Volume 7, Issue 2

February 1, 2008

A Publication of the Commercial/Industrial Sales Team

The BurnerTip

Gas Facts in Brief

Feb Settlement Price - $7.996

Current Mar Trading $7.99

Summer Strip '08—$8.237

Winter Strip '08-'09—$8.983

One Year Strip—$8.468

Gas Drilling Rig Count

DOWN 30 to 1,422 Rigs

Gas Storage Levels

Net Withdrawal to 2,262 Bcf

61% Full (vs. 3,703 bcf)

INSIDE THIS ISSUE:

Gas Market Summary

I trust everyone kept warm during those January roller coaster cold spells. Interesting thing is, that while it really *seemed* cold during the month, actual heating degree days across the Midwest were actually lower than normal. Chicago averaged 1.5 degrees above normal for January, Indy was 2.2 above and Columbus was a whopping 3.4 degrees warmer. I guess these recent warm winters are spoiling us!

At least the market was a bit more sedate than the weather. February began trading in the $7.50 range prior to the New Year. After the holiday, cold weather forced a rally that nearly touched $8 before closing the week at $7.841.

Week 2 began with a return of cold weather and prices responded, actually trading near $8.50 before falling back to finish at $7.993. Volume was heavy as futures traders were more than happy selling the fact.

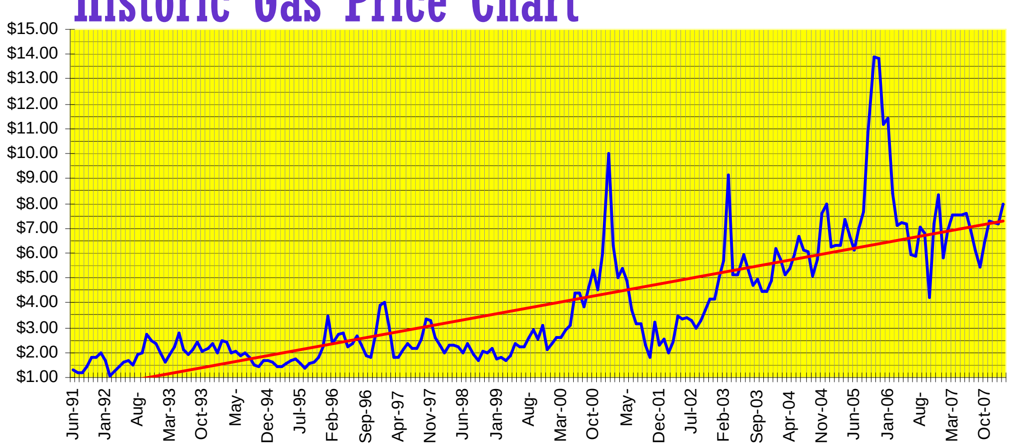
The third week of the month began with a general sell-off that continued for several days. Futures recovered later in the week to finish about where the week started—near the $8 support level.

The final 2 trading days saw quick upward movement based on a jump in crude and a large anticipated storage withdrawal later in the week. As the month went off the board, prices slid about a dime to close at $7.996. Overall, the month finished up over 11%, rising $.796 from a month earlier price. By the way, the anticipated large storage withdrawal? On Thursday, January 31, the EIA announced a withdrawal of 274 BCF, the largest single week withdrawal ever. The market's response? A collective yawn.

2 more things. First, make sure you read the expanded Bill's Page this month. Lots of good stuff. Second, don't forget to register for our Annual Spring conference on March 5 in South Bend at the University of Notre Dame. We have a GREAT agenda this year. Don't miss it!

Enjoy the Super Bowl!

