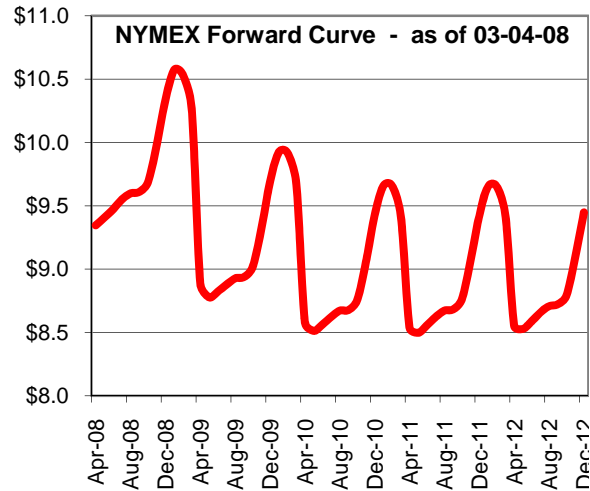


Natural Gas Market Report

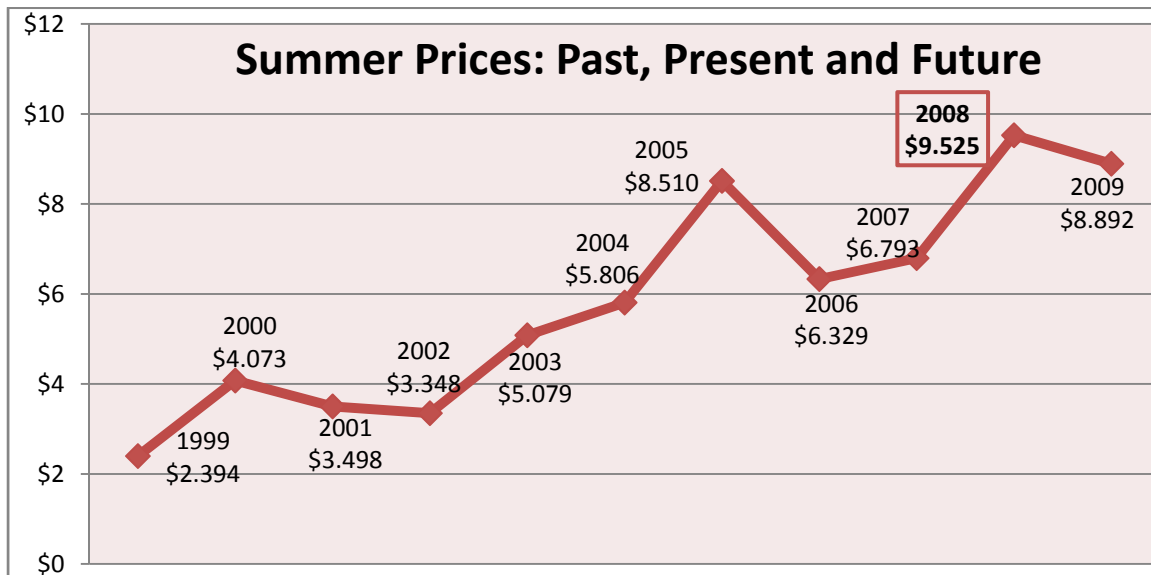
March 5, 2008

NYMEX Settle Price As of Wednesday, March 4, 2008			
Apr	9.353	Oct	9.653
May	9.393	Nov	9.933
Jun	9.443	Dec	10.268
Jul	9.516	Jan-09	10.498
Aug	9.563	Feb	10.456
Jul	9.575	Mar	10.189
Strips	Six	Twelve	Apr 08- Oct 08
	\$9.474	\$9.820	\$9.499



Review and Outlook

I'm beginning to fear the natural gas market is exhibiting some of the same irrational behavior we have come to expect from the crude oil market. While the verdict is still out on that, what we do know is that natural gas is trading at very high levels for this time of year and while the recent fundamental picture leans to the bulls it isn't as overwhelming as the price action would imply. The settle of 9.443 on February 28th was the highest settle for the prompt month since January 6th, 2006, when the market was in the midst of falling from its post Katrina high. Furthermore, the summer months of April through October, are trading a full dollar higher than that stretch of months has ever expired at, see the chart below.



Recall, that the average for the summer of 2005 includes the highest expiration ever for a NYMEX contract, October '05 at \$13.907 as Rita moved through the Gulf just over a month after Katrina tore up production facilities. Right now the market is telling us there is justification for prices being 12% higher than the summer of 2005. While I can draw up some bullish scenarios, I'm having difficulty explaining how the market can sustain prices at these levels without some significant fundamental developments actually occurring.

