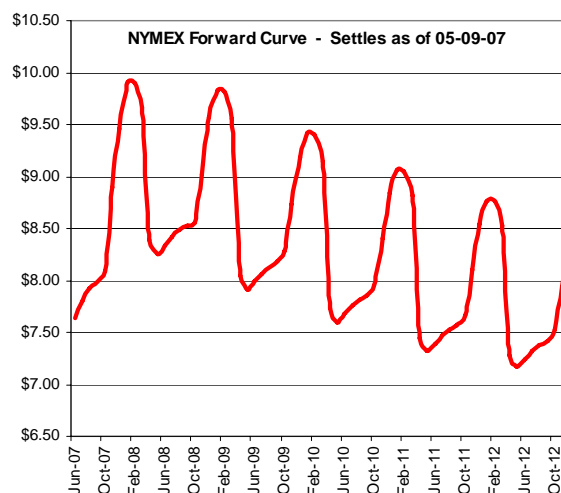


# Natural Gas Market Report

## May 9, 2007

NYMEX Settle Price As of Tuesday, May 8, 2007			
Jun	\$7.637	Dec	\$9.465
Jul	\$7.799	Jan-08	\$9.805
Aug	\$7.924	Feb	\$9.795
Sep	\$7.980	Mar	\$9.559
Oct	\$8.090	Apr	\$8.314
Nov	\$8.785	May	\$8.189
Strips	Six	Twelve	Nov 07- Mar 08
	\$8.036	\$8.612	\$9.482



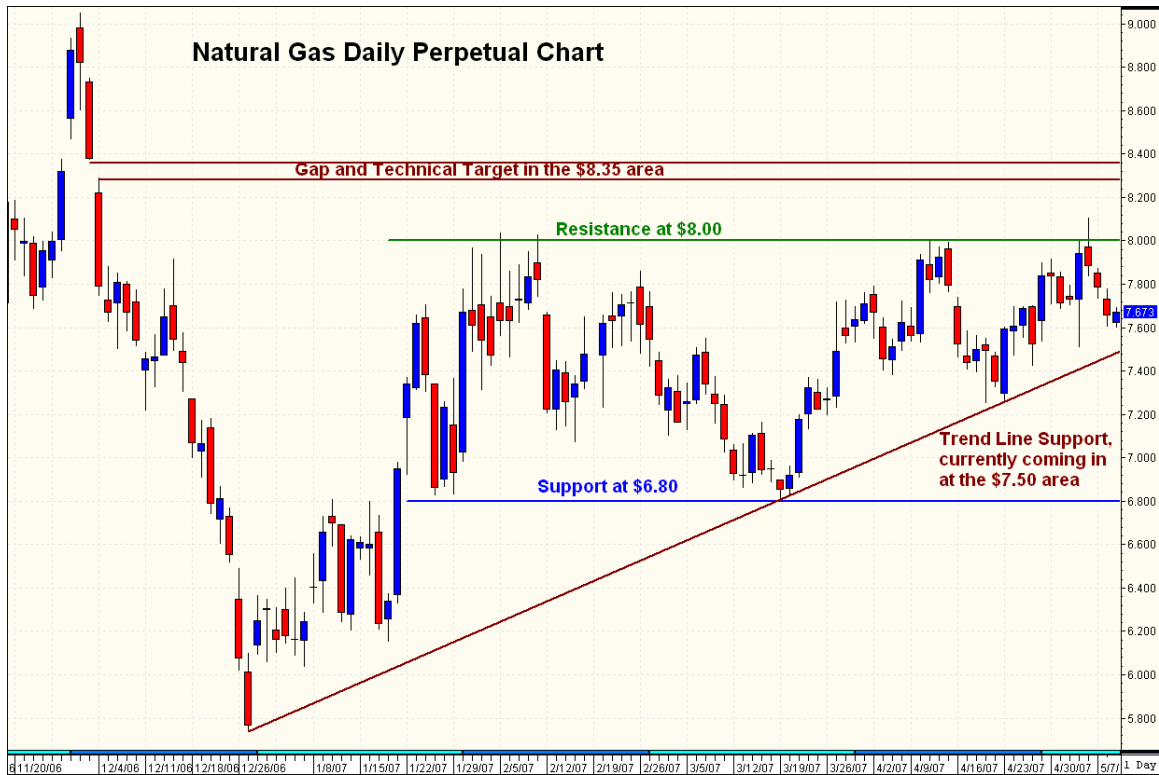
### Review and Outlook

The June contract continues to trade within the range established by the February contract during the last half of its reign on the top of the board. The bottom end of the range continues to be the \$6.80 area, with \$8.00 the top. Within that range there are multiple levels of support for June starting with \$7.55 and closely followed by support of lesser importance at \$7.40. The important area for the market to hold in order to avoid it taking on a more bearish tone is \$7.15-\$7.20. The next target below that is \$6.80. While mild weather and a positive storage situation are reasons for the market to test lower over the next month, it appears to me that the market has taken on an overall bullish tone and trading through all those layers of support will likely prove difficult. Even if prices make it to the \$6.80 level, it would be surprising for the market to break that level by much, if at all, at least not until some of the summer and hurricane season is behind us.

