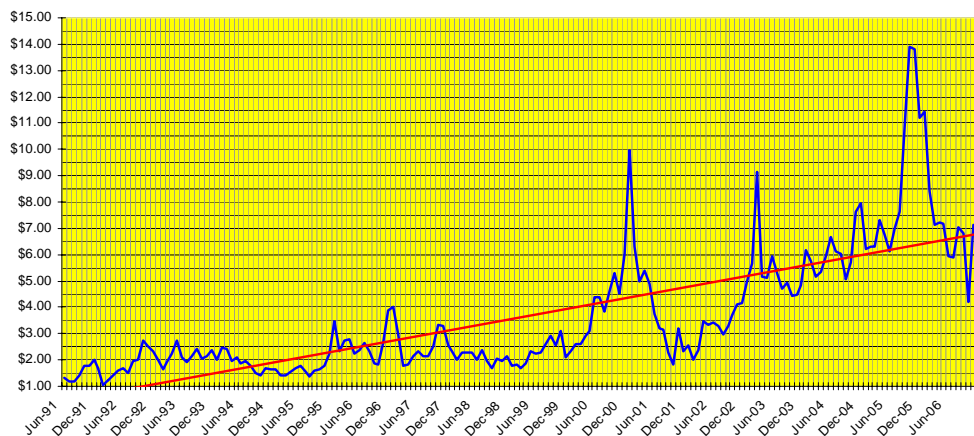
Of course, that was not to be as prices opened sharply higher to begin the third week of the month. As several near-term weather forecasts called for colder temperatures, prices continued higher throughout the week finally settling at \$7.24, about a buck and a half higher than the previous week. Plus, it wasn't just the front month that saw this jump. All of the key strips saw similar increases. Something about the rising tide lifting all ships?

As we headed into settlement week, where the market was headed was the big question. The week opened down about \$.35, but then quickly regained strength trading as high as \$7.75 on Wednesday and \$7.83 on Thursday. As settlement day

approached, there was some retracement apparent as November finally settled at \$7.153. Through the month, the November futures prices increased in value by over \$1.80. The highest trading level of \$7.83 was reached on Wednesday, October 26 while the lowest trading point was \$5.35 on the first trading day of the month—September 28. Total range over the month was \$2.50. Who said volatility is going away?

A word about storage levels. Traditionally, storage has been considered full at the 3,300 BCF level. As we approach 3,500 BCF actually in storage, a new level of expectation is being established. Will the market now expect 3,500 every year as the new “full” level? Also, how much higher can storage levels go? Only time will answer these and other storage questions! Have a great holiday season!

Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

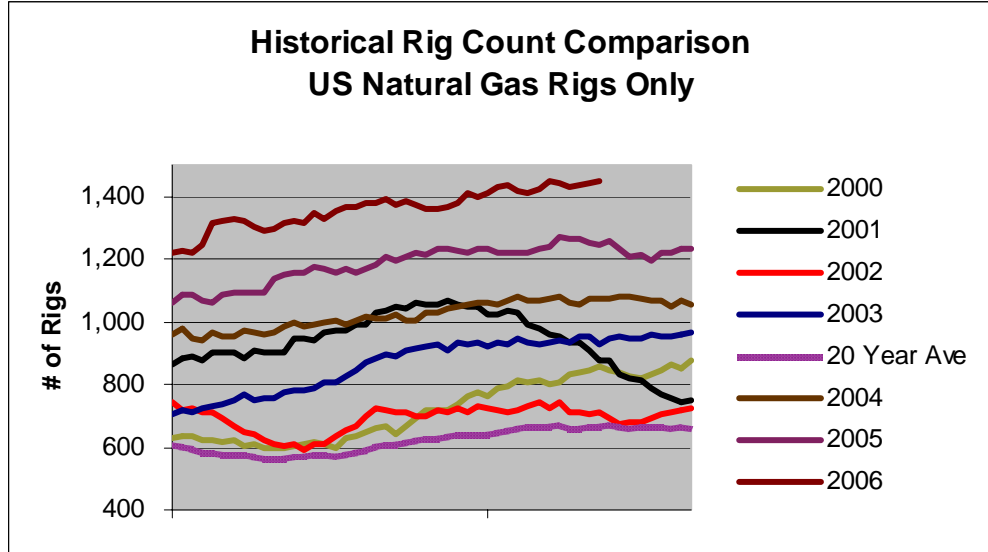
Red Line—Ongoing Price Trend Over Time

Baker Hughes Drilling Rig Count



Change	
Nov-06	1,450
Nov-05	1,247
Change	203
% Change	16%

vs. Last Month	
Nov-06	1,450
Oct-06	1,450
Change	-
% Change	0%



Industry Terms

This month, coal gasification seems to be the latest "hot topic" - a few coal terms:

Anthracite: The highest rank of coal; used primarily for residential and commercial space heating. It is a hard, brittle, and black lustrous coal, often referred to as hard coal, containing a high percentage of fixed carbon and a low percentage of volatile matter.