A factor that could keep prices on a trek higher or possibly cause a spike is the extreme short position of the large speculators in this market. If they decide to cover this position it could move prices rapidly higher. I still maintain that such a move should be temporary without a fundamental shift to support it.

From a technical standpoint a settle over \$9.50 points the market toward a challenge of the \$10.00 to \$10.20 area. Since I have already stated that I have a difficult time explaining prices at current levels, I don't see prices at \$10.00, if they do occur, being able to hold up for long. On the downside, the market needs to settle back below \$9.00 to indicate a deeper move may be underway; the \$8.50 area is the next target.

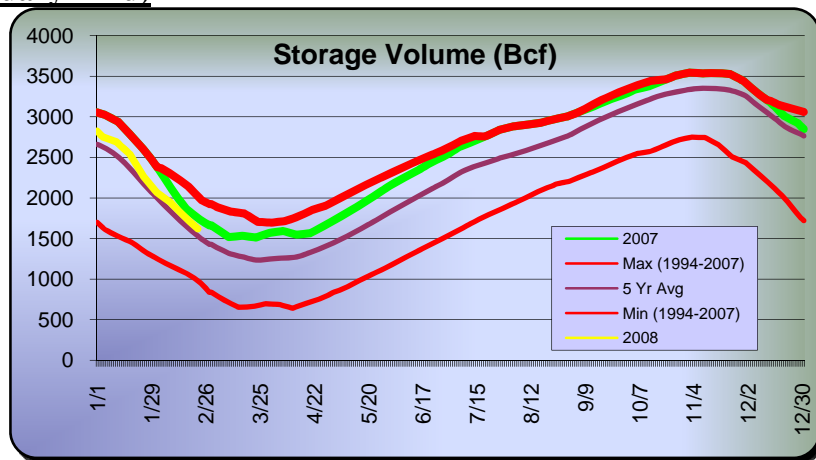
Below is the daily natural gas perpetual chart showing areas of support.



Pricing Factors

Storage (through February 22nd)

Weekly Change
-151 Bcf
Current Storage
1,619 Bcf
Last Year
1,752 Bcf
5-Year Average
1,532 Bcf
Historical Low
982 Bcf (2001)
Historical High
2,021 Bcf (2006)

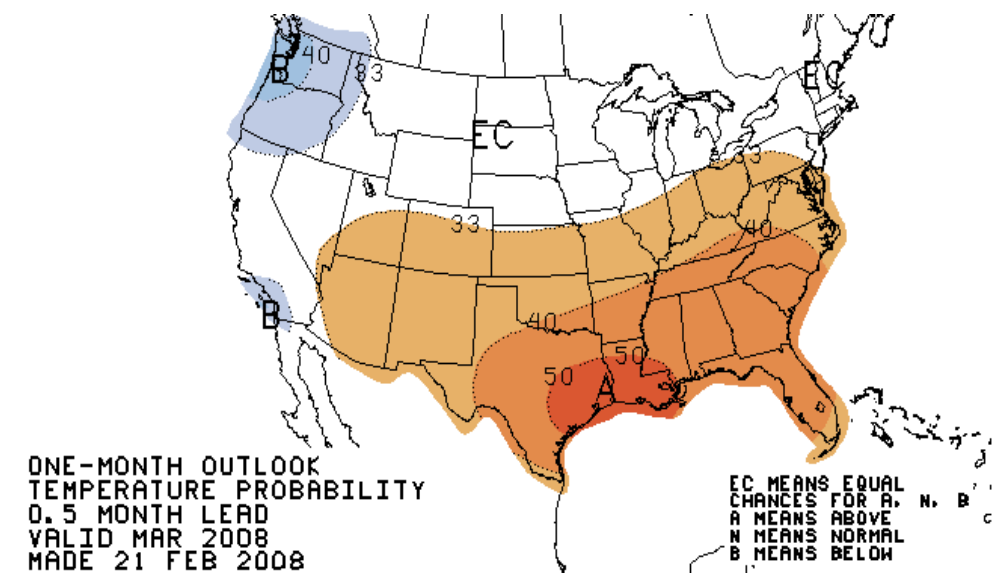


Weather

The forecast for days two through five predict below normal temps for most of nation's midsection with normal temps along each coast. The six to ten day forecast warms considerably for the middle of the country with the Rockies to Missouri being a bit above normal, from Missouri to the east coast normal and the New England states a few degrees below normal. Days eleven through fifteen once again bring cold air down into the middle of the country stretching to the Northeast, while the Southeast will have normal temperatures. Overall, the short term forecast is somewhat bullish, especially compared to last year.

