

The BurnerTip

Gas Market Summary

Gas Facts in Brief

Dec Settlement Price - \$11.180

Current Jan Trading \$13.32

1 Year Strip Price - \$11.48

Winter Strip '05-'06 - \$13.285

2 Year Strip Price - \$10.781

Gas Drilling Rig Count

Down to 1,212 Rigs

Gas Storage Levels

Net Withdrawal to 3,225 Bcf

November dawned warm and finally storm-free in the Gulf. December futures started trading in the \$13+ range but quickly dropped below \$12 to settle at \$11.86 on the first day of the month and finally settled at \$11.64 at the end of the first week of the month.

Week 2 began with continued warm weather and resulting softness in the market. Mid-week, technical short coverings began to strike back with a fairly strong surge to a week ending close at \$11.669. There was a very interesting daily cash market during the week as Mid-Continent prices traded as low as \$5.35 at one point. Even the Henry Hub cash prices got into the act trading in the low \$8's.

The third week started soft as

a much higher than expected storage injection pushed prices down to \$11.06 on Monday. A touch of cold weather though and prices rallied back up to the mid to high \$11's later in the week. This cold weather, offset by another good storage injection number caused the market to settle at \$11.41 for the week.

Week 4 was a short trading session due to the Thanksgiving holiday. Many traders must have taken an early holiday as the market traded very lightly all week. Illiquidity was the phrase of the week.

The December contract expired on Monday, December 28 at \$11.18, down over \$2 from the beginning of the month. All in all, prices began to finally respond a bit to true fundamentals during the month. Warm

weather and positive storage news drove a couple of bucks out of prices. Lets hope that this little bit of common sense continues through the winter although with January prices now trading well north of \$13, it appears that market insanity may once again be taking hold!

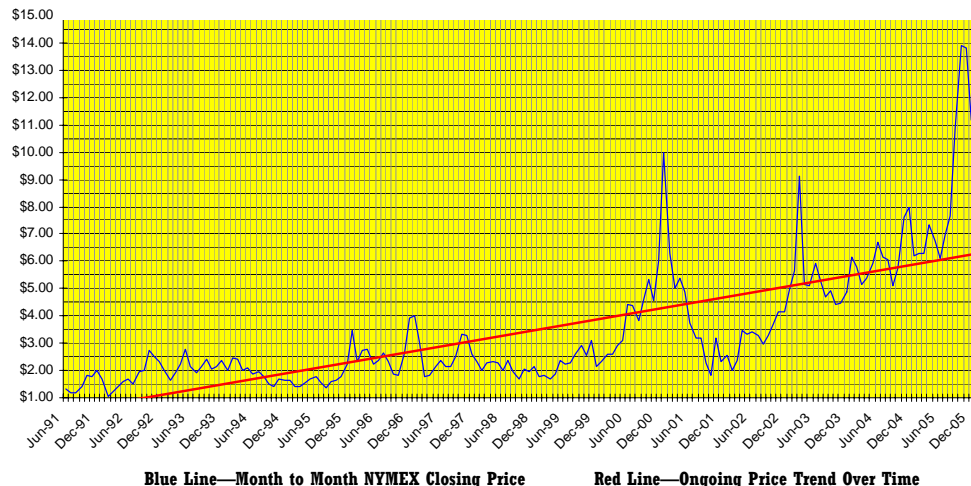
All in all, it has been a wild and hectic year in the natural gas market. Through hurricanes and market explosions, we at EnergyUSA have done our best to keep your gas flowing while mitigating price impacts. We think we've done a good job during the turmoil and hope that you think so too.

From our family to yours, we want to take this opportunity to wish each and every one of you a very Merry Christmas and a happy and safe Holiday Season.

INSIDE THIS ISSUE:

Drilling Rig Count	2
Industry Terms	2
Weather Data	2
The Corner	3
Electric Update	3
Gas Storage Levels	3
Demand Side Issues	4
Upcoming Events	5