Bituminous: A dense coal, usually black, sometimes dark brown, often with well-defined bands of bright and dull material, used primarily as fuel in steam-electric power generation, with substan-

tial quantities also used for heat and power applications in manufacturing and to make coke. Bituminous coal is the most abundant coal in active U.S. mining regions.

Coke : A solid carbonaceous residue derived from low-ash, low-sulfur bituminous coal from which the volatile constituents are driven off by baking in an oven at temperatures as high as 2,000 degrees Fahrenheit so that the fixed carbon and residual ash are fused together. Coke is used as a fuel and as a reducing agent in smelting iron ore in a blast furnace. Coke from coal is grey, hard, and porous and has a heating value of 24.8 million Btu per

short ton.

Lignite: The lowest rank of coal, often referred to as brown coal, used almost exclusively as fuel for steam-electric power generation. It is brownish-black and has a high inherent moisture content, sometimes as high as 45 percent

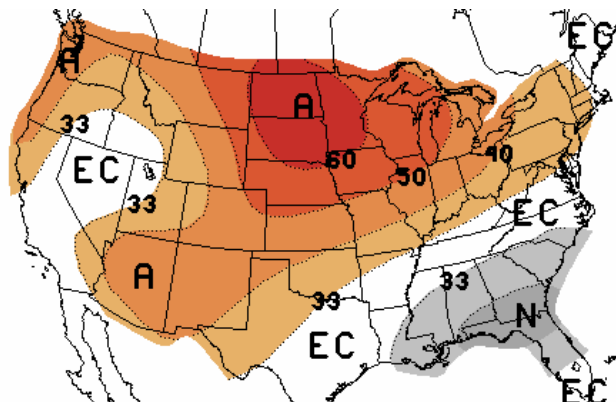
Subbituminous: A coal whose properties range from those of lignite to those of bituminous coal and used primarily as fuel for steam-electric power generation. It may be dull, dark brown to black, soft and crumbly, at the lower end of the range, to bright, jet black, hard, and relatively strong, at the upper end.

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

December, January, February NOAA Forecast

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



Randy's Corner

The Market: Crude Oil is trading around \$58 per barrel; remaining below the pivotal psychological level of \$60 per barrel. November 1st marks the beginning of OPEC's aggressive 1.2 M barrels per day reduction in output, announced at their meeting October 19th -20th. This move reinforces OPEC's discipline to defend its pricing structure. Fortunately, the natural gas market continues to show signs of flexing its own muscle - - avoiding the pressure to be driven by crude oil's global dominance in the marketplace.

NYMEX natural gas front-month (Dec06) futures are trading around \$7.50/MMBtu. Major support for Dec06 NYMEX natural gas futures is seen at \$7.31, \$7.19 and \$7.06; with resistance seen at \$7.535, \$7.645 and \$7.73.

The balance of the Winter strip is trading around \$7.85 and next Summer is not far off, trading around \$7.65 / MMBtu. From another perspective, longer-term (1-year, 2-year and 3-year) strips are trading around \$7.75, \$7.95 and \$7.90 respectively.

Fundamentals: What more can be said, that has not been the running theme this Autumn; El Nino, resulting in a warmer-than-normal forecasts, coupled with slim to no storm activity in the tropics, and a record level storage inventory. All this adds up to keeping prices low, relatively speaking. What is even better, speculation from market analysts, traders and brokers has it falling-off even more. Granted, few are expecting a catastrophic collapse to \$4 / MMBtu; but some additional relief is probable.

November 1st is traditionally the first day natural gas can be withdrawn from storage. However, this year, record storage levels greet November 1st with 'seasonal' temperatures across much of the CONUS; with a forecast for even warmer weather predicted to make its way into the consuming regions of Chicago and the Northeast, throughout November. Despite experiencing a 'cold' October, many forecasters are jumping on El Nino conditions and the market remains bearish for November, 2006. However, there is legitimate concern for "Old Man Winter" to arrive and make his presence known between Dec06 ~ Mar07.

An interesting statistic from PIRA Energy Group pointed out that while we experienced roughly a 7% reduction in consumption over last years heating season, attributed to conservation. This season, the forecast is for only a 2-3% drop, which is heavily dependent on the level degree of cold we ultimately experience. What does that mean? End-user psyche may forego conservation measures and the result could be rising prices, because the market could run-up in response to demand.

