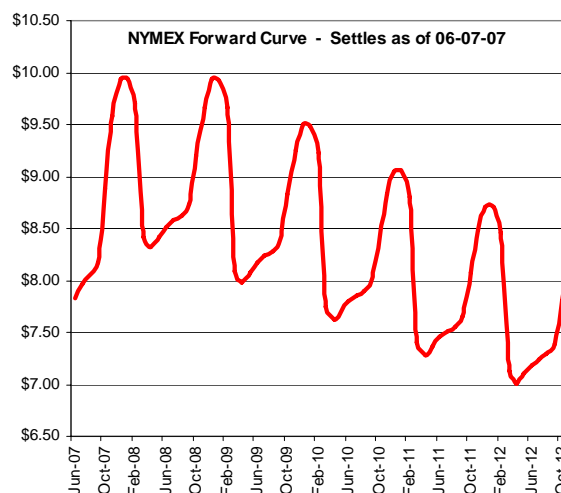


# Natural Gas Market Report

## June 8, 2007

NYMEX Settle Price As of Friday, June 8, 2007			
Jul	\$7.663	Jan-08	\$9.837
Aug	\$7.802	Feb	\$9.835
Sep	\$7.890	Mar	\$9.610
Oct	\$8.027	Apr	\$8.350
Nov	\$8.757	May	\$8.260
Dec	\$9.482	Jun	\$8.347
Strips	Six	Twelve	Nov 07- Mar 08
	\$8.270	\$8.767	\$9.502



### Review and Outlook

The July contract continues to trade within the range established by the market over the past several months. The bottom end of the range continues to be the \$6.80 area, with \$8.20 the top, up from \$8.00 a month ago, so the top of the range has moved up slightly. Within that range there are multiple levels of support for July starting with the \$7.50-\$7.60 area. July has not having traded below \$7.55 since mid-March and the \$7.50 area remains an important area to watch on the perpetual chart. If \$7.50 breaks then a run to the \$7.25 area becomes much more likely. It is important for the market to hold \$7.00 in order to avoid it taking on a significantly more bearish tone. If the weather nationally is not warm enough to increase consumption for power generation and no storms disrupt the Gulf, it is possible for the July contract to continue to drift toward the support areas just mentioned, although, a drop much further is not anticipated at this time.

On the flip side, resistance is at \$8.00, followed by \$8.20 and \$8.40. If the market can overcome the \$8.40 area a more positive outlook will be warranted. For the market to break \$8.40 in the short run it would likely need some aid from the weather.

The bottom line on this market is that it appears that it is waiting for something to propel it higher. This could come in the form of extended warmth restricting injections and/or hurricanes. If, like 2006, these events do not take place the market could suffer another meltdown similar to last fall. However, like last year, more of the summer and hurricane season will likely have to pass for prices to fall dramatically.

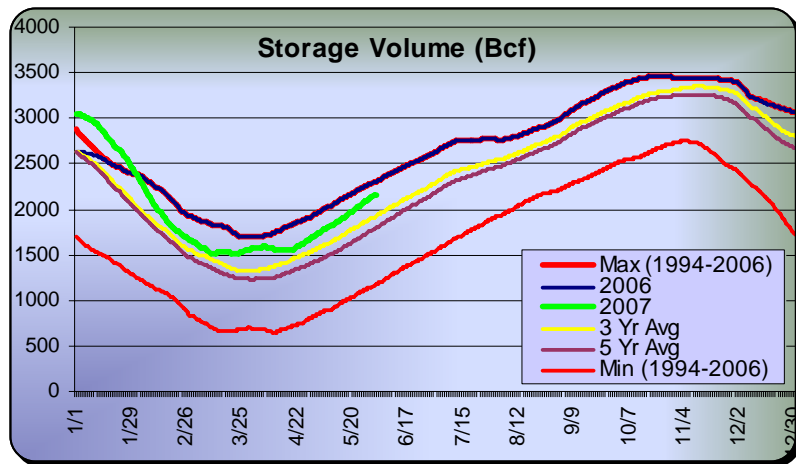
On the next page is the daily perpetual natural gas chart, showing its fall from its high in early December and detailing current support and resistance.



## Pricing Factors

### Storage (through June 1st)

Weekly Change  
 + 110 Bcf  
 Current Storage  
 2,163 Bcf  
 Last Year  
 2,309 Bcf  
 3-Year Average  
 1,928 Bcf  
 Historical Low  
 1,174 Bcf (2003)  
 Historical High  
 2,309 Bcf (2006)

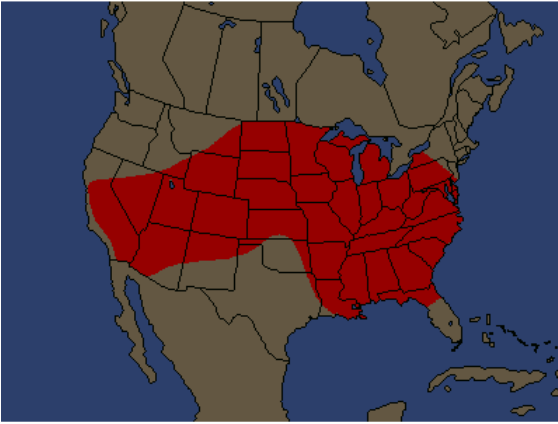


## Weather

AccuWeather's forecast for days one through five predicts above average temperatures for everywhere east of the Great Plains except for Florida. Days six through ten indicate warmer than normal temps across the Great Plains with areas east of the Mississippi enjoying normal temperatures. The eleven to fifteen day forecast sees above normal reading returning to the Southeast with the Northeast having average temperatures.

