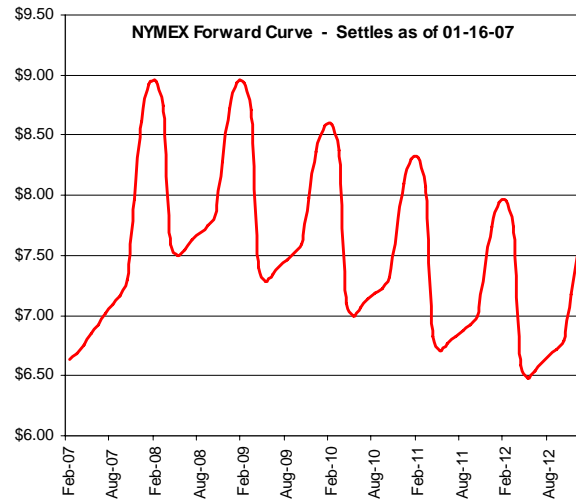


# Natural Gas Market Report

## January 17, 2007

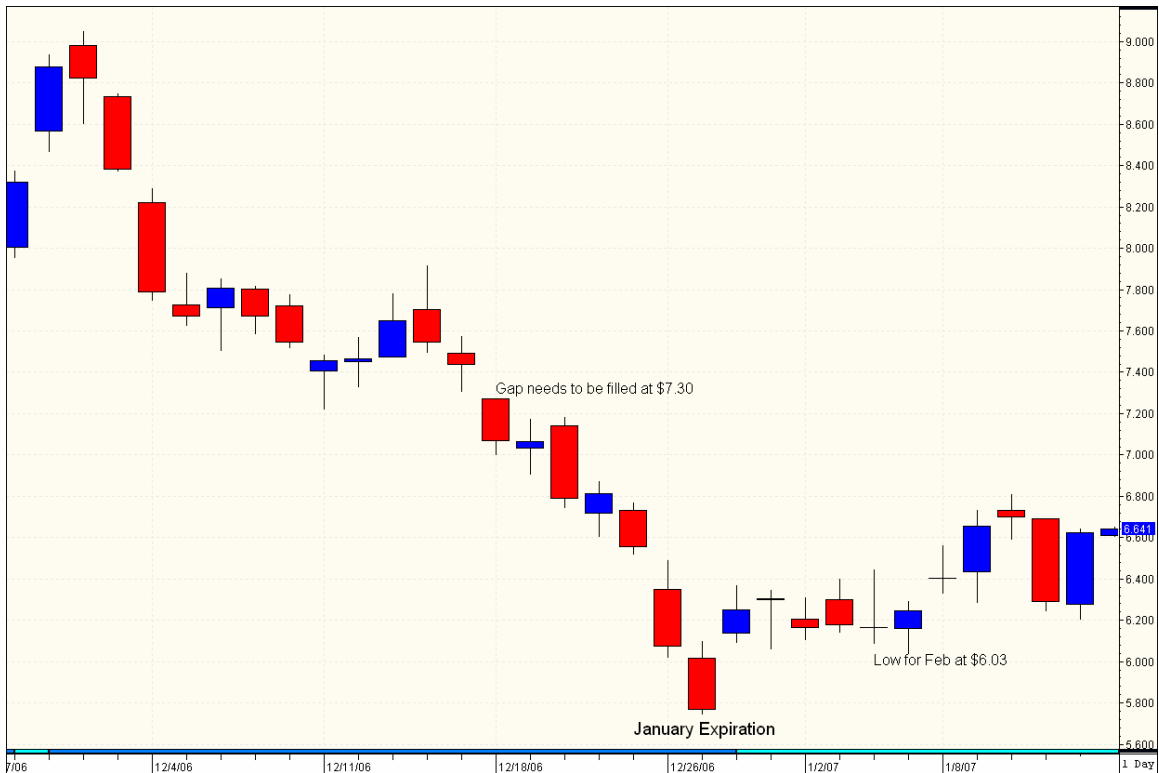
NYMEX Settle Price As of Tuesday, January 16, 2007			
Feb-07	\$6.638	Aug	\$7.094
Mar	\$6.686	Sep	\$7.161
Apr	\$6.761	Oct	\$7.298
May	\$6.846	Nov	\$7.963
Jun	\$6.926	Dec	\$8.618
Jul	\$7.014	Jan-08	\$8.928
Strips	Six	Twelve	Apr 07- Oct 07
	\$6.812	\$7.328	\$7.014