The outlook for March according to the National Weather Service appears below.

A-above normal N-normal B-below normal EC-equal chance for above/below normal



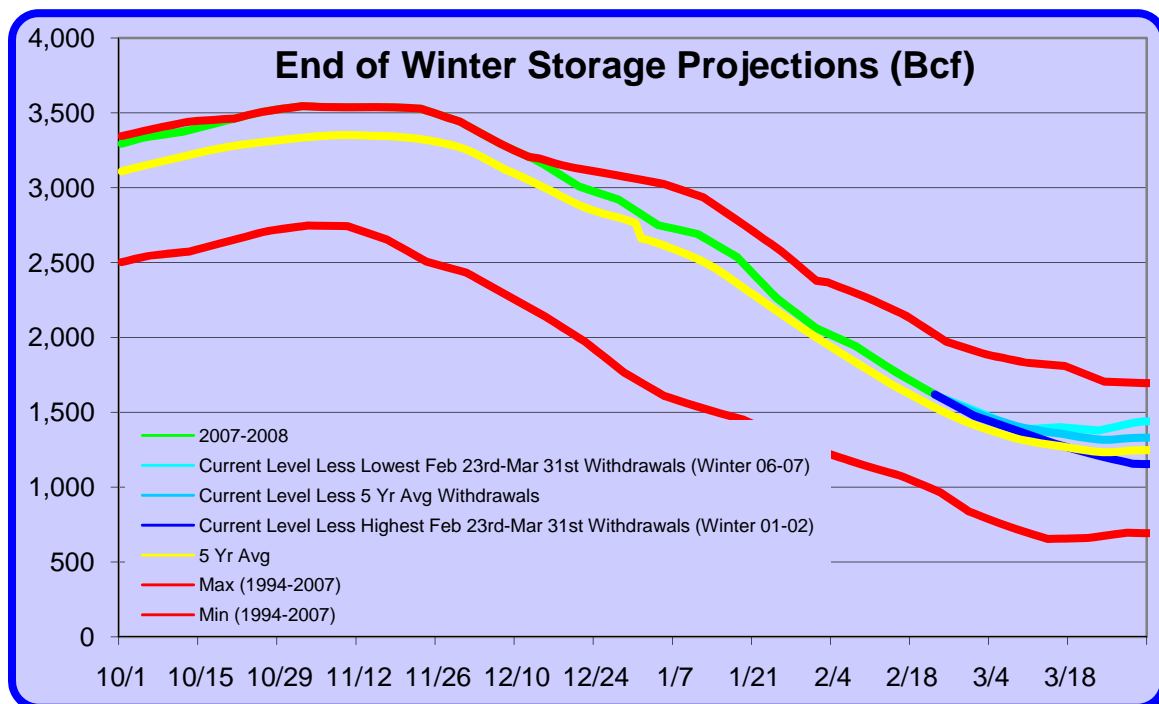
Supply/Demand Balance

An issue to keep on the radar for this summer is the on-going drought conditions in the Southeast. Late last summer and again recently, reports surfaced that the levels for lakes that are used for cooling at power plants may be getting dangerously low. While this is not an imminent problem, the potential is there for natural gas fired plants to be called upon to replace some of the load lost to other plants late this summer if drought once again grips the Southeast.

In reading much of the market news a factor that rarely appears in the news is the fact that more supply will be coming on line this year. It will be interesting to watch this play out over the coming year especially this summer as re-fill rates may be affected.

One factor that will help support prices is the lofty level that oil is trading at compared to natural gas. As we have experienced some cold this winter natural gas prices have risen, however, there is still room for natural gas prices to run before oil products will begin to compete with it and demand for natural gas begins to wane.

The chart below shows possible end of winter storage levels. Starting from current levels, I made three different assumptions: one assumes withdrawals equal to the five year average, the second assumes withdrawals equal to the lowest amount withdrawn from storage since 1994 for the remainder of the winter and the third assumes the most withdrawn from storage for the remainder of winter. This chart paints a bit of a bullish picture, while we may not finish the winter below the five year average, we will be closer to it than we have been in a long time, putting some extra strain on the market over the summer to refill storage. After back to back years setting fall storage records, the market will be disappointed if we don't make it three in a row.