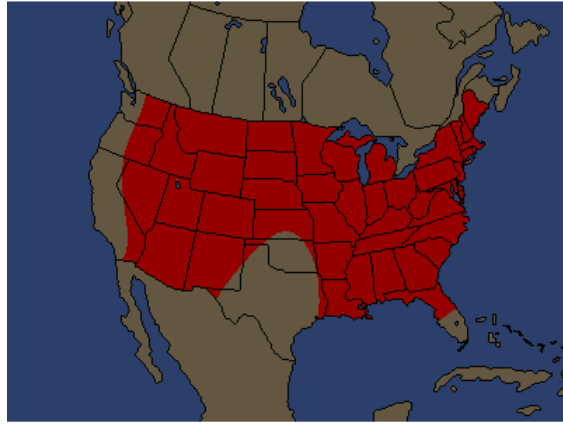
Below are the temperature anomaly maps for the thirty and ninety day periods according to AccuWeather. These both indicate a bullish beginning to the cooling season.

30 DAY TEMPERATURES COMPARED TO NORMAL



©2007 AccuWeather, Inc.

90 DAY TEMPERATURES COMPARED TO NORMAL



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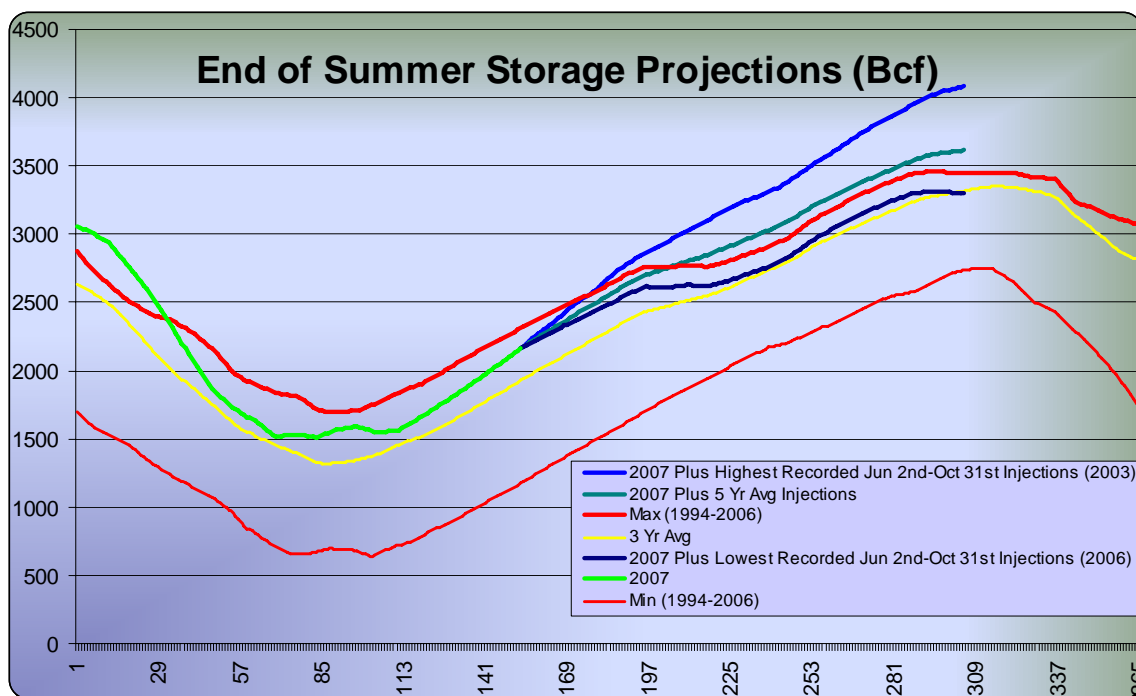
AccuWeather.com

Hurricane season is off to a good start, that is, if you like tropical storms. Barry was the second tropical storm of the season and while physically it did little other than bringing some much needed rain to the southeast, psychologically it reminded everyone that the season has officially started and it may very well be a busy one.