### Review and Outlook

After January's collapse the February contract has held steady in the face of overall bearish fundamentals, betting instead on the weather turning cold before the contract expires and thus justifying its stubbornness. It just may have gotten its wish as cold appears to be on the way. If the turn in the weather comes and stays a while a challenge of resistance at \$6.80 and \$7.00 becomes likely. Above \$7.00 the market will have a serious test at \$7.30, if it passes this test an extended move higher becomes more likely as the outlook turns considerably less bearish. On the other hand if the weather doesn't arrive as expected or natural gas is unable to hold firm in the face of the sell-off in crude oil, support is at \$6.40, \$6.20 and \$6.00. I expect that if \$6.20 gives way so will \$6.00. If this occurs a test of the perpetual contract low of \$5.740 would be likely. Right now, I view this scenario as unlikely.

Below is the daily perpetual natural gas chart, showing its fall from its recent high through January expiration and noting February's low and a gap at \$7.30 which presents an important resistance point.



## Pricing Factors

### Storage

Withdrawal for week ending January 5, 2007

-49 Bcf

Current Storage

3,025 Bcf

Last Year

2,624 Bcf

3-Year Average

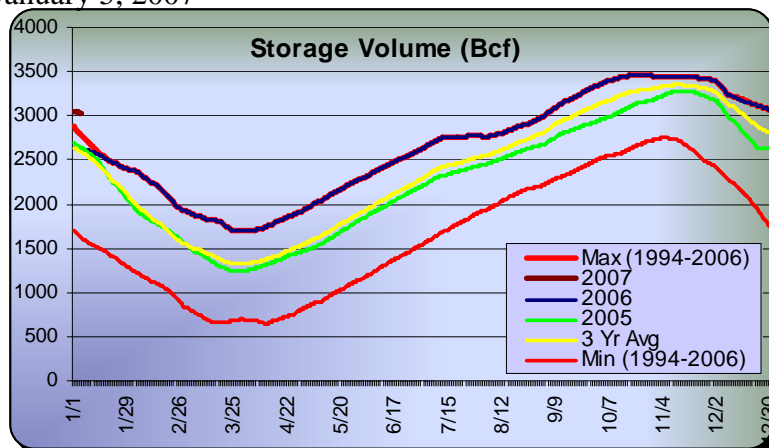
2,587 Bcf

Historical Low

1,611 Bcf (2001)

Historical High (pre 2006)

2,770 Bcf (2002)

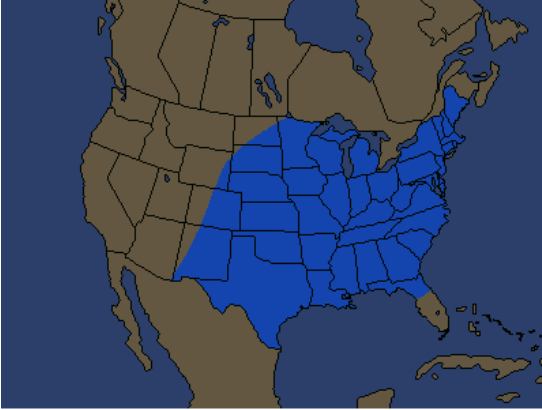


### Weather

AccuWeather's short term forecast for days one through five predict average temps east of the Mississippi and below normal temperatures west of the Mississippi. The forecast for days six through fifteen call for below normal temperatures for all locales west of the Rockies.