Historic Gas Price Chart

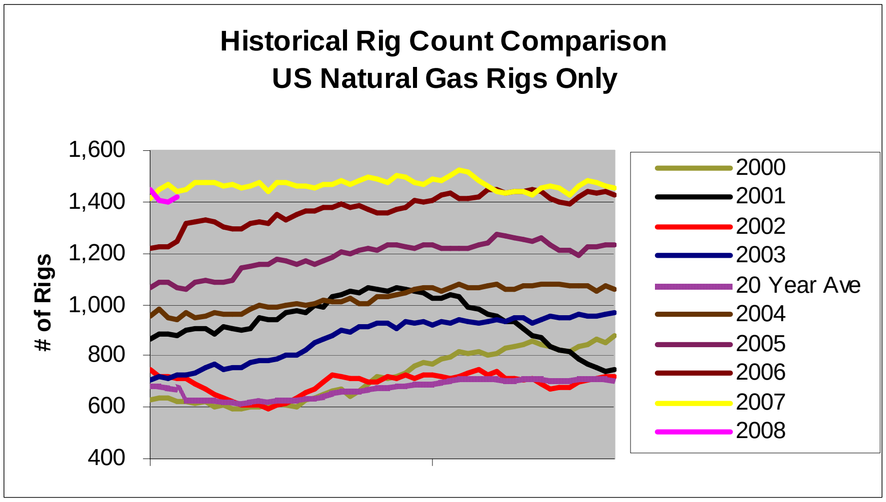


Blue Line—Month to Month NYMEX Closing Price **Red Line—Ongoing Price Trend Over Time**

Baker Hughes Drilling Rig Count

Change	
Feb-08	1,422
Feb-07	1,440
Change	(18)
% Change	-1%

vs. Last Month	
Feb-08	1,422
Jan-08	1,452
Change	(30)
% Change	-2%



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.

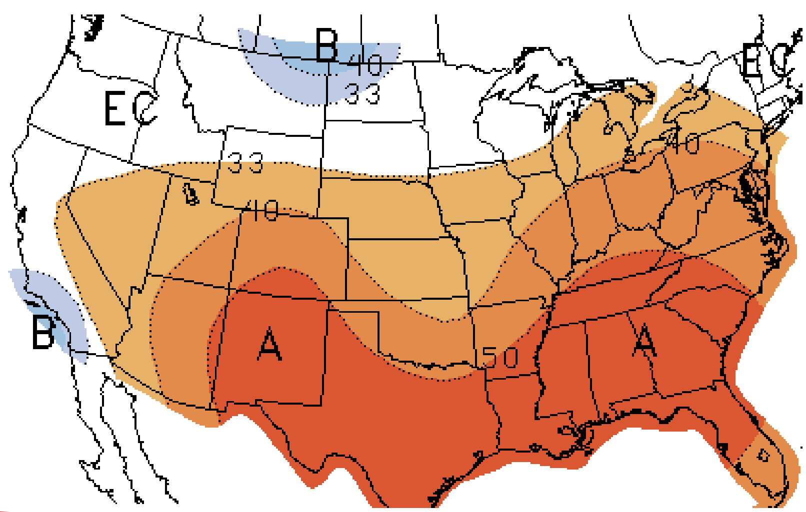
City Gate: A physical location where gas is delivered by a pipeline to a local utility for delivery to the customer. Gas priced at the city gate includes the NYMEX futures price at the Henry Hub plus the transportation delivery fee (basis). Sometimes these prices are separately detailed and other times 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
1 Gallon Ethanol = 76,100 Btu
1 Bushel Corn = 314,000 Btu

NOAA February 2008 Forecast



Energy News

Global Warming = Less Hurricanes?