### **Supply/Demand Balance**

For the last few month's this commentary has included the following and I'm repeating it again as I believe it still holds true: 'even with very high storage last spring, prices stayed high through the summer and most of hurricane season. Chances are that this year Mother Nature won't be as bearish as it was last year, as most factors fell the way of the consumer in 2006. If Mother Nature turning bullish comes in the form of a cold last half of winter, a warmer than normal summer, or, heaven forbid, hurricanes in the Gulf, it is possible that we have seen the low of the year.' Since writing those words four months ago, Mother Nature supplied enough cold to pull storage down closer to seasonal norms. Although storage remains generously above the five-year average and is overall a bearish factor, it is not as bearish a factor as it was last year. So now that Mother Nature turned bullish for at least part of winter and is predicted to be bullish for the summer and hurricane season, the possibility that the low for the year has been set has only increased in likelihood from when I typed those words months ago.

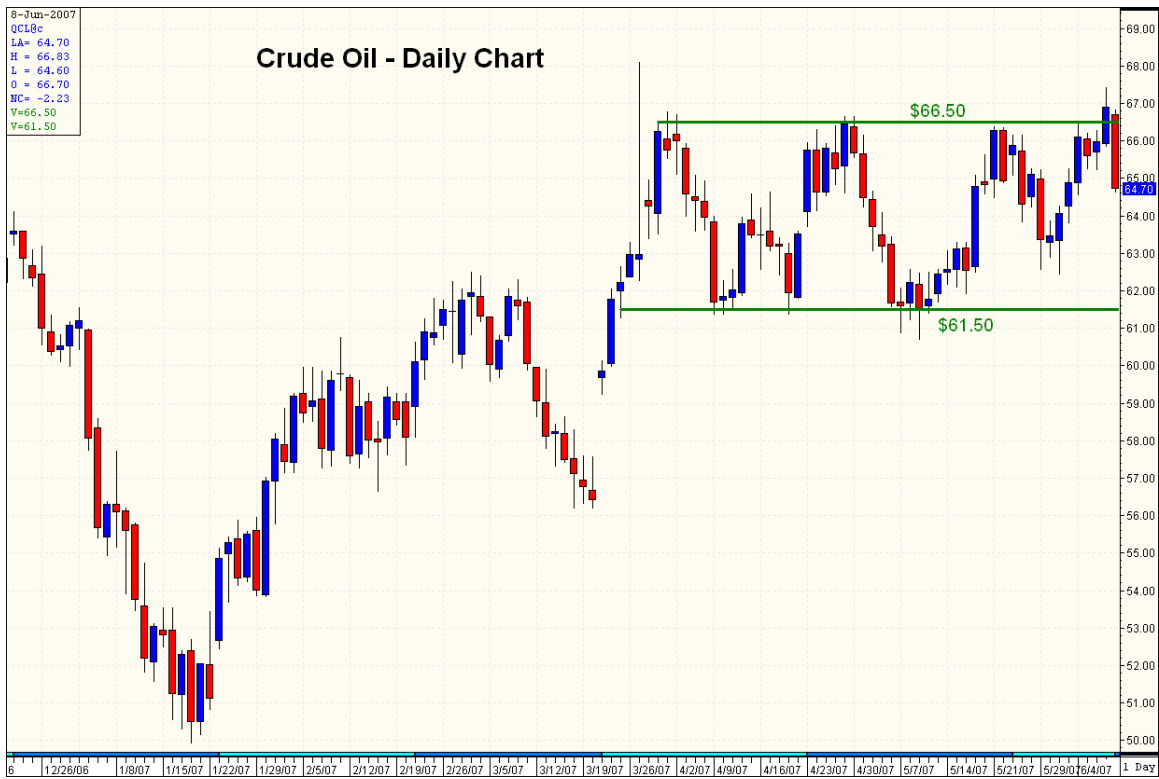
More on storage, the industry now stands 146 bcf behind last year's record storage levels and it appears that deficit will shrink in the coming weeks, probably close to 100 bcf before the heat of summer begins to divert injections to generate electricity. Below are projections of where the end of summer storage levels may end up given several scenarios. The top line on the graph cannot occur, as there simply isn't that much storage available. As of today, it appears that the worst case scenario is for us to finish at the three year average.



<b>Baker Hughes Rig Count</b>			
Report Dated 6/08/07			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,465	1,376	+89
U.S. Oil Rigs	291	281	+10
Total Rigs - North America	1,986	2,104	-118

### **Crude Oil**

The July crude oil contract broke above its recent trading range on Thursday only to get thumped back down on Friday. Ignoring yesterday's brief excursion to the upside, crude oil remains bound by the \$66.50-\$67.00 area on the upside and \$61.50-\$62.00 on the downside. Hopefully, this latest failure will ignite some interest in exploring support. Despite a market that has healthy storage levels and some spare supply capacity, this market continues to fixate on what could go wrong. Among the reasons for prices remaining high are unrest in Nigeria and the Middle East and the prospect of tropical storms in the Gulf. There was even a category three hurricane the Arabian Sea this week that caused a couple of brief production delays in Oman. The storm eventually came ashore in Iran after weakening significantly. The daily perpetual crude oil chart for the last six months appears below.



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