

The BurnerTip

Gas Market Summary

Gas Facts in Brief

Mar Settlement Price - \$7.112

Current Apr Trading \$6.775

Summer Strip Price - \$7.241

Winter Strip '06-'07 - \$9.90

1 Year Strip - \$8.351

Gas Drilling Rig Count

Up to 75 Rigs to 1,322

Gas Storage Levels

Net Withdrawal to 2,143 Bcf

It's sunrise on February 2, 2006. Punxsutawney Phil has just seen his shadow, forecasting six more weeks of winter. The question is....was that a bad thing or a good thing? After the warmest January on record, six more weeks of that kind of weather would have been welcomed with open arms!

February opened to cooler temperature forecasts and higher prices. However, as the first week progressed, weak storage withdrawals and demand destruction pulled more than \$1 out of the market. The week ended up at \$8.613 with a weak rally.

Week 2 started with a bang as the March front month actually traded below \$8 for the first time since June 2005. March continued to drop

through the week, finally closing at \$7.316 on Friday. Interesting to note that 2 months earlier (12/13 to be exact) March traded at its all time high of \$15.55.

The third week of the month opened down and actually traded below \$7 on Wednesday. A brief rally closed out the week as the Friday settle was \$7.182

The final week of February opened on Tuesday due to a Monday Nymex holiday. A very cold weekend coupled with unrest in the oil market pushed prices to a high of \$7.77 before falling back through the week to the \$7.112 March settle.

During February, the March futures traded from a high of \$9.42 to a low of \$6.975—a trading range of nearly \$2.50! Volatility seemed less flamboyant as day to day trading ranges

generally were a quarter or less. A few days saw ranges of \$.50 or more, but those were offset by a number of days with less than a dime volatility.

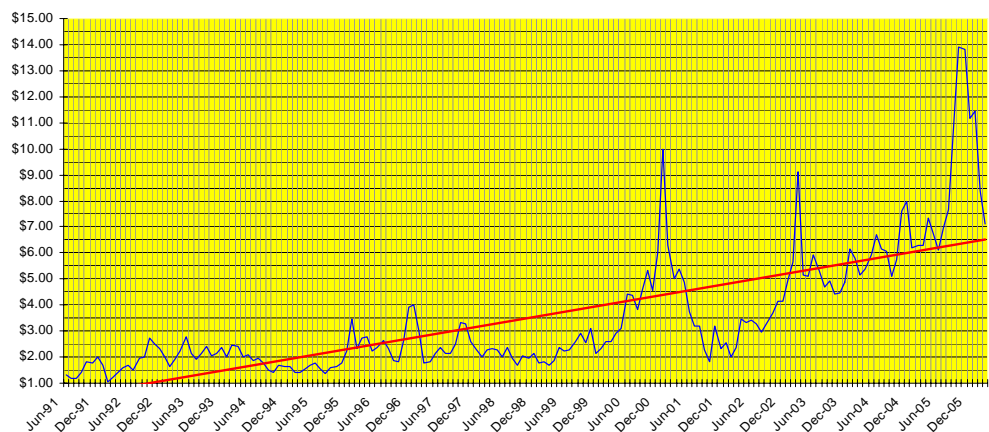
Remember that we may be in the midst of the typical late winter dip. Historically, late February and early March have often offered the cheapest prices of the year. There is currently a \$3+ spread between April and next winter prices. Be sure to read Randy's Corner on page 3 of this newsletter for more thoughts on this market.

Finally, this is your last chance to sign up for our Annual Spring Conference. Once again, the University of Notre Dame will host our group, this year on March 8. We have an outstanding lineup of speakers this year and already MANY customers have signed up. Don't miss out!