Historic Gas Price Chart



Blue Line—Month to Month NYMEX Closing Price

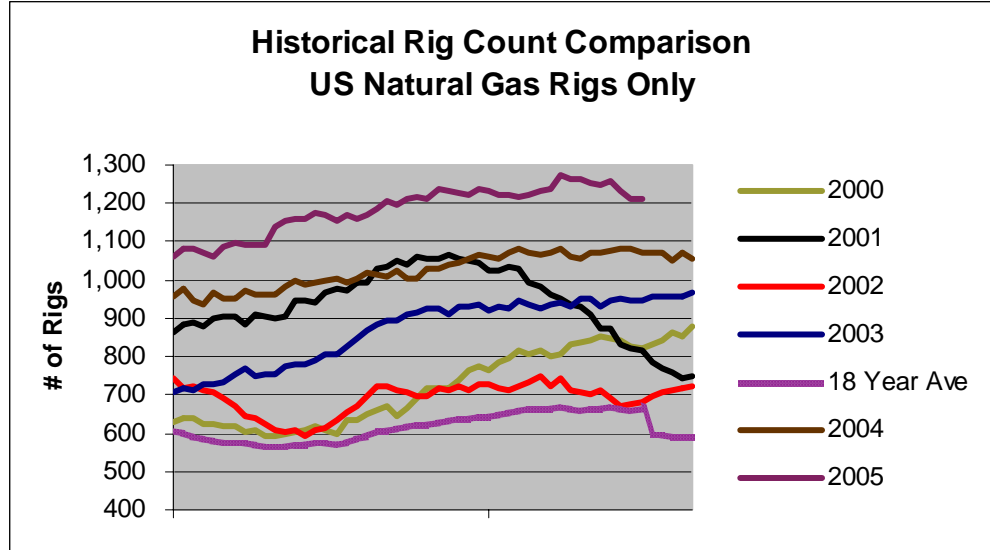
Red Line—Ongoing Price Trend Over Time



Baker Hughes Drilling Rig Count

Change	
Dec-05	1,212
Dec-04	1,072
Change	140
% Change	13%

vs. Last Month	
Dec-05	1,212
Nov-05	1,247
Change	(35)
% Change	-3%



Industry Terms

A bit of a switch this month. Air compressors typically consume a significant amount of energy in most manufacturing facilities. A few terms:

CFM Displacement—Cubic Feet per Minute measures the volume displaced by the compressor at full RPM, but not delivered or usable air.

CFM Delivered—volume of

air delivered to the system at rated pressure.

ICFM or ACFM—rated volume of inlet air at standard conditions (14.7 psig at sea level) compressed to full discharge pressure.

SCFM—standard cubic feet per minute is ICFM/ACFM converted to standard conditions—60F, 60% RH & 14.7 PSIG using the equipment.

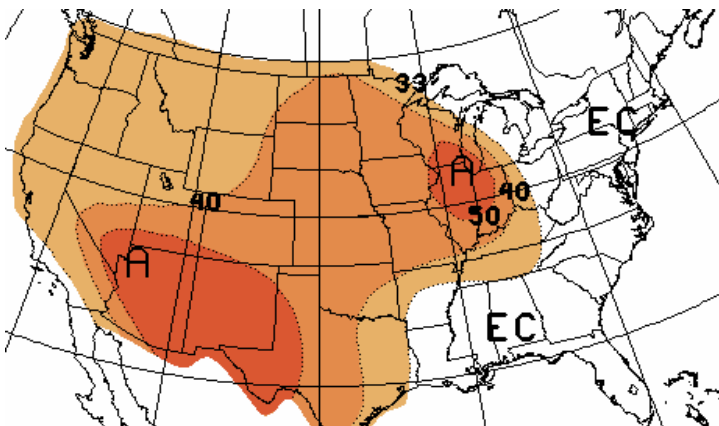
Full Load—compressor runs at full RPM with open inlet and discharge valves delivering maximum volume at rated pressure

Unloaded—compressor runs at full RPM but no air is delivered into the system because intake is closed

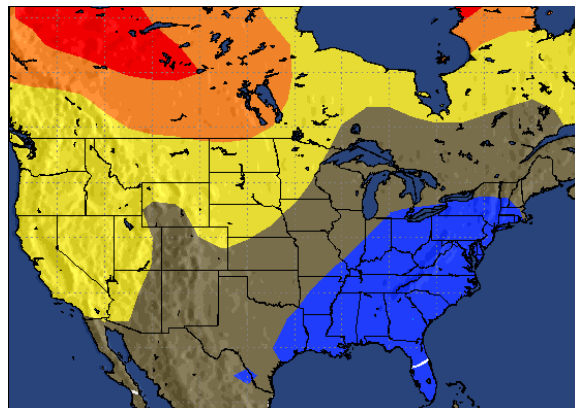
Energy Equivalents

- 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

Dec '05—Feb '06 NOAA Forecast



Frontier 11-15 Day Forecast



Bill's Corner

Even though the winter has barely begun, many have been wrestling with it since the hurricanes. They have been painstakingly building winter supply portfolios... layer by layer... month by month. All in an effort to protect the short-term at prices they don't necessarily like, while waiting for medium to long-term prices they do like.

Thank goodness for November. The slow Gulf production recovery (3 Bcf/day, or 30%, is still shut-in and cumulative shut-ins now total 495 Bcf) appears to have been more than offset by a combination of conservation/demand destruction (3.5 to 4.0 Bcf/day) and mild weather (20% warmer than normal across the U.S.). Prices fell by \$3.00 throughout the month... storage inventories exceeded first-of-the-season expectations by ~200 Bcf.

