

The BurnerTip

Gas Market Summary

Gas Facts in Brief

Feb Settlement Price - \$8.400

Current Mar Trading \$9.56

Summer Strip Price - \$9.89

Winter Strip '05-'06 - \$11.631

Cal 07 Strip Price - \$10.315

Gas Drilling Rig Count

Up to 1,247 Rigs

Gas Storage Levels

Net Withdrawal to 2,494 Bcf

Where did winter go? January went into the books as one of the warmest on record. As a result, storage went largely untapped, gas demand drooped and near month futures cratered. The only question is: why didn't prices drop further?

February prices started in the low to mid \$11's as fairly large storage withdrawals were reported from the previous week. As the first week of the month progressed, prices began to settle downward after breaching several significant support levels. When the smoke cleared, the week ended at \$9.36 after trading over \$15 during the previous month. The big shocker was a report that 1 BCF of gas was actually injected during one week.

Week 2 began with a general malaise in the markets and trading continued sideways for the first 3 days. As the week continued warm and with a very small withdrawal announced, Friday prices finished at \$8.79.

Monday of week 3 dawned higher as prices climbed \$.50 on strong oil trading and fund short trading. The week ended up at \$9.28 with quite a bit of volatility thrown in. Ed the Trader was busy as many customers took hedge positions for Feb and Mar as trading for those months vacillated between the high \$8's and low \$9's.

The final week of January continued to feature volatility coupled with slowly dropping prices. At one point, February traded at a low of \$7.75 and March nearly touched \$8. February finally closed at \$8.40 in a volatile

session that ranged from \$8.64 to \$8.00. Overall, the month featured a net reduction of nearly \$3.

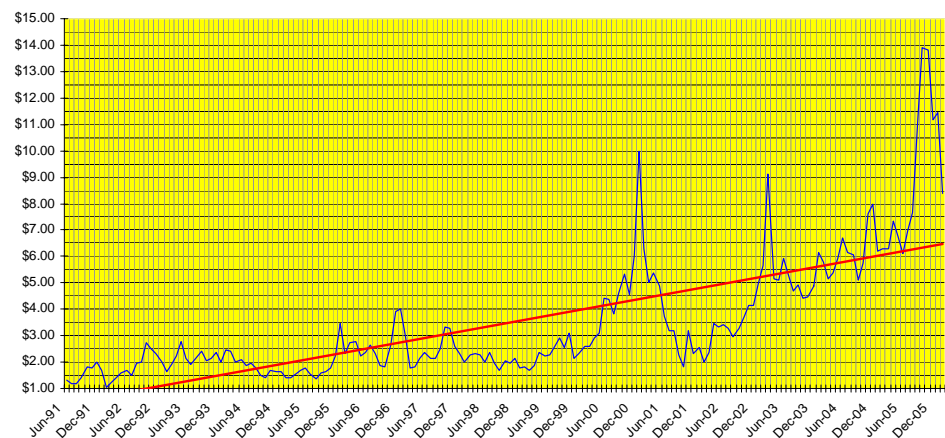
Although historic warm temps led to a marked reduction in heating demand and gas use, it is becoming more apparent that something more is at work here. Preliminary evidence is beginning to suggest that folks are actively conserving gas in their homes and businesses in response to high prices. Let's hope that the conservation movement continues!

Finally, don't forget to mark your calendars 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. Watch your mailbox for your invitation. Or...better yet, use the electronic invitation to register today. See you in South Bend on March 8!

INSIDE THIS ISSUE:

Drilling Rig Count	2
Industry Terms	2
Weather Data	2
The Corner	3
Electric Update	3
Gas Storage Levels	3
2005 Year in Review	4
Upcoming Events	5

Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

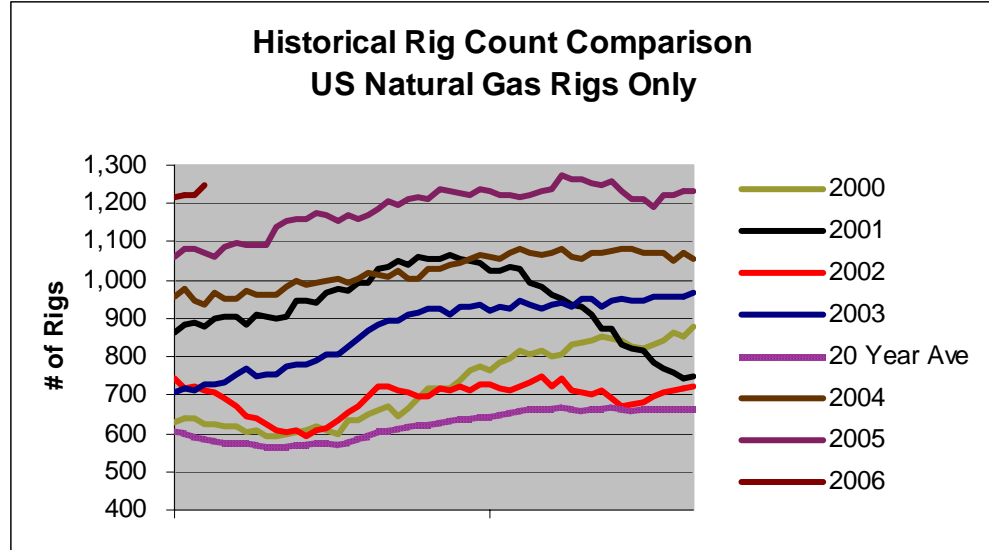
Red Line—Ongoing Price Trend Over Time

Baker Hughes Drilling Rig Count



Change	
Feb-06	1,247
Feb-05	1,069
Change	178
% Change	17%

vs. Last Month	
Feb-06	1,247
Jan-06	1,234
Change	13
% Change	1%



Industry Terms

We've talked about gas and oil. What about coal?

Coal: A readily combustible black or brownish-black rock whose composition, including inherent moisture, consists of more than 50 percent by weight and more than 70 percent by volume of carbonaceous material.

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. The moisture content of fresh-mined anthracite generally is less than 15 percent. The heat content of anthracite ranges from 22 to 28 million Btu per short ton on a moist, mineral-matter-free basis. The heat content of anthracite coal consumed in the United States averages 25 million Btu per short ton, on the as-received basis

Bituminous Coal: 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 substantial 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.

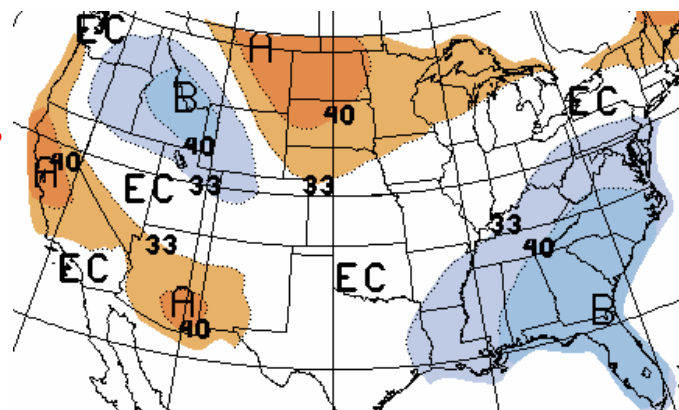
Lignite: The lowest rank of coal, often referred to as brown coal, used almost exclusively as fuel for steam-electric power generation. It is brownish-black and has a high inherent moisture content, sometimes as high as 45%.

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

February 2006 NOAA Forecast

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



Dave's Corner

I grew up working on a small cattle farm in Indiana, but I've never experienced a slaughter similar to the one bulls have taken in the natural gas market over the past six weeks. On December 13, 2005, prompt-month NYMEX futures prices peaked at \$ 15.78, appearing to be headed straight to \$ 20. A plethora of bearish fundamental factors including unprecedented end-user conservation (my kids are getting used to sleeping in their snow suits) and incredible mild January '06 weather (nearly 25 % warmer than normal and probably the warmest on record) sent natural gas prices careening 50 % lower, with the Feb. '06 contract bottoming out near \$ 7.75 last week.

Customers that heeded our advice of protecting the front winter months and patiently waiting for a significant buying opportunity after the holidays benefited handsomely. From a fundamental perspective, the natural gas market is in excellent shape. Natural gas inventories are currently 191 BCF or 8.3 % ahead of last year's levels and a whopping 445 BCF or 21.7 % higher than the 5-year average. The MMS reports that supply restoration in the Gulf of Mexico continues to improve, with only 1.65 BCF/day or 16.5 % of daily production still shut-in. On the demand side of the equation, numbers are much lower due to customers " dialing back", balmy winter temperatures and price-induced demand destruction.

The market isn't that simple though. In addition to these fundamental factors, energy prices are influenced by technical (e.g. charts, graphs, moving averages, support/resistance points) and psychological factors (e.g., fear and geopolitical concerns). It's difficult for most of us to avoid trying to inject logic into a market that has proven time and again that it doesn't necessarily need facts to provide directional bias.