On the flip side, resistance is at \$8.00, followed by \$8.14 with an important target at the \$8.30-\$8.35 area above that. If the market can overcome the \$8.35 area a more positive outlook will be warranted.

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, if this happens, it likely won't occur for several months.

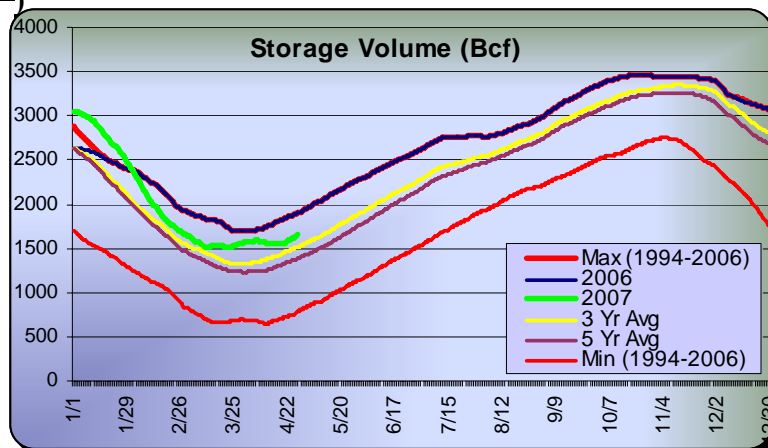
On the next page is the daily perpetual natural gas chart, showing its fall from its high in early December and detailing current support and resistance.



## Pricing Factors

### Storage (through April 27<sup>th</sup>)

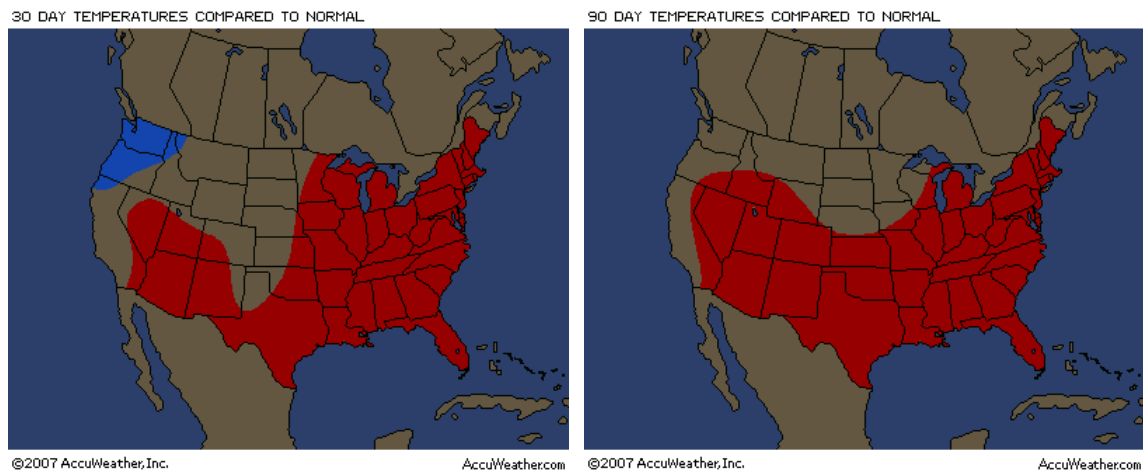
Weekly Change  
+ 87 Bcf  
Current Storage  
1,651 Bcf  
Last Year  
1,896 Bcf  
3-Year Average  
1,512 Bcf  
Historical Low  
777 Bcf (2003)  
Historical High  
1,896 Bcf (2006)



### Weather

AccuWeather's forecast for days one through five predicts above average temperatures for everywhere except Texas and Florida. Days six through ten are predicted to be warmer than normal for the lower three quarters of the country with the north expecting normal temperatures. At this point, warmer than normal temps continue to be bearish, at least as they pertain to the Northeast, this will change over the course of this month as warmer than normal in the first of June translates into added demand for natural gas for electric generation.