Below are the temperature anomaly maps for the thirty and ninety day periods according to AccuWeather. They are as close to a bullish long-term forecast as we have had in quite some time.

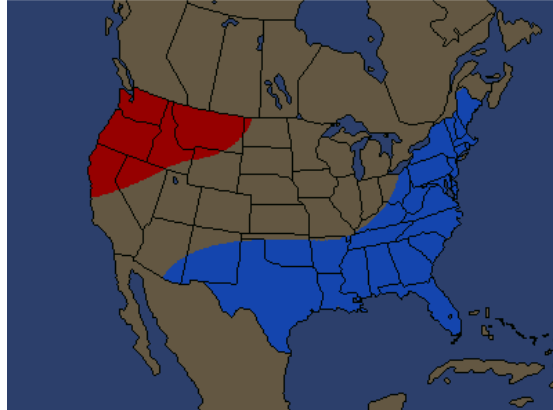
30 DAY TEMPERATURES COMPARED TO NORMAL



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90 DAY TEMPERATURES COMPARED TO NORMAL



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### Supply/Demand Balance

The big story in the market is the overwhelming bearish weather leading to diminished demand for gas. As a result, day and monthly pricing are below most business' cost of stored gas causing storage owners to opt to leave the gas in the ground. As a result, there is a significant storage surplus for this time in the winter season. Even with the high storage levels, there is a possibility, with the return of normal weather, that we could exit winter with less in storage than last year. Granted, last year we did set records for end of winter storage so a slight deficit isn't terribly bullish. The point being, that 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 everything 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.

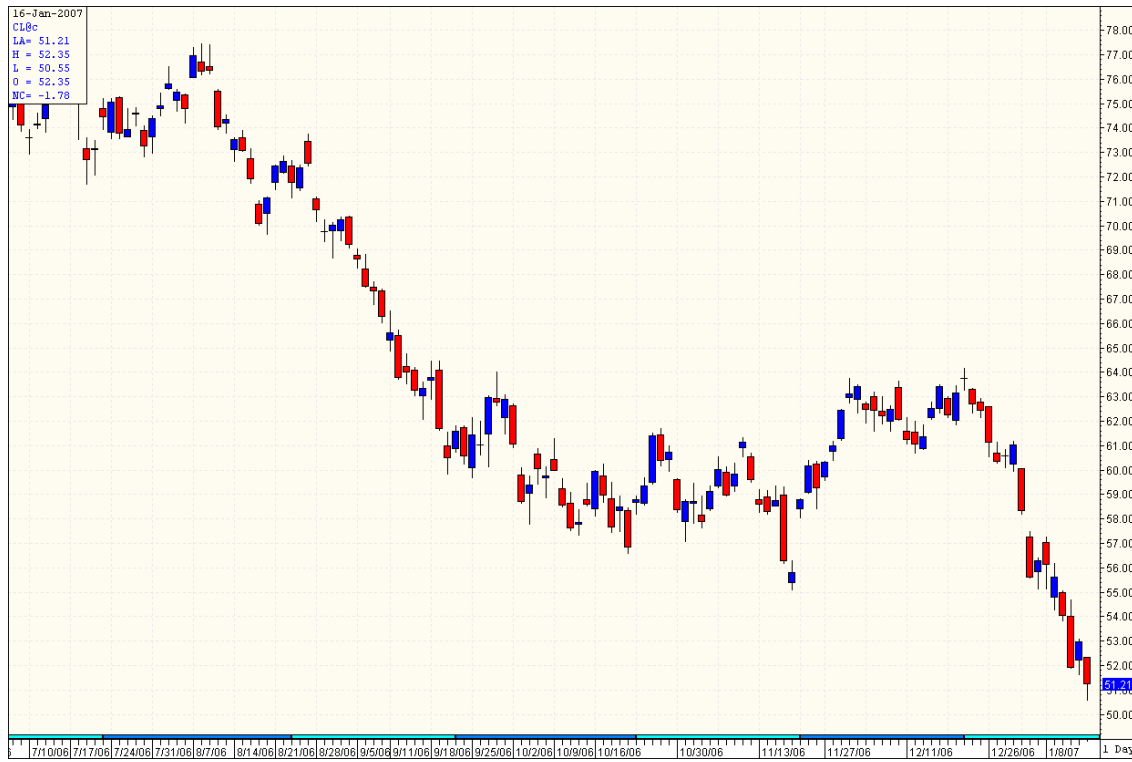
<b>Baker Hughes Rig Count</b>			
Report Dated 1/12/07			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,444	1,224	220
U.S. Oil Rigs	269	241	28
Total Rigs - North America	2,303	2,141	162