Side Note: Many analysts are expecting the end-of-the-season storage inventories to exceed the 10-year average by ~300 Bcf (assuming normal winter temperatures).

Prices remain volatile this winter... sensitive to weather/forecasts, supply/demand uncertainties (Gulf production recovery

and conservation/demand destruction), and non-commercial hedge funds (aka the "hot money" funds) at near-record short positions (56,600 contracts vs. the late-2003 record of 57,100). While these short positions increase short-term volatility, they do indicate the funds expect lower prices... perhaps making price spikes difficult to sustain.

While a combination of the above (plus increased Canada and LNG imports, as well as, decreased Mexico exports) give us hope for significant medium-term price softening, (I believe) the big energy "story" is conservation/demand destruction. Significant demand reductions have occurred to date based upon anticipated high prices. Even more reductions should occur as invoices (in winter months, no less) are actually received/paid.

So... in the short-term NG prices will likely remain high and volatile. While pre-November talk of \$18.00 - \$20.00 prices has subsided, many analysts feel \$15.00 remains a threat. Our "broken record" advice continues... most risk managers should layer at significant support (\$12.80, \$12.00, \$11.80, \$11.20)... to protect their remaining

winter.

But... in the medium-term (post-holidays/post-winter) there appears reason for hope for NG prices to fall. Historically, the opportunities to take advantage of market dips have come in the late winter, and again in the late summer. Given active hurricane season forecasts, it behooves most to prepare to take advantage of a late winter dip.

Analysts' forecasts for 2006 NG prices (barring anomaly, of course): Many 1Q06 forecasts call for ~\$10.00. More specific Cal 06 forecasts: Fitch Ratings: \$7.00; Gerdes Group: \$7.00; Merrill Lynch: \$6.75; Jefferies & Company: \$7.00 by mid-2006; Raymond and James: \$9.25; Stephen Smith Energy Associates: \$8.90; PIRA Energy Group: \$8.54. Hopefully, these forecasts will help you create budgets and hedge plans/strategies.

This has been, and will likely continue to be, a challenging winter. However, we'll make it through. For now... I'd like to say, "Merry Christmas, Happy New Year"!



Bill Langdon
Territory Manager
Indiana

Bill can be reached at
(574) 936-1639
(574) 850-8734
Or
blangdon@nisource.com

Electric Update

Winter prices are up dramatically, especially in the Northeast. January prices on the Mass Hub reached nearly \$175 on cold weather fears and higher NYMEX natural gas prices. In fact, the strong surge in gas prices over the past two days has had a ripple effect on electricity pricing throughout the country. Also, merchant power giant Calpine is edging closer to insolvency as suppliers tighten credit requirements and ask for prepay.

LONG-TERM FORWARD ASSESSMENTS (\$/MWH)				
Trading Point	Jan	Feb	Mar/Apr	May
Cinergy	\$ 91.65	\$ 89.15	\$ 78.90	\$ 67.55
NI Hub	\$ 89.40	\$ 86.50	\$ 74.55	\$ 66.05
Entergy	\$ 84.70	\$ 85.25	\$ 89.75	\$ 84.15
ERCOT	\$ 85.45	\$ 85.80	\$ 88.00	\$ 86.65
PJM West	\$ 117.00	\$ 115.50	\$ 98.50	\$ 86.50
TVA	\$ 84.90	\$ 81.80	\$ 83.35	NA
MASS Hub	\$ 173.40	\$ 167.40	\$ 121.55	\$ 105.00

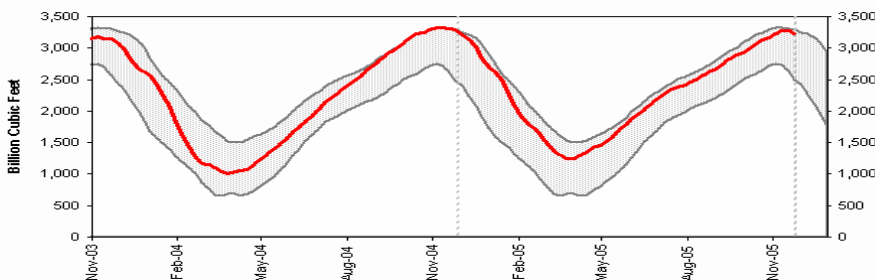
Prices Traded December 1, 2005 MegaWatt Daily

Gas Storage Levels

Working gas in storage was 3,225 Bcf as of Friday, November 25, 2005, according to EIA estimates. This represents a net decline of 49 Bcf from the previous week. Stocks were 75 Bcf less than last year at this time and 190

Bcf above the 5-year average of 3,035 Bcf. In the East Region, stocks were 82 Bcf above the 5-year average following net withdrawals of 41 Bcf. Stocks in the Producing Region were 50 Bcf above the 5-year average of

840 Bcf after a net withdrawal of 7 Bcf. Stocks in the West Region were 59 Bcf above the 5-year average after a net drawdown of 1 Bcf. At 3,225 Bcf, total working gas is within the 5-year historical range.