Market Indicators - Price Forecasts: PIRA Energy Group recently updated their natural gas forecast; NYMEX futures for Dec06 at \$8.60; the balance of Winter (Dec06 ~ Mar07) at \$7.775. In the interest of providing a forward-look; PIRA's forecast for Cal07 (calendar 2007, Jan07 ~ Dec07) is \$6.72. ConocoPhillips remains 'bearish' on the prospect of prices remaining soft for the immediate future, but is cautiously 'bullish' beyond the 30-day period. Overall, PIRA Energy Group's outlook on the entire energy

complex is 'bearish' with predominantly warmer-than-normal weather forecast and a storage inventory of record proportion.

Risk Management: In light of the relatively 'seasonal' weather we have been experiencing, along with record storage levels, I am quite 'bearish' on the short-term. I feel strongly about instituting a strategy to address your open position for the front-month (Dec06), on the premise of buying at price levels that likely satisfy your budget. Recognizing that many budgets were grossly inflated from last years price run-up, the line of thinking, that prices will not hold, given no activity in the tropics, should not dictate your strategy to exclusively 'chase the bottom' and miss out on a fundamentally sound, well thought out, defensible strategy. The fact remains that true buy opportunities are the exception, not the norm. Given elections occurring next week and the Thanksgiving holiday not too far off, signaling another 'post-holiday-blues' opportunity for the market to react to, serious attention should be given to ensure front-month (Dec06) requirements are hedged; as well as a substantial percentage of the balance of core Winter (Jan07 ~ Feb07) months, before the cold arrives.

Beyond Winter (Dec06 ~ Mar07), the market has and will likely again present another 'perfect storm' opportunity to buy, for terms longer than a season out; 1-year, 2-year, etc., affording you true risk management, portfolio diversification.

Consider your alternatives. All things considered; be careful to avoid putting too much emphasis on trying to pick the bottom, only to lose and be forced to buy on a run-up or potentially an inflated monthly settlement. Know your budget. Know your tolerance to risk. Be prepared to buy.



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Electric Update

Weaker natural gas prices have been pushing forward electric markets lower in most regions of the US. Prices in the east regions are off nearly 20% versus 1 month earlier. The threat of a cold January in the northeast continues to keep some price strength in that market, although recent warm forecasts are beginning to temper that thinking. At this point, winter electric prices are almost completely driven by natural gas prices.

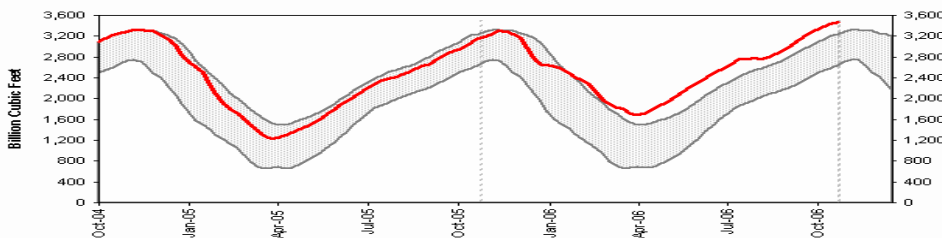
LONG-TERM FORWARD ASSESSMENTS (\$/MWH)				
Trading Point	Nov	Dec	Jan/Feb 07	Mar/Apr 07
Cinergy	\$ 46.70	\$ 51.70	\$ 56.80	\$ 52.15
NI Hub	\$ 46.75	\$ 49.80	\$ 57.95	\$ 53.05
Entergy	\$ 54.20	\$ 57.00	\$ 60.70	\$ 58.40
ERCOT	\$ 50.25	\$ 52.00	\$ 57.35	\$ 58.50
PJM West	\$ 54.00	\$ 61.50	\$ 71.50	\$ 64.15
TVA	\$ 50.60	\$ 57.15	\$ 57.55	\$ 53.10
MASS Hub	\$ 68.20	\$ 75.60	\$ 98.60	\$ 80.15

Prices Traded October 30, 2006 MegaWatt Daily

Gas Storage Levels

Working gas in storage was 3,461 Bcf as of Friday, October 20, 2006, according to EIA estimates. This represents a net increase of 19 Bcf from the previous week. Stocks were 333 Bcf higher than last year at this time and 315 Bcf above

the 5-year average of 3,146 Bcf. At 3,461 Bcf, total working gas is above the 5-year historical range.



Gas Supply Facts—The FEREC issued a final rule on 10/19/06 that expanded the scope of blanket certificate eligibility for natural gas infrastructure projects and raised the limits for project costs. Companies with blanket certificates may improve or upgrade their existing facilities, or construct certain new facilities, without the need for further authorization. The rule also clarifies that a natural gas company may charge different customers different rates for the same service based on the date customers commit to service.