Where are prices headed in 2006? Here's what a few "experts" are saying:

Marshall Adkins, a closely followed analyst at Raymond James and Associates is forecasting \$ 8.00 2Q06, \$9.75 3Q06 and \$ 10 4Q06. Adkins feels natural gas prices will be linked with crude oil prices with roughly a 6:1 BTU parity. Assuming \$ 59 to \$ 60 per barrel for crude, fair value for gas in 2006 should be near \$ 10 per MMBTU.

Analysts at Energy and Environmental Analysis are more bearish, predicting that NYMEX prices at the Henry Hub will average around \$ 7.50 this year. They cite higher-than-expected storage levels this summer, supply recovery in the Gulf and increased LNG imports (climbing by 200,000 MCF/day by this summer) for their more bearish outlook.

PIRA Energy Group, a large energy consulting firm, is even more optimistic, forecasting NYMEX futures prices of \$ 7.13 2Q06, \$6.77 3Q06 and \$ 7.17 4Q06.

Our mantra continues to be diversification, using a combination of fixed priced products, floating index products and options (i.e. puts and calls), designed around your organization's risk tolerance and budgetary goals and objectives. Develop a plan and execute that plan when buying opportunities transpire. In terms of specific purchasing strategies, we feel conservative and moderate buyers should consider layering in at least 50 % of their summer '06 requirements somewhere in the range of \$ 8.50 to \$9.00. The winter '06/'07 NYMEX strip is still pricey in our opinion, currently trading near \$ 11.50. End-users should be poised to take quick action when winter prices drop back into the \$10.00 to \$ 10.50 range.

Let's hope these bearish fundamentals continue to push natural gas prices lower. Market bulls should be afraid: very afraid. **It's about time !!!!**



Dave Gring
Territory Manager
Michigan

Dave can be reached at
(248) 427-1422
(248) 765-2492
Or
dgring@nresource.com

Electric Update

Slightly stronger natural gas futures pushed electricity prices up marginally across most areas of the country. Much stronger increases were tempered by the moderate temperatures in the Midwest and Northeast. Summer futures prices continue high on the prospect of sustained strength in the summer natural gas and oil markets.

LONG-TERM FORWARD ASSESSMENTS (\$/MWH)					
Trading Point	Feb	Mar	May	Jun	
Cinergy	\$ 66.50	\$ 68.50	\$ 65.10	\$ 72.25	
NI Hub	\$ 65.50	\$ 66.80	\$ 64.50	\$ 72.30	
Entergy	\$ 54.60	\$ 64.80	\$ 75.85	\$ 78.90	
ERCOT	\$ 55.45	\$ 65.70	\$ 77.25	\$ 81.75	
PJM West	\$ 78.50	\$ 80.65	\$ 79.70	\$ 86.45	
TVA	\$ 57.20	\$ 64.70	\$ 70.65	\$ 73.75	
MASS Hub	\$ 93.50	\$ 95.50	\$ 93.65	\$ 99.15	

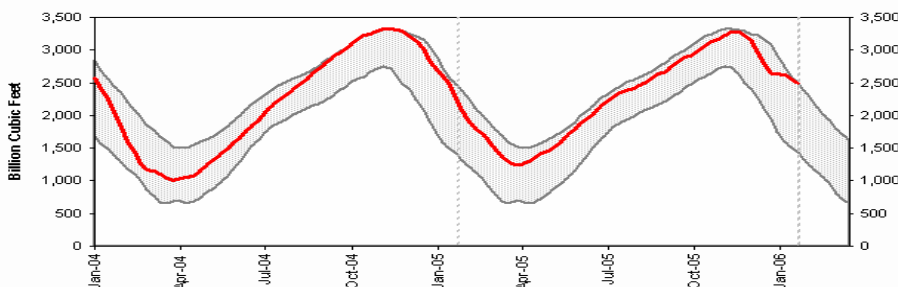
Prices Traded January 30, 2006 MegaWatt Daily

Gas Storage Levels

Working gas in storage was 2,494 Bcf as of Friday, January 20, 2006, according to EIA estimates.

This represents a net decline of 81 Bcf from the previous week. Stocks were 191 Bcf higher

than last year at this time and 445 Bcf above the 5-year average of 2,049 Bcf.



Gas Supply Facts

There are currently about 530 processing plants in the United States with a cumulative processing capacity of more than 60.5 billion cubic feet per day. The greatest concentration of plants is in the Gulf Coast States of Louisiana and Texas with 61 plants and 166 plants, respectively. Although the number of plants in the United States has dropped about 27 percent since 1995, processing capacity has risen by 49 percent. Reasons for this include the addition and expansion of new larger plants, idling of older less efficient plants, expanding natural gas production in Wyoming, and successful exploration and development in Colorado.