### Crude Oil

Despite OPEC's production cuts in November, crude oil continues to slide lower. The cuts, as typical of OPEC, were not adhered to across the board thus undermining their effectiveness. To be sure, production was cut, just not as much as promised. However, from most accounts, even without complete adherence to the cuts, there is a slight shortage in the market and with additional cuts likely in the next couple of months crude oil's move lower may end soon. You would have to go back to the week ending May 23<sup>rd</sup>, 2005 to find a prompt month crude oil contract that traded as low as it did today (\$50.55). Support is at \$50.00. A settle below \$50.00 would be significant both technically and psychologically and could result in a push to the \$47.00 area. Crude oil

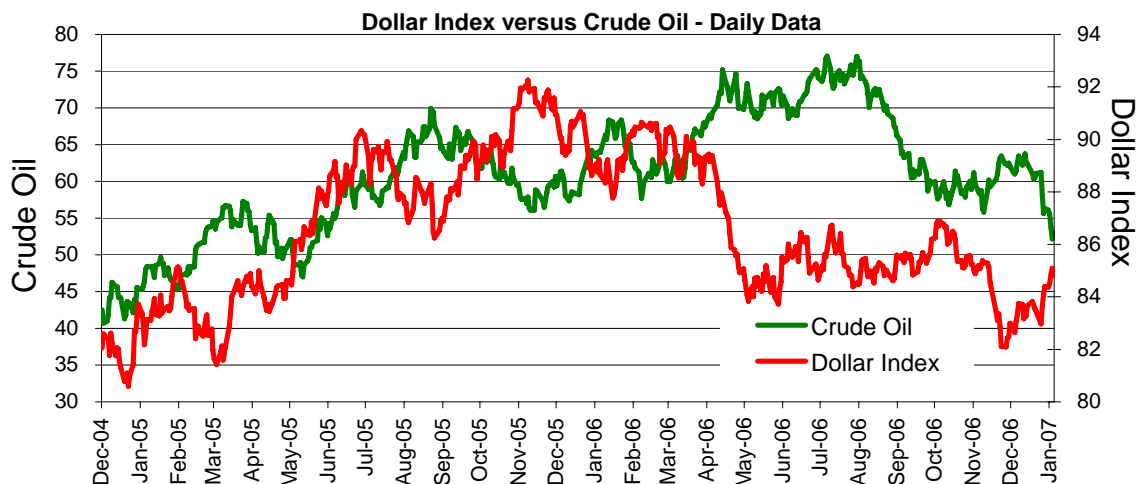
could recover as far as the mid \$57's and still be considered corrective, so \$57.50 is key resistance.

The crude oil daily continuation chart, detailing its steady decline, is included below.



### Dollar Index versus Crude Oil

The dollar index and crude oil graph is printed below. While the dollar has rebounded of late, its overall weakness continues to provide OPEC an excuse to do what they can to maintain, or raise, prices. Since most oil transactions are denominated in the U.S. dollar and a dollar is worth less, it enables them to claim that they need higher prices per barrel to maintain their current purchasing power. Despite OPEC's best efforts crude oil has fallen in the first half of January, re-establishing the negative correlation between the dollar and crude oil.



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