Coal Gasification Plant Announced

A \$1.5 billion coal gasification plant planned for southwestern Indiana could result in lower natural gas prices for customers of NIPSCO and other utilities across the state. Gov. Mitch Daniels on Friday announced Indiana Gasification LLC plans to build the plant in the southwest part of the state to take advantage of coal produced in Indiana and put the state in the forefront of clean energy development. About two-thirds of the energy produced would be purchased by Indiana's three largest gas utilities, Northern Indiana Public Service Co., Vectren Corp., and Citizens Gas, according to a letter of intent for 30-year supply contracts the utilities signed this week.

NIPSCO would use the natural gas both for delivery to residential and commercial customers and to fuel its own natural gas-fired electric generation, which is used to meet peak seasonal demand. Indiana Gasification LLC says the contracts should result in a gas price of \$6 per decatherm, which is 22 percent less than the average price of natural gas delivered to Indiana during the last three years. A Carnegie-Mellon University study predicts Indiana gas and electric customers could save more than \$3.7 billion on the reduced cost of natural gas over the next three decades as compared to conventional pipeline sources.

The development would build on Indiana's efforts to attract ethanol and biodiesel production, Daniels said. "We said Indiana would become a leader in homegrown clean energy, but not even I thought we'd get there so fast," he said in a news release. Construction of the plant would begin in 2008, with it tentatively scheduled to be online by 2011, Daniels said. The project would create about 1,000 temporary construction jobs and 300 permanent mining jobs to feed coal to the plant, which itself would employ 125 workers.

The plant annually would produce 40 billion cubic feet of pipeline quality substitute natural gas and be the first coal gasification plant in the nation to make pipeline quality natural gas from Eastern coal, Daniels said. The process, using GE Energy technology, subjects coal to heat and pressure to free up gas. The gas is collected to make a substitute natural gas molecularly identical to real natural gas. That process also allows pollutants to be removed.

NWITIMES October 28, 2006 (The Associated Press contributed to this story)

Natural gas prices down—Tom Walker/Eyewitness News

The forecast is so good, so far for a more affordable winter heating season. After the beating consumers have taken in recent years by fuel prices, representatives of energy industry groups in the nation's capital are emphasizing the positive this heating season. Whether you heat with gas, electricity, or oil, no one is talking shortage - at least not right now. Supplies of natural gas, especially important to the Midwest, are up partly because destructive storms like those that battered gas-producing states last year were not a problem this year. Suppliers are keeping fingers crossed there won't be any other problems. "In terms of Indiana, Ohio, and Michigan, I think they're expecting pretty much of a normal winter and prices are expected to be down a little bit over last year, not significantly," said David Parker, American Gas Association.

Nationwide, natural gas prices are expected to be down 13 percent. Heating oil is expected to cost 6 percent more, and electric heat 7 percent more. Even with the price increase, power companies insist electricity is a bargain.

"If you adjust the price for inflation since 1980 the electricity is still lower at this point in time than it was then," said Tom Kuhn, Edison Electric Institute. Despite the cozy outlook for supplies of heating fuel, the industry is by no means ruling out the possibility of price shocks this winter, warning that severely cold weather could change the situation in a hurry.

Natural gas prices have been up 86 percent over the last five years, adding more than \$400 to the average winter heating bill.

WTHR October 31, 2006

Midwest Business Activity

Business activity in the U.S. Midwest expanded in October but much slower than expected and at its lowest since October 2005, a report showed on Tuesday. The National Association of Purchasing Management-Chicago said its business barometer fell to 53.5 from 62.1 in September. Economists had forecast the index at 58.0. A reading above 50 indicates expansion. "This is just a sign that the business sector has slowed down and the Chicago index, which includes services, may be weaker because of the slowdown in housing," said David Resler, chief economist with Nomura Securities Inc. in New York.

The index's employment component rose to 57.0 from 50.8 in September. Prices paid fell to 62.5 from 69.8 as energy prices continued to retreat, but new orders dipped to 54.1 from 67.3. "The most important thing is the big drop in the new orders index. Production was also lower. This suggests slower activity," said Christopher Low, chief economist at FTN Financial in New York. U.S. Treasury yields <US10YT=RR> fell on implications that the economy may have remained soft at the start of the fourth quarter, a time when many economists had looked for activity to start bouncing back from a slow third quarter. Some analysts view the Chicago index as a leading indicator for the national Institute for Supply Management factory index, due on Wednesday and currently forecast near steady at 53.0 against 52.9 in September.

Reuters October 31, 2006

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Upcoming Events & News

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!

The thought of cold weather and snow getting you down? Think Spring! The 2007 EnergyUSA-TPC Annual Energy Conference is just a little over 4 months away. We are already working on the agenda and lining up favorite expert speakers. Mark March 7, 2007 in your calendar now. We look forward to seeing you in South Bend on the beautiful University of Notre Dame campus.



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