

The BurnerTip

Gas Market Summary

Gas Facts in Brief

July Settlement Price - \$6.976
 Current August Trading \$7.005
 1 Year Strip Price - \$7.795
 Summer Strip '05 - \$7.05
 Winter Strip '05-'06 - \$8.384
 2 Year Strip Price - \$7.842
 Gas Drilling Rig Count
 Up 36 to 1,219
 Gas Storage Levels
 Net Injection to 2,123 Bcf

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'No price is set on the lavish summer; June may be had by the poorest corner.'

James Russell Lowell from The Vision of Sir Launfal.

I guess that Mr. Lowell was not referring to the natural gas market when he wrote those immortal words! There was a price set on the summer and lavish may actually be the best way to describe it!

After a \$.60 drop during May, the market and most buyers were primed for continued softness during June. Boy, was everyone wrong! July opened strong, gaining nearly \$.16 on the first trading day. Oil may have been the primary factor in this jump as crude rallied \$.84 during the same day. This trend continued through the first week as oil ended up over \$3 and gas closed at \$6.88. Week two dawned hot and the market

reacted with an immediate jump above the magic \$7 barrier.

After spending most of the week above \$7, thin trading on Friday dropped the close to \$6.92.

Supply fears later in the following week pushed the close to \$7.44 after trading on the plus side of \$7.50 for much of the day. As the week ended, crude closed up at \$58.47 and gas reacted in sympathy, closing at \$7.69. No, that isn't a typo, **\$7.69!** Profit taking during the last full week of the month pushed prices a little lower as they generally stayed below \$7.50. Finally, the day before expiry, prices began to fall finally finishing the month at \$6.976. Overall, we saw a \$.60 increase in prices between the first trading day and the expiry. However, the space in between was filled with an extreme amount of volatility.

More troubling than the front month price jumps were the winter

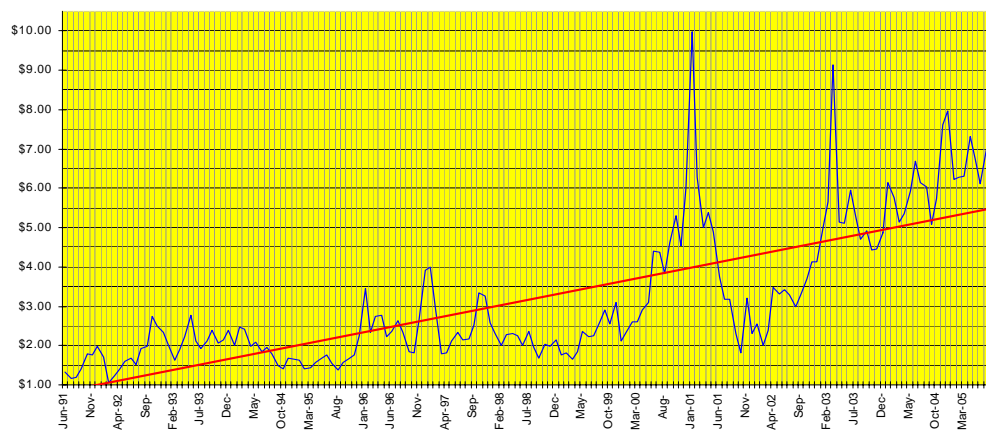
strip price increases. Since this is the period when most gas is used, price jumps in the winter hurt doubly—you are using more of a more expensive product. The winter strip closed at \$8 last month. At one point during this last month, the winter strip was trading over \$8.80. It finally closed at \$8.36. While this is down \$.44 from the monthly peak, it is still a whopping \$.36 higher than last month's close.

It seems that oil played an increased role in natural gas volatility during June. As crude approached \$60, natural gas was also reaching short term highs. Later in the month, as crude prices softened, natural gas followed suit. These two markets don't always trade in such close sympathy. However, for whatever reason, during the most recent month, oil and gas seemed to be joined at the hip.

Hot July brings cooling showers, Apricots and gillyflowers.

Sara Coleridge (let's hope!)

Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

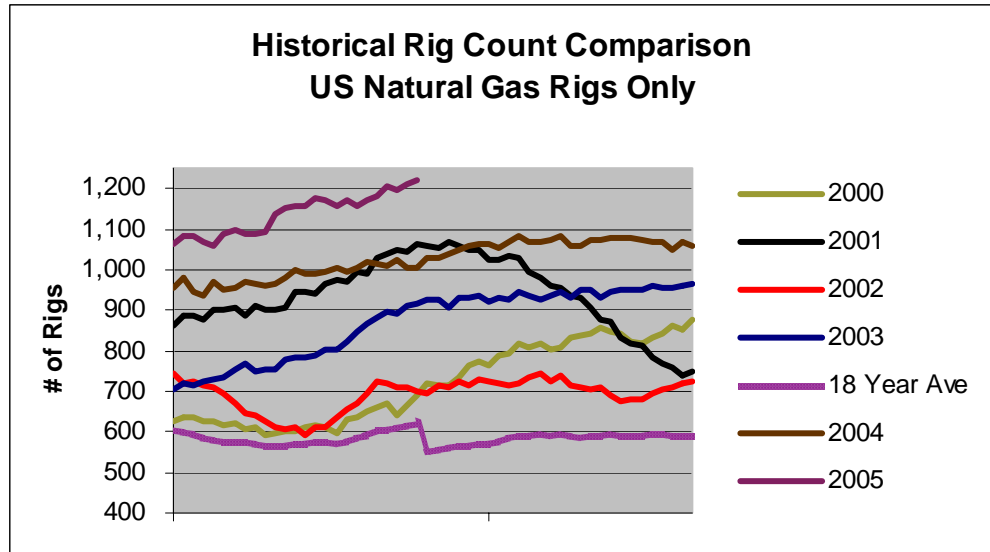
Red Line—Ongoing Price Trend Over Time



Baker Hughes Drilling Rig Count

Change	
Jul-05	1,219
Jul-04	1,005
Change	214
% Change	21%

vs. Last Month	
Jul-05	1,219
Jun-05	1,183
Change	36
% Change	3%



Industry Terms

Once Again, Energy Trading Terms.

Limit: The maximum daily price change above or below the previous close in a specific futures market. Trading limits may be changed during periods of unusually high market activity.

Limit Order: An order given to a broker by a customer which has some

restrictions upon its execution such as price or time.

Liquidation: A transaction made in reducing or closing out a long or short position, but more often used by the trade to mean a reduction or closing out of a long position.

Local: Independent trader who trades her or his own money on the floor of the exchanges. Some locals act as brokers as well, but are sub-

ject to certain rules that protect customer orders.

Long: The buying of an open futures contract or futures option or a trader whose net position in the futures or options market shows an excess of open purchases over open sales.

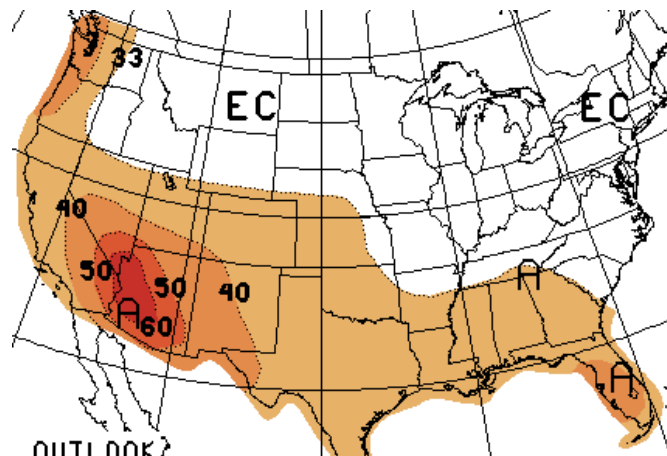
Margin: Cash or equivalent posted as guarantee of fulfillment of a futures contract.

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

Jul-Sep '05 NOAA Forecast

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



Dave's Corner

This month, Dave Gring our Territory Manager in Michigan gets to stand in the corner!

Blistering, stifling, sultry – no matter how you describe it, June '05 will go into the record books as being a hot one. Across the U.S., cooling degree days were approximately 35% above normal for the first half of June '05. Despite the extreme heat and record level crude oil prices, the July '05 natural gas futures contract "melted" under intense profit-taking, expiring this week at \$ 6.976 per MMBTU. Unfortunately, prices for the balance of this summer and upcoming winter are still high considering the nation's strong storage position. Current storage balances are 10 % above last year's inventory levels and 14.7 % higher than the 5-year average. But, the energy markets don't always behave rationally, being driven by not only by fundamental factors such as supply/demand, storage inventory levels and weather, but also technical and psychological factors (e.g., fear).