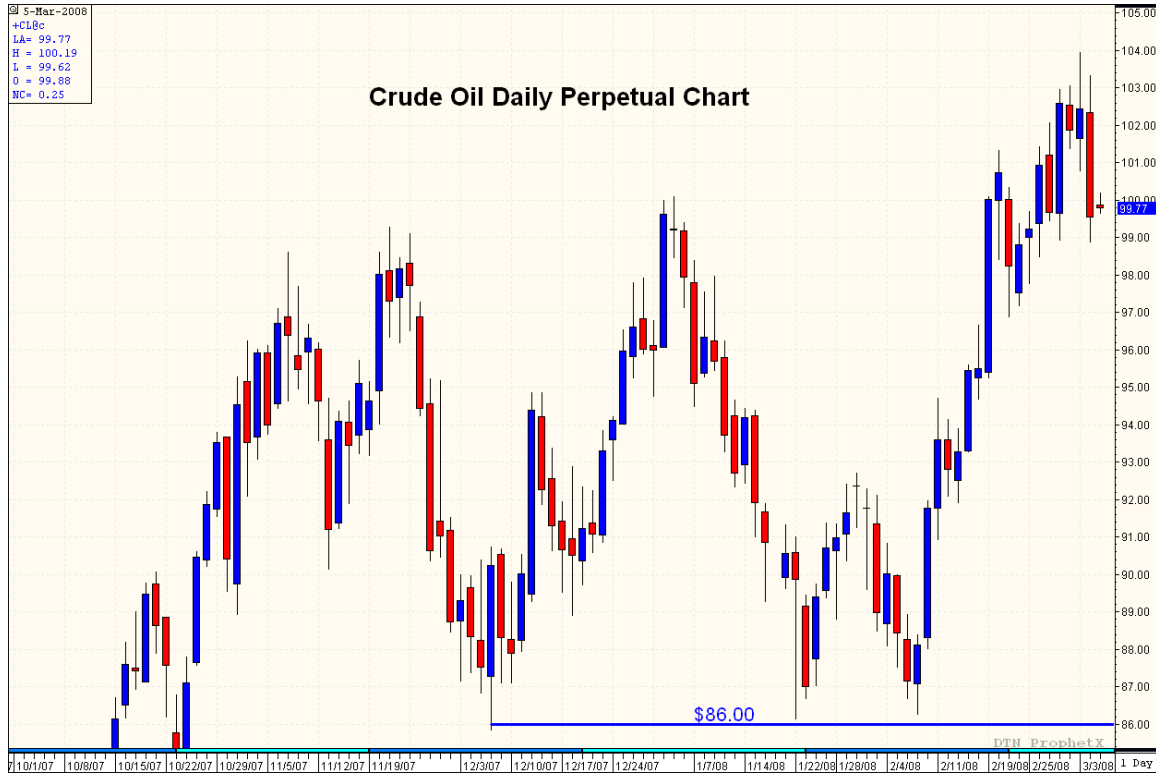
Baker Hughes Rig Count			
Report Dated 02/29/08			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,418	1,458	-40
U.S. Oil Rigs	337	290	+47
Total Rigs - North America	2,395	2,353	+42

Crude Oil

If anyone can explain the following math, I'd like you to take a shot at explaining my mother-in-law, because if you can make sense of this market, then you might have a shot at explaining the only thing that I've found that is more irrational than this market. Here is the formula:

Apr 07 crude oil price on 2/28/07:	61.79
Non-OPEC crude supply 08 vs. 07:	+1.9%
OPEC supply (Jan 08 vs. Jan 07):	+3.7%
Four week avg demand 08 vs. 07 (US only):	<u>-2.4%</u>
Apr 08 crude oil price on 2/28/08:	102.59

So to review, that's supply up, demand down, yields price up 66%. Huh? Granted, my formula is far from complete. World demand instead of US demand, storage levels, etc., the point is; there is simply no way to justify that kind of increase given the current fundamentals of the market. As far as world demand, the International Energy Agency has been consistently revising its demand forecasts lower, and domestic storage levels are about 22 million barrels below last year, or 6% lower. Does a 6% drop in crude oil storage levels equate to a 66% increase in prices? I don't think so, especially when you consider that the total inventory of all oil products is even to a year ago. How about geopolitics? While the Middle East isn't exactly peaceful, when has it been? This market has been waiting since Saddam entered Kuwait in 1990 for an event that actually disrupted supply, maybe that event will happen tomorrow, I don't know, but after 18 years, I'm tired of the hype. We invited this when we loosened restrictions on the NYMEX a few years ago and they have taken full advantage, the speculative community has and continues to pour money into this market and the consumer continues to suffer. As I said in a report a few months back, I'm not one to call for government intervention into much, but this market is broken and while I have little faith that our government can actually fix it, I'm willing to give them a shot. Included below is the crude oil perpetual chart, the \$86.00 mark that seemed likely to break just a few weeks ago sure seems a long way off now.



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