Let's call this what it really is—Demand Destruction Issues. That is the true name of the game in the energy conservation business—figuring out how to reduce your demand and your costs for all energy. There is a feeling that demand of natural gas will never exceed supply because the law of supply and demand requires that the two sides remain in balance. Essentially, this is proving true as price becomes the equalizing factor in the equation. As demand grows and supply becomes squeezed, prices increase. We've seen that played out over the previous five months. What is not as apparent however, is the role that perception has in this equation. Much of the catastrophic pricing and excessive volatility the market has experienced recently can be blamed on a perception of short supply. In reality, supply is proving relatively abundant this winter as storage remains at near record full levels. While January weather played a significant role in reduced gas consumption, evidence is beginning to suggest that demand destruction as a result of excessive prices is accounting for an even larger share of overall reduction. Conservation works. It makes fiscal sense and environmental sense. We urge you to continue to seek ways to reduce your consumption of energy. EnergyUSA remains eager to help you optimize your energy costs. If you need help, please give us a call. We are not simply your gas supplier, we are your energy partner and we have a vested interest in your continued success.

We have covered many tips and suggestions for conserving energy in past issues of this newsletter. This month, we will examine a few additional techniques that can incrementally reduce consumption. The tips below generally require little capital investment, but may require a drastic change in thinking.

1. Change production and working schedules. Working extended shifts over less days is an innovative way to dramatically reduce energy consumption. Savings range from reduced building heating costs during the new, longer non-working weekend to less idle time on production equipment. Switching from a 5 day—8 hour working shift to a 4 day—10 hour strategy can dramatically reduce overall heating, lighting and production costs. Take a look at your operation and see if this strategy makes financial sense. Realize that energy savings may be offset somewhat by increased labor costs. Still, this is a strategy that is being embraced by many companies similar to yours.
2. Review your use of hot water. Heating water, especially for non-production use is generally fairly inefficient. Take a look at hot water heater temperature settings and reduce the settings to the lowest possible levels. Investigate the addition of smart controls that will allow automatic setback of temperatures during inactive periods. Install low-flow valves and faucets that limit the amount of heated water flow. For lengthy supply runs, investigate the installation of instantaneous water heaters located adjacent to the demand area. These devices will dramatically reduce the amount of cold water that is wasted as the user is waiting for "hot" water to arrive at the supply point. Install automatic temperature limiting faucets at supply points. These protect against scalding and limit the amount of hot water allowed through the faucet.
3. Lower overall building temperatures and implement heating season dress codes that encourage warmer clothing. In many cases, lowering temperatures and allowing the use of small, temporary electric space heaters in immediate working areas may be economically attractive. Remember, since these electric heaters are inherently 100% efficient, \$.06/kWh electricity is roughly equivalent to \$14/MMBtu gas used in an 80% efficient furnace. Plus, since you are only heating a very small space, overall, in many cases this will be an attractive way to reduce energy costs.
4. Take a new look at your facility. Identify areas that are unoccupied or have very low occupancy levels. Shut these areas off, turn down the heat and shut off the lights. Make sure that these areas remain closed off, cool and dark through the use of occupancy sensors and alarms. It just doesn't make sense to treat these areas as regular, occupied spaces if they are not.
5. Take advantage of free advice. Many vendors will conduct free equipment evaluations and site audits. While we all understand that these are generally sales methods, it can't hurt to spend a little bit of time picking the expert's brains. Refresh energy skills by taking advantage of training, seminars and meetings sponsored by equipment manufacturers and energy companies. There is a abundance of energy conservation knowledge in the marketplace. Take advantage of it.
6. Clean and Tune. We have discussed this before, but it bears repeating. Make sure your equipment is clean and tuned and operating at top efficiency. Replace dirty/plugged filters and insure that all leaks of all types are stopped.

A Publication of the Commercial/Industrial Sales Team

1500 165th Street
CISC Building
Hammond, IN 46324

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

Upcoming Events & News

Spring Energy Conference—it is not too early to begin thinking about our Annual Spring Energy Conference. Mark your calendars for Wednesday, March 8, 2006. Once again, we will be meeting 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! There are many ways to sign up. 1) Watch your mail for your own invitation or 2) Look for the electronic version of the invitation attached to the email conveying this newsletter.

For those in the Ohio market, The 10th Annual Ohio Energy Management & Restructuring Conference is scheduled for March 1 & 2 at the Columbus Hotel in Columbus, OH. For more information on this informative seminar, visit the website: www.mecseminars.com. Of course, EnergyUSA-TPC will be exhibiting at the conference. Stop by and visit us!

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. For more info, contact Dale Misch at 219-364-8901 or email at DTMBoilerman@aol.com.



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