On January 22, 2008, the National Oceanic and Atmospheric Administration (NOAA) released a report on new findings by NOAA climate scientists. According to the report, observed warmer ocean waters could mean fewer Atlantic hurricanes striking the United States, as ocean temperatures heavily influence the development of tropical storms. Observations indicated that warming of global sea surface temperatures is associated with a sustained long-term, increase of vertical wind shear in the main development region for Atlantic hurricanes. The increased vertical wind shear coincides with a downward trend in the U.S hurricanes reaching landfall. NOAA used U.S. hurricanes making landfall because it is the most reliable Atlantic hurricane measurement over the long term. Using observed data since the mid 19th century, scientists have found a decrease in the trend of U.S. hurricanes reaching landfall, concurrent with the increase in global ocean temperatures. This trend coincides with an increase in vertical wind shear over the tropical North Atlantic and the Gulf of Mexico. According to NOAA, observations from 1854 to 2006 show a warming of sea surface temperatures almost everywhere over the global ocean, with significant warming in tropical regions in the Pacific, Atlantic, and Indian Oceans. Warmer waters in the tropical Pacific, Indian, and North Atlantic Oceans produce opposite effects upon vertical wind shear. Warming in the tropical Pacific and Indian oceans increases vertical wind shear in the Atlantic hurricane main development region, while warming in the tropical North Atlantic decreases vertical wind shear. Overall, warming in the Pacific and Indian oceans is of greater impact and produces increased levels of vertical wind shear that suppress Atlantic hurricane activity.

EIA Natural Gas Weekly Update—January 24, 2008

Gas Boom in Pennsylvania

Research findings recently released by Penn State and State University of New York at Fredonia geologists state that a bed of Marcellus shale, which extends into four other nearby states, could contain 168 to 516 trillion cubic feet of natural gas. At present market price the natural gas in the shale is worth $5 billion-$6 billion, SUNY Professor Gary Lash said Technology allows for 10 percent of the gas to be recoverable. That number is significant with the United States now producing about 20 trillion cubic feet of natural gas a year, Penn State professor Terry Engelder said "This formation of Marcellus is so immense it is almost incalculable," said Mr. Engelder, who worked on the study with Mr. Lash.

Although the quantity of natural gas that could be extracted is speculative until wells are drilled, companies and individuals are hedging their bets, with a focus on the success of wells in Northeastern Pennsylvania. "Everybody is watching what is going on," said Stephen Rhoads, Pennsylvania Oil and Gas Association president. "Those who are actively pursuing leasing in the area are very excited about the prospects." He added that if the companies already producing natural gas are successful, then exploration in Northeastern Pennsylvania, as well as other states, will pick up.

Mr. Rhoads noted that companies have always known that the shale has existed but did not have the technology to extract the natural gas until recently. Already, companies and individuals in Northeastern Pennsylvania are taking notice of the Jan. 17 report. On Wednesday, Elk Lake School Board member Arden Tewksbury said at a board meeting that the amount of natural gas that could be extracted from the shale is unbelievable. Frank Fletcher, of Cabot Oil & Gas Corp., called the reserve the largest find in the United States and said that Cabot hopes to have 29 wells in production by Aug. 30. According to the state Department of Environmental Protection, Cabot is drilling wells in Dimock and Springville. Turm Oil Inc. is drilling in Rush Township.

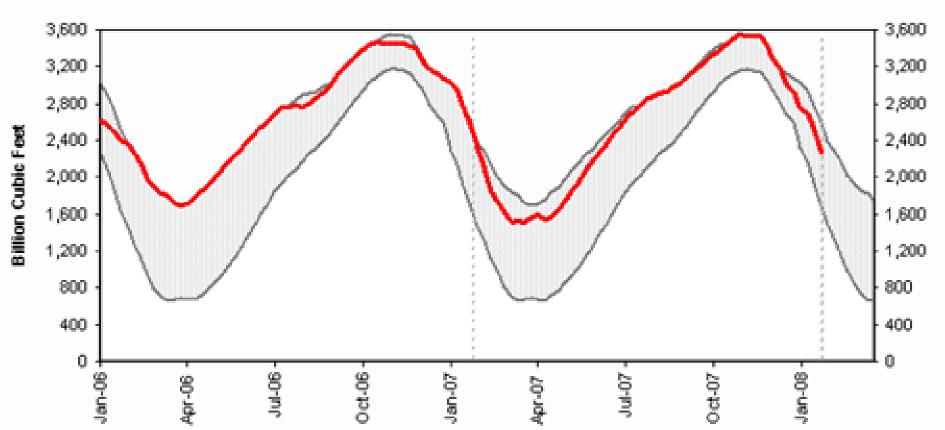
A total of 49,750 natural gas wells are active in the state. U.S. Geological Survey research geologist Robert Milici said that some wells can produce up to 30 years. The USGS estimates that the Marcellus shale contains 1.9 trillion cubic feet of recoverable natural gas. And the infrastructure to deliver natural gas is already here, but it would have to be expanded to meet additional production, Mr. Engelder said.