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Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

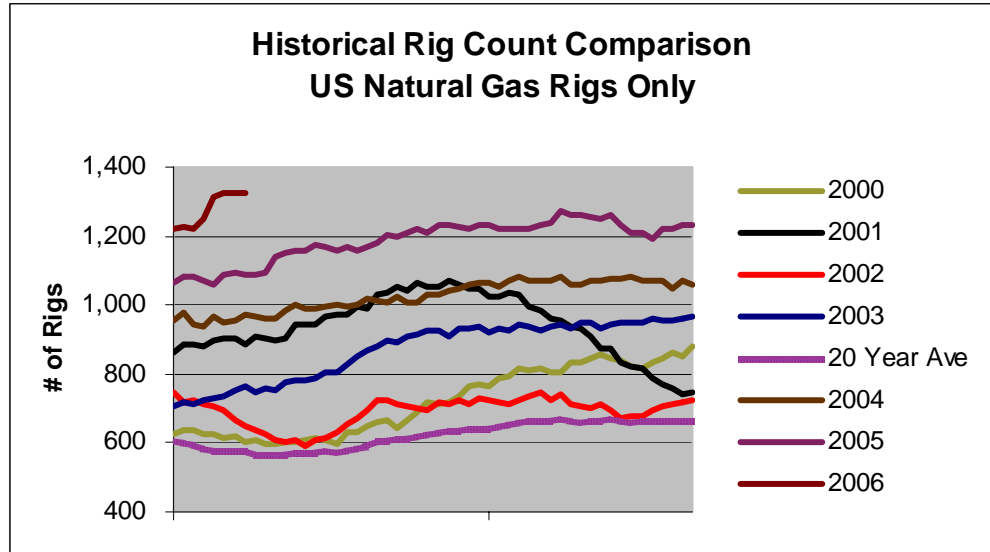
Red Line—Ongoing Price Trend Over Time



Baker Hughes Drilling Rig Count

Change	
Mar-06	1,322
Mar-05	1,090
Change	232
% Change	21%

vs. Last Month	
Mar-06	1,322
Feb-06	1,247
Change	75
% Change	6%



Industry

More about coal.

Coal: Area (Surface) Mining: A method used on flat terrain to recover coal by mining long cuts or pits successively. The material excavated from the cut being mined is deposited in the cut previously mined.

Auger Mine: A surface mine where coal is recovered through the use of a large-diameter drill driven into a coalbed in a hillside. It usually follows contour surface mining, particularly when the overburden is too costly to excavate.

Conventional Mining: The oldest form of room-and-pillar mining which consists of a series of operations that involve cutting the coalbed so it breaks easily when blasted with explosives or high-pressure air, and then loading the broken coal.

Room-and-Pillar Mining: The traditional method of underground mining in which the mine roof is supported mainly by coal pillars left at regular intervals. Rooms are places where the coal is mined; pillars are areas of coal left between the rooms.

Terms

Shaft Mine: An underground mine that reaches the coalbed by means of a vertical shaft.

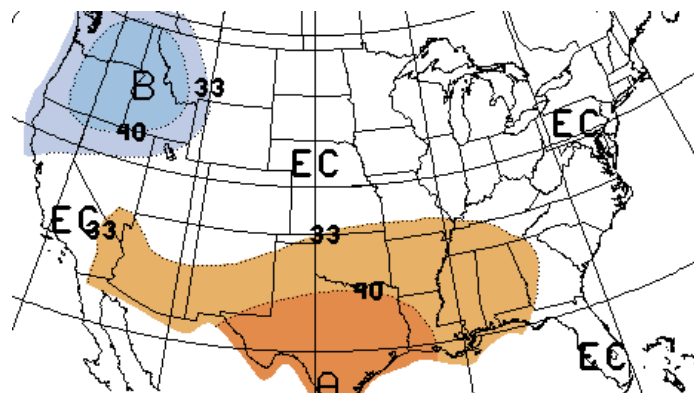
Underground Mine: A mine where coal is produced by tunneling into the earth to the coalbed, which is then mined with underground mining equipment such as cutting machines and continuous, longwall, and short-wall mining machines.

Surface Mine: A coal mine that is usually within a few hundred feet of the surface.