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



With the official beginning of hurricane season less than a month away, I'll repeat the comments from the last report regarding Colorado State's William Gray's hurricane forecast for 2007. It shows a revision upward from his original forecast due to the rapid dissipation of El Nino conditions. He is now calling for 17 named storms, with 9 becoming hurricanes. He put the probability of for at least one major hurricane to make landfall anywhere on the U.S. coast at 74% (the average for the last half century is 52%). The probability of a major hurricane hitting the Gulf Coast from the Florida Panhandle to Brownsville is 49%, according to Gray.

All that being said, it appears the storm season has got off to an early start with Andrea being named today. Without going into the details, technically Andrea is not a tropical storm but is subtropical. However, its wind strength is the same as for a tropical storm and thus it becomes the first named storm of the season. Andrea is expected to do little but bring some much needed rain to Georgia and parts of South Carolina.

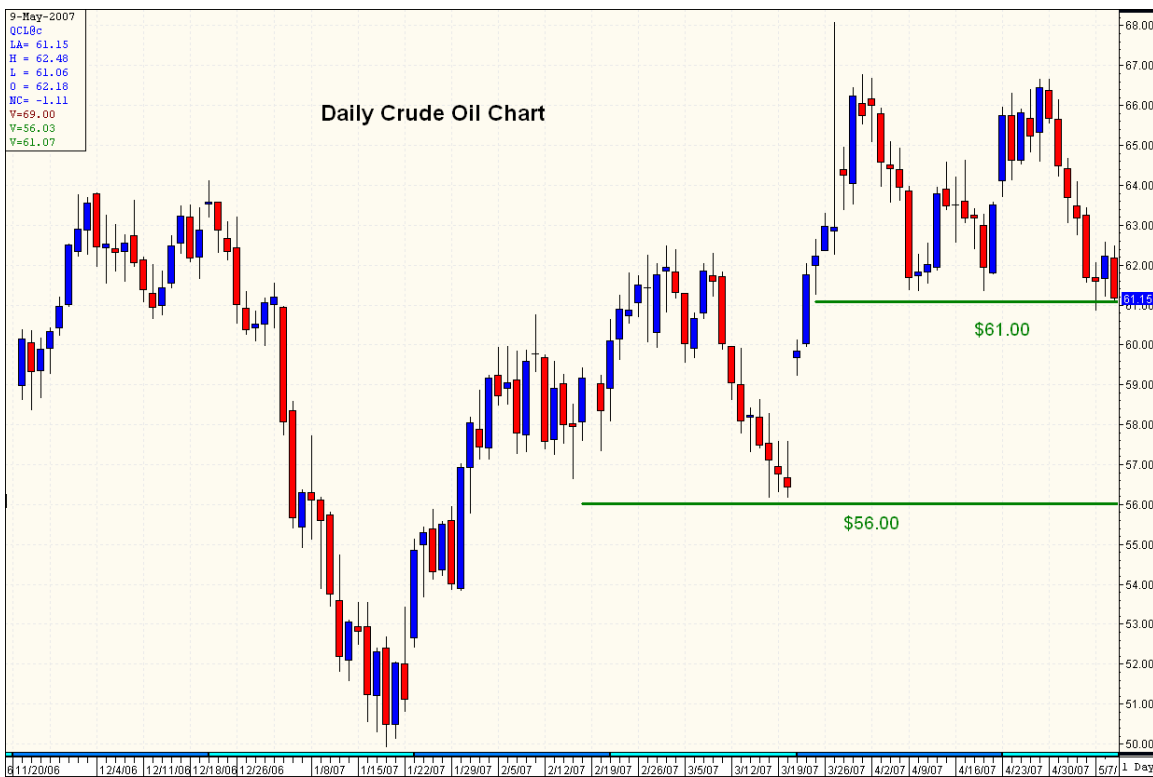
### **Supply/Demand Balance**

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 that 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.

Baker Hughes Rig Count			
Report Dated 5/04/07			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,462	1,365	+97
U.S. Oil Rigs	282	259	+23
Total Rigs - North America	1,836	1,792	+44

## Crude Oil

The June crude oil contract is struggling a bit and appears ready to test support at \$61.00. Below that the \$60.00 area provides added support, from a psychological stand point if nothing else. At least for the short term, I'll be surprised if the market can break \$60.00 for any length of time. If I'm incorrect and \$60.00 gives way, major support exists at the \$56.00 area. If support holds and a rally occurs, resistance is at \$64.00 and \$66.50. A move above \$66.50 would be very bullish and fortunately does not appear likely in the short term. The daily perpetual crude oil chart for the last six months appears below.



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