Although it is not known how much natural gas will be extracted until the wells are drilled, Mr. Engelder is optimistic that the shale will be prolific. "I would bet heavily on it," Mr. Engelder said.

Scranton Times-Tribune—February 1, 2008

Gas Storage Levels

Working gas in storage was 2,262 Bcf as of Friday, January 25, 2008, according to EIA estimates. This represents a net decline of 274 Bcf from the previous week. Stocks were 336 Bcf less than last year at this time and 85 Bcf above the 5-year average of 2,177 Bcf. At 2,262 Bcf, total working gas is within the 5-year historical range.



Gas Supply Facts— Rockies Express Pipeline LLC's (REX) West gas transportation system began interim service on January 12 with capacity of about 1.4 billion cubic feet (Bcf) per day. The 500-mile section runs between the Cheyenne Hub in Weld County, Colorado, to the ANR Pipeline delivery point in Brown County, Kansas, and includes delivery points with pipeline systems owned by Kinder Morgan Interstate Gas Transmission, Northern Natural Gas Company, and Natural Gas Pipeline Company of America. The remaining 213 miles of the REX-West, which are expected to come online in early February, will continue to Audrain County, Missouri, and will increase the capacity to 1.5 Bcf per day.

Bill's Page!

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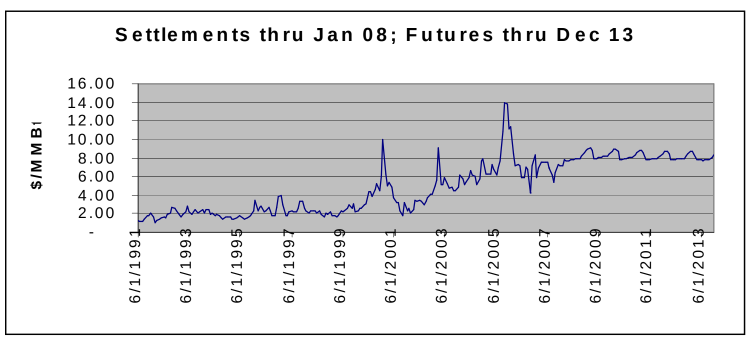
This month, an expanded version of Bill's corner. Welcome to.....Bill's Page!

In the short-term: Front month prices have retraced ~30% of the post-Christmas rally. Mar is currently trading at $7.99. Support is seen at $7.60 (minor), $7.50 (strong), and $7.25 (major). Given storage levels (PIRA: 1,543 Bcf end-of-Mar), weather forecasts (EarthSat: slightly warmer Feb/slightly colder Mar), and recession concerns, most analysts see more downward than upward pressure regarding the short-term market (but with VOLATILITY). See the Mar graph below. Caution: This week the EIA reported a *record* storage withdrawal. Next week's withdrawal could also be huge... which in turn *could* support prices. Note: Storage inventories are closing in on the 5-year average.

In the medium-term (Cal 08/09): Several Cal '08 forecasts have recently been released. They are, in no particular order: Deutsche Bank (DB) $7.75; PIRA $7.98; Raymond James $6.50; Citigroup $7.00's; Fitch Ratings $7.00's. Remember... these forecasts can not factor anomaly/unforeseen catastrophe. Point of reference: The current Cal '08 price (including Jan/Feb settles) is $8.16. Notice in the Win '08/'09 graph, below, how close prices are to support that has been tested/has held 6 times since Nov '05!