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

March 2006 NOAA Forecast



Randy's Corner

The Market: Crude Oil is trading around \$61 / barrel. Relatively speaking, this is still a good thing, in light of the recent geopolitical instability across Nigeria, Ecuador and Saudi Arabia. Notwithstanding is an on-going restriction to supply, stemming from a large number of refinery turnarounds scheduled in the coming months.

The NYMEX natural gas front-month (Apr06) futures are around \$6.75 / MMBtu, below \$7 / MMBtu for the first time since June, 2005. More specifically, the last time the Apr06 NYMEX futures contract traded around \$6.75 was the middle of March, 2005. Key (simple average) Strip prices for NYMEX natural gas futures are \$7.222 for Summer (Apr06 ~ Oct06); \$9.894 for Winter (Nov06 ~ Mar07); \$8.486 for Summer (Apr07 ~ Oct07) and \$8.335 for 1 - Year (Apr06 ~ Mar07). Weather forecasts for March, 2006 are generally calling for 'seasonal to above normal' temperatures. Major support is seen at \$6.50, the \$6.00; with resistance seen at \$7.00, \$7.25, \$7.50, \$7.75 and \$8.00.

Fundamentals: What more can be said, that has not been the running theme of this heating season; a reduction in demand, from above normal temperatures and near record storage inventory levels are finally driving prices down from the catastrophic \$15's experienced in December, 2005.

With one (1) more month remaining in the conventional withdrawal season, the focus between end-users and traders alike are shifting their focus from the last days of Winter (Nov05 ~ Mar06) to Summer (Apr06 ~ Oct06). Looking ahead, the impact from 'normal' to 'milder' weather or basically what degree of 'colder-than-normal' temperatures we could

encounter becomes less significant to heating demand. Simply put, there simply are not enough days of demand to reverse the abundant storage situation. It was reported that March, 2006 temperatures would have to be 50% above normal to counter the shortfall of Winter's heating degree days (HDD). Based on 'normal' weather, the end of March, 2006 storage level is projected to reach a historic high of 1.7 Tcf, exceeding the prior record in 2002 by 0.2 Tcf, surpassing last year by 0.4 Tcf.

Market Indicators - Price Forecasts: PIRA Energy Group recently shared their natural gas forecast; NYMEX futures (simple average) for Summer (Apr06 ~ Oct06) at \$5.557 (including a low of \$4.80 for Aug06); Winter (Nov06 ~ Mar07) at \$7.40. In the interest of providing a forward-look; PIRA's forecast for Cal07 (calendar 2007) is \$7.07. ConocoPhillips remains 'bearish' on both the immediate short-term and 30 - day period. BNP Paribas labels this buying frenzy as 'short-covering'.

Risk Management: Seeing first-hand the sustained 'warmer-than-normal' temperatures and a substantial storage inventory level, technically speaking, I am quite 'bearish' on the short-term. I feel strongly about hedging the front-month, on the premise of buying month-to-month and/or hedging the Summer (Apr06 ~ Oct06) strip. Not terribly revolutionary, by any stretch, considering hedging a major portion of the Summer (Apr06 ~ Oct06) strip is believed to be prudent around the current market price, or perhaps holding off until an aggressive level of \$7.00 is achieved. Conversely, the Winter (Nov06 ~ Mar07) strip would appear to be attractive for at least a 25% layer around \$9.50, with serious consid-

eration to buy recommended between \$9.00 ~ \$8.75.

Despite my aforementioned 'bearish' read on the market, I agree that the above is still higher from where PIRA sees things going. I can not help but think of how tight the timing will likely be, to achieve such aggressive price targets. Recall that it was just a few short months ago that we were dealing with an unprecedented price run-up. Rightfully so, the last hurricane season haunts many buyer's and chief financial officers minds. To make matters worse, need I remind you that an equally 'active' season is already forecasted. That says nothing about the potential impact to prices from Summer heat, expected to drive up demand, forcing natural gas-fired electric generators to the ready.