Gas Supply Facts
Dominion has completed an expansion of its Cove Point, MD, liquefied natural gas (LNG) import terminal, with the addition of a fifth storage tank, recently placed in service. The expansion project began in 2003 and was completed three months earlier than expected. The new tank increases the facility's on-site-storage capacity from 5 Bcf to 7.8 Bcf of natural gas.

Energy prices are expected to stay at or near historic levels for the next year or more. If you are fearful of making an investment in an energy project because you believe that prices may fall, blowing the estimated payback, fear not. While a \$13+ burnertip cost may not be a long-term realistic estimate, there is every indication that we will not soon see \$5 gas either. For most energy projects a burnertip, delivered gas cost of \$8 to \$10 is a defensible position to use for payback calculations. Another item to remain aware of is the fact the electricity prices are also beginning to creep up. All electric utilities include a fuel cost adjustment on their invoices. While the price of natural gas-fired generation has more than doubled over the past two years, most people don't know that the cost of coal has also been increasing. Through 2005 to-date, coal prices are averaging 12% higher than 2004 and over 15% higher than 2003. All of these increased fuel costs—coal, natural gas, oil—are being passed on to customers in the form of fuel cost adjustments.

Speaking of electricity, we are seeing increased interest in switching certain applications from natural gas to electricity. In certain cases, this may actually make financial sense. In order to conduct a purely financial analysis of electricity versus natural gas, here are the conversions that you need to examine:

Electricity has 3,413 Btu/kWh. Natural gas is generally priced per million Btu (MMBtu)

Multiply the kWh price times 293 to get the equivalent natural gas burner tip price per MMBtu

Since electricity is inherently 100% efficient in most heating applications, the equivalent MMBtu price of gas must be grossed down to account for gas efficiency losses. Multiply the MMBtu equivalent price by the efficiency of the gas application to get the true net equivalent value of the electricity.

An example: A plant pays an average of \$0.06 per kWh for electricity. The equivalent cost of natural gas would be $\$0.06 \times 293 = \17.58 . Natural gas burnertip prices must hit \$17.58/MMBtu before electricity offers an equal price value. In the specific application, assuming that the efficiency of the gas heat is 80%, the net equivalent price must be grossed down to account for efficiency. In this case, $\$17.58 \times .8 = \14.06 is the true net equivalent cost of electricity versus natural gas in a specific application.

Several things to remember when comparing electricity to natural gas:

- The above calculations use an average kWh cost for the facility. Since electricity billing is typically comprised of both kW demand charges and kWh charges, your actual utility tariff should be consulted to see what affect an increase in demand might have on the overall average kWh price.
- Most electric tariffs also include a declining block rate—the more you use in each billing cycle, the cheaper the incremental kWh's are. Again, review your specific tariff to insure that you are taking advantage of the declining block in your calculations.
- A typical electric tariff looks at two demand levels to determine billing demand. First is the actual peak demand for the past billing period. Second, generally the past 11 months are reviewed for the peak demand. The higher of the two demands is typically used to calculate the ultimate billing demand. The moral of this point? Make sure that any conversion you do is for the long haul. Switching a process on a monthly basis to whichever energy is less expensive may result in a higher demand charge in every month.

Remember—If you are successful in reducing your natural gas usage—let us know so that we don't deliver more gas than you need!

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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
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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.

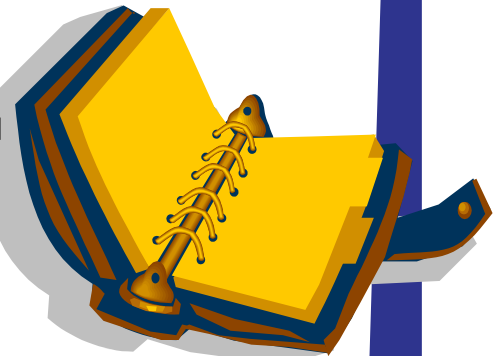
We value our relationships with customers and place high emphasis on customer satisfaction, service and education.

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! In any case, more information will be provided as we get closer to March.

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!

Don't forget about the Combined Heat and Power Conference hosted by Purdue University at their Calumet Campus, Hammond IN. The event takes place on December 7, 2005. If interested, call Purdue at 765-494-0567 or David Zeese at 765-494-7845.



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