In the long-term: All NYMEX contracts (except 4) thru Dec '13 are trading with a $7 or $8 "handle". Prices are flat – slightly declining. This "backwardated" condition is one the market hasn't seen since spring '04. Given: 1) The market's historical inflation rate (8-10% since '91); and 2) DB's forecasted inflation rate (6-7% from now thru '15... $8.75 in '10; $9.75 in '12; $10.25 in '14... without unforeseen catastrophe), these "long-dated" contracts appear to hold value for conservative-moderate risk managers.



Strategic Thoughts: In summary, the short-term appears bearish, the medium-term neutral, and the long-term bullish. That suggests the moderate risk manager might consider waiting to protect the short-term, but might consider protecting a base layer (33%) of the medium-term, as well as, 1 - 2 layers (33 - 66%) of the long-term soon. Note: *IF* the short-term falls $0.50 - $1.50, the medium to long-term may fall only $0.25 - $0.75. In fact, 2 weeks ago as the short-term fell, the long-term strengthened.

Weather remains a HUGE "ultimate" price driver. Weather FORECASTS remain huge "initial" price drivers. It is important for most conservative – moderate risk managers to do *something* before the market's attention focuses on upcoming summer heat/hurricanes. Early '08 hurricane season forecasts have already been released, and most are calling for more-active-than-normal activity. Such *forecasts* can support/rally a market.

Closing Thoughts: The past two years have been good. We have enjoyed the longest bear run the market has seen (primarily due to no sustained, extreme weather and no GOM hurricanes). How long will this continue? No one knows. While most risk managers have done a good job of layering short-term hedges during dips, (and patiently waited for a medium to long-term opportunity) many hedges have ended up higher than settlement. That can happen in a bear market. It doesn't mean the hedge was "bad". It means it's tough to forecast the weather. Don't let this prevent you from continuing to manage your risk going forward. It's OK to gamble *some* of your budget on the weather, but most conservative – moderate risk managers shouldn't gamble *100%*. The market will eventually punish those that choose to "short" the market to such an extreme.

Thanks and don't hesitate to contact any of us with questions, or requests for help.

A Publication of the Commercial/Industrial Sales Team

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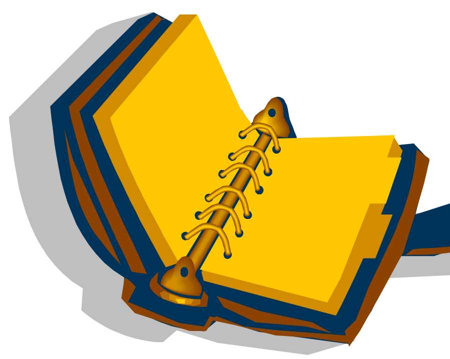
Upcoming Events & News

Invitations are out for the EnergyUSA-TPC Spring Energy Conference. Mark Wednesday, March 5 in your calendars as one day you won't want to miss. Again this year, we expect a great turnout of customers to hear a variety of presentations ranging from market updates, energy outlooks, buying strategies to market fundamentals. Also, this year we expect to have some discussion of green and renewable energy options. As in past years, the conference will be held on the beautiful University of Notre Dame campus in South Bend, IN. Also, just like last year, EUSA will host an informal conference-eve get together at Legends on the ND campus. Plan to come into town the evening before and spend a couple of hours socializing with others in the EUSA family. Watch your email for additional information as well as a detailed agenda over the next month or so.

We hear that the on-campus Morris Inn is already full for the evening. Other nearby options include: The Inn at St. Mary's—877-567-1438, Comfort Suites—574-272-1500, and Residence Inn—574-289-5555. East of campus in the Mishawaka Grape Road area there quite a few other hotels in a variety of price ranges.

The 12th Annual Ohio Energy Conference is coming up on Tuesday, Feb 26 and Wednesday, Feb 27 in Columbus, OH. On Wednesday, our own Val Trinkley and Bob Nuss will be joined by Dave McMillen of Healthtrust Purchasing Group to discuss "Staying ahead of the market—fundamentals, technicals and buying strategies." Visit www.mecseminars.com for more information. Hope to see you there!



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