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. Know your budget. Know your tolerance to risk. Be prepared to buy, avoiding a long approval process in a moving market. Explore the benefits of a storage service offering available from your local distribution company (utility). Identify and implement a diversified approach, utilizing stop (ceiling), strike (floor) orders, along with a myriad of other custom-tailored supply offerings available to you. Again, while we admit being unable 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

Forward electricity prices continued to fall as NYMEX gas prices dropped through the month. Daily prices across the Midwest and Northeast rose and fell in sympathy with the temperatures. Wholesale price declines during February in conjunction with stable regulated utility prices led to expanded 'headroom' for competitive retail suppliers. As the spread increases, retail marketers are able to offer competitive pricing and terms.

LONG-TERM FORWARD ASSESSMENTS (\$/MWH)				
Trading Point	Mar	Apr	May	Jun
Cinergy	\$ 48.50	\$ 48.75	\$ 49.20	\$ 54.10
NI Hub	\$ 47.85	\$ 46.85	\$ 47.30	\$ 53.45
Entergy	\$ 52.90	\$ 55.60	\$ 59.45	\$ 66.35
ERCOT	\$ 54.40	\$ 56.70	\$ 62.40	\$ 70.90
PJM West	\$ 64.50	\$ 62.90	\$ 63.70	\$ 69.35
TVA	\$ 49.40	\$ 51.50	\$ 55.55	\$ 58.45
MASS Hub	\$ 72.50	\$ 73.70	\$ 73.40	\$ 79.05

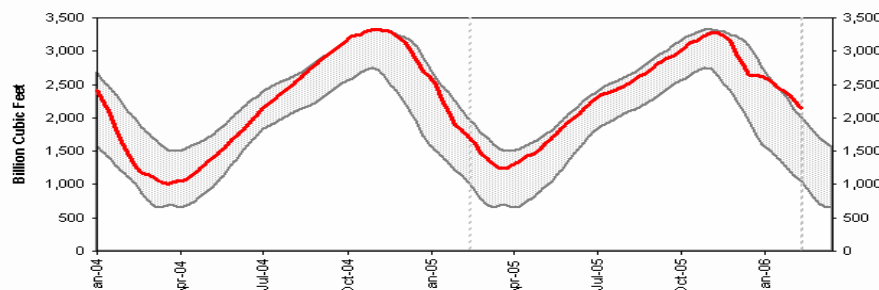
Prices Traded February 27, 2006 MegaWatt Daily

Gas Storage Levels

Working gas in storage was 2,143 Bcf as of Friday, February 17, 2006, according to EIA estimates.

This represents a net decline of 123 Bcf from the previous week. Stocks were 410 Bcf higher

than last year at this time and 694 Bcf above the 5-year average of 1,449 Bcf.

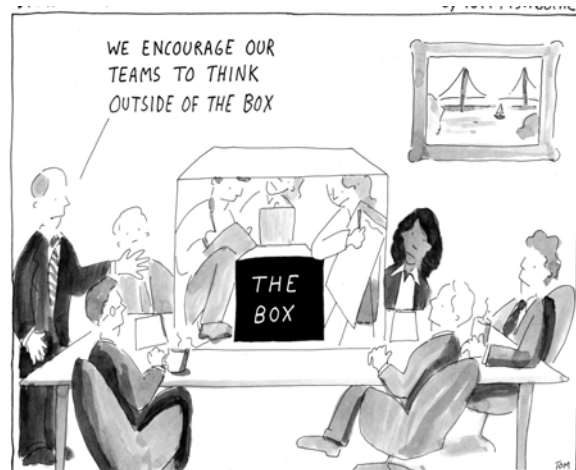


Gas Supply Facts

The number of rigs drilling for natural gas reached a record high of 1,327 on 2/17/06. This completed a sequence of 3 weeks in which a new record was set, as the gas rig count expanded from 1,313 to 1,327. Of the total rigs currently drilling in the United States, 85.9 percent are drilling for natural gas. The share of total rigs drilling for natural gas has been consistently above 85 percent for the past 3 weeks. Of the 1,327 natural gas rigs, 70 rigs are located in the Gulf of Mexico.