Let's take a look into the "crystal balls" of some of the energy industry's best

and brightest. Analysts at Raymond James and Associates (" RJA") are forecasting that natural gas prices in the third quarter of this year will continue to hover around the \$ 7.00 support level and \$ 7.50 for Q4. Citing falling domestic natural gas production and a growing economy, RJA is predicting prices will average \$ 8.00 in 2006. RBC Capital has Q3 '05 natural gas prices pegged at \$ 6.75 and Prudential Equity wins the " bear " award forecasting Q3 '05 will drop to \$ 6.50.

Looking ahead to this winter, we are hoping to see the traditional late summer/early fall price dip. As such, it is my recommendation that end-users remain disciplined and patient in terms of executing their natural gas purchasing plans. With the winter '05/'06 NY-MEX strip (i.e., 11/05 thru 03/06) currently trading at \$ 8.42, this is a pricey entry point even for conservative or moderate buyers. If winter '05/'06 prices drop to \$ 8.00 or lower, you may want to consider layering in a portion of your requirements (maybe 1/3 to 1/2) at these levels.

Before you know it, the " dog days of summer " will be behind us and the market focus will quickly shift to winter. Diversification is the key to managing risk and reducing your exposure to price volatility. As such, we encourage you to:

1. Determine the proper mix of products in your natural gas supply portfolio (e.g., fixed price products, floating/index prices and ceiling/capped products, options).
2. Develop a price strategy that is consistent with your tolerance to risk and energy budget goals/objectives.
3. Most importantly, be prepared to move quickly and take action when buying opportunities transpire in the marketplace.

That's it for now. I need to go turn the steaks on my grill (getting prepared for the big, 4th of July holiday bash). Stay cool and enjoy your summer!!!



Dave Gring
Territory Manager
EnergyUSA-TPC

Dave can be reached at
(248) 427-1422
(248) 765-2492 (cell)
or
dgring@nisource.com

Electric Update

Electric prices are generally more than \$10/MWH higher than this same time last month. The sizzling June temperatures, strong natural gas market and jumping crude prices all conspired to push the Midwest and Northeast prices higher. Continuing hot forecasts for the near-term are expected to push short-term prices even higher as many high cost peaking units are pressed into service.

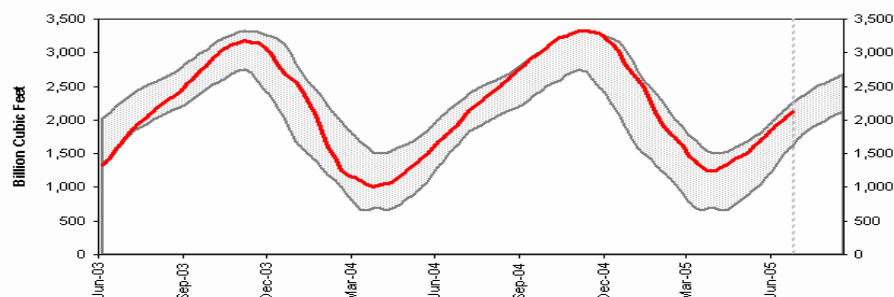
LONG-TERM FORWARD ASSESSMENTS (\$/MWH)					
Trading Point	Jul	Aug	Sep	4Q05	
Cinergy	\$ 68.75	\$ 66.75	\$ 52.25	\$ 51.00	
NI Hub	\$ 64.50	\$ 67.50	\$ 51.15	\$ 50.65	
Entergy	\$ 60.00	\$ 65.20	\$ 57.40	\$ 56.05	
ERCOT	\$ 77.00	\$ 79.35	\$ 64.90	\$ 61.00	
PJM West	\$ 77.35	\$ 77.65	\$ 60.00	\$ 57.80	
TVA	\$ 67.80	\$ 66.80	NA	NA	
MASS Hub	\$ 84.55	\$ 82.95	\$ 69.95	\$ 75.00	

Prices Traded June 30, 2005 MegaWatt Daily

Gas Storage Levels

Working gas in storage was 2,123 Bcf as of Friday, June 24, 2005, according to EIA estimates.

This represents a net increase of 92 Bcf from the previous week. Stocks were 198 Bcf higher than last year at this time and 272 Bcf above the 5-year average of 1,851 Bcf.



Gas Supply Facts

In front of a packed crowd that included some local, state and federal officials Thursday, June 30, the last day of Chairman Pat Wood's term, FERC conditionally approved the Weaver's Cove LNG import terminal in Fall River, MA, and the Golden Pass LNG terminal in Sabine Pass, TX, but it rejected the proposed Providence LNG terminal in Providence, RI, saying that it did not meet new federal safety standards.

Demand Side Audit Reminder . . .

Our audit program has been a resounding success! To date, we have completed audits of every kind of facility from a college campus, to secondary school buildings, to a variety of industrial/manufacturing facilities. Overall, we are impressed with the general efficiency and level of attention to energy matters that we have seen. Good job to all of you! Still, in most cases, we have been able to identify additional opportunities for savings of both electricity and natural gas. Customer response to the audit recommendations has been very good as well. So, don't miss out on your opportunity to identify ways to reduce your dependence and energy. For the nominal fee of \$500 per facility, we will audit the facility and identify and quantify opportunities for potential savings. This includes things like: combustion analysis of larger boilers & furnaces, identifying heat loss from ductwork and lines, process analysis for optimum energy selection and consumption, lighting review for efficiency and light levels, and a variety of other activities.

If you are interested in getting an independent opinion of your facility's energy consumption, give us a call at (219) 853-5899 and we'll schedule your appointment ASAP.

Compressed Air—Your Most Expensive Utility

In many facilities, the compressed air system is the forgotten utility. This is unfortunate because compressed is almost always the most expensive utility used in any plant. Plus, the cost of compressed is seldom figured into the final cost of production in most facilities. Typically it is buried in the overhead of the plant. Most facilities don't even know what their actual cost of compressed air is. Do You?

There are a number of ways to optimize compressed air usage in your facility. All of these ways can be categorized into either supply-side or demand-side opportunities. On the supply-side, proper sizing and installation of compressors, filters, dryers, storage tanks, header pipes and drains are all key to an efficient system. Compressors that are oversized tend to run unloaded frequently, wasting energy and placing additional wear and tear on the equipment. Storage tanks and supply piping that are sized too small can lead to insufficient air flow and higher system air pressure requirements. Even the intake and exhaust air can have a big impact on system efficiency. Outside air should be used for the intake whenever possible. This air is typically cleaner and cooler than air inside the compressor room. The hot exhaust air should be routed outside of the building in warm weather and directed inside for free heat during inclement weather.

On the demand-side, the proper application of compressed air is vital. Performing a function with compressed air uses roughly four times as much electricity as performing that same function with electricity. Uses such as air operated hand tools, cooling and ventilating with compressed air and even removing dirt and dust from clothing are all extremely inefficient and gross wastes of energy.

Since most compressed air systems have been pieced together over time, there is typically much room for efficiency improvements. For those plants with significant air requirements, a comprehensive air system audit is often warranted and will quickly pay for itself. If you are considering an audit, use an independent air system expert, not a representative of an equipment supplier. From our experience, air audits always prove to be a wise investment.

**Compressed Air Tip—
FIX THOSE LEAKS.**

For a compressed air system with constant operation in a facility that pay 5 cents/kWh for electricity, a 1/16" diameter leak costs about **\$500** per year, a 1/8" diameter leak about **\$2,000** per year, and a 1/4" diameter leak about **\$8,000** per year.

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1500 165th Street
CISC Building
Hammond, IN 46324

(800) 531-1193
Fax: (219) 853-5951
Email: muss@nisource.com

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.

Watch This Space Next Month As We Introduce You To Several New Team Members!

Upcoming Events & News

EnergyUSA-TPC will be exhibiting at the following events. Stop by and see us!

Indiana School Board Association, Indianapolis, IN—September 26

Western Michigan Plant Engineering & Facilities Show, Grand Rapids, MI October 19-20

Midwest Healthcare Engineering, Indianapolis, IN—November 1

EnergyUSA-TPC is planning several customer information/golf outings for early this Fall. Watch this newsletter for dates and locations as we get closer.



For Other Energy Ideas—Visit us on-line @ www.energyusa-tpc.com