Congratulations to everyone out there that is attempting to reduce energy consumption. There is increasing evidence that your perseverance and hard work is paying off. In the natural gas market, demand destruction is playing a definite role in keeping storage full and holding overall consumption to low levels. However, now isn't the time to start patting ourselves on the back. We need to continue to push for ways to reduce energy consumption in our factories, schools, hospitals and businesses.

This month, we present a bit of "out of the box" thinking in regards to energy conservation. These are all ideas that businesses like yours have implemented and that have resulted in real, meaningful energy savings.



The Dundee Engine Plant, located south of Ann Arbor, MI, took an age-old idea and implemented it facility-wide. In-plant temperatures have been set at a maximum of 65 degrees and all employees have been provided with jackets. Plant management claims that monthly heating bills have been reduced by \$600,000. I guess \$600K will buy LOTS of jackets!



Recently, big box retailer Target was saluted by the EPA for its use of Cool Roof technology on most of its 1,397 stores located in 47 states. Cool Roof coatings are white liquids – the consistency of thick paint – applied over an existing roof structure. They can be applied over a traditional roof to achieve energy savings, an extended life span, and protection from weathering and ultraviolet radiation. The new surface can last 10 to 20 years, depending on coating quality and the thickness applied. In the Midwest, Cool Roofs can save 20 to 40% in building cooling costs.



A new dairy barn in Alberta, Canada is reaping significant energy savings by tapping the heat from cows milk, breath and even manure. The milk is run through an exchanger where the heat is removed and fed into a warm water tank and used for washing and cleaning. The same thing happens to the manure—the heat is removed via heat exchangers and used to preheat the warm water tank. A fan coil is even used to capture and chill the moist cows breath. Although upfront construction costs are higher, the energy savings is expected to provide a four year payback.



A Midwestern company that specializes in DVD packaging and other cast films was struggling with the amount of heat that was lost through power roof fans and ventilators. In a simple conversion, the existing ventilators were replaced with energy recovery ventilators. These new units draw heat energy out of the exhaust stream before it leaves the building. The recovered heat is then used to preheat incoming makeup air. With paybacks estimated at less than two years, this is an idea whose time has come.



Finally, a laboratory in the Northeast had over 150 fume hoods. These hoods were usually left open at all times, resulting in huge heat loss. Building management created a behavior modification program that encouraged the staff to insure that the hoods were closed when not in use. The program was successful, and with absolutely no capital expenditures, overall building heat requirements have been reduced by nearly 20%.

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Don't Waste Your Energy
Trying to Manage It

Upcoming Events & News

LAST CALL! Spring Energy Conference—Wednesday, March 8, 2006 is next week. Join well over 100 other customers in South Bend, IN at the University of Notre Dame Center for Continuing Education. Of course, for those coming in early, there is a good possibility that a return to BW3 for the “evening before” chicken wings “meeting” will happen! Look for the electronic version of the invitation attached to the email conveying this newsletter or call our toll-free hotline - 800-531-1193. **DON'T MISS IT.**

Direct Training Methods is once again offering the Boiler Operator's course. The ninth annual Course will be held at the Holiday Inn Express in Portage, IN from March 13 through May 15. The course covers all aspects of design, construction, maintenance and operation of power plant equipment and culminates with the NAPE Power Engineering exam. Many of our customers have sent staff to this training, to rave reviews. We highly recommend this course for anyone interested in learning more about boiler house operations and maintenance. For more info, contact Dale Misch at 219-364-8901 or email at DTMBoilerman@aol.com.

Industrial CHP Microturbine Applications Webcast

Wondering if CHP is a fit for your facility? Tune it to this webcast, co-hosted by the US Department of Energy and NiSource Energy Technologies. The event is scheduled for March 7 from 10 am to 12 pm CST. The webcast will profile two innovative CHP applications with potential to work for you. To access the webcast:
www.gotomeeting.com/join/531715609

Meeting Password: CHP Webcast Meeting ID: 531-715-609

Audio Call-In: 1-605-990-0110



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