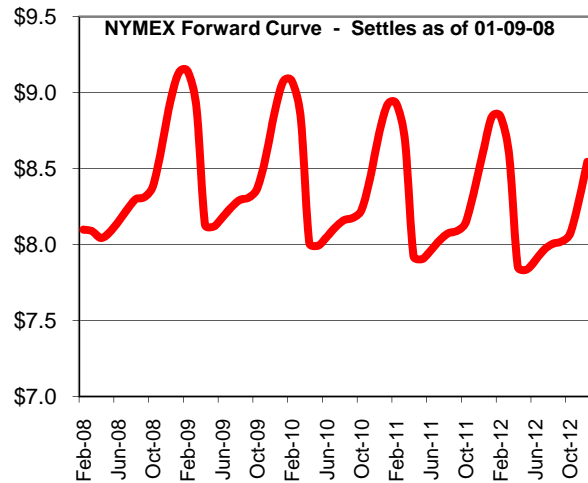


# Natural Gas Market Report

## January 10, 2008

NYMEX Settle Price As of Wednesday, January 9, 2008			
Feb	8.099	Aug	8.299
Mar	8.089	Sep	8.312
Apr	8.044	Oct	8.384
May	8.079	Nov	8.639
Jun	8.151	Dec	8.942
Jul	8.227	Jan-09	9.158
Strips	Six	Twelve	Apr 08- Oct 08
	\$8.115	\$8.369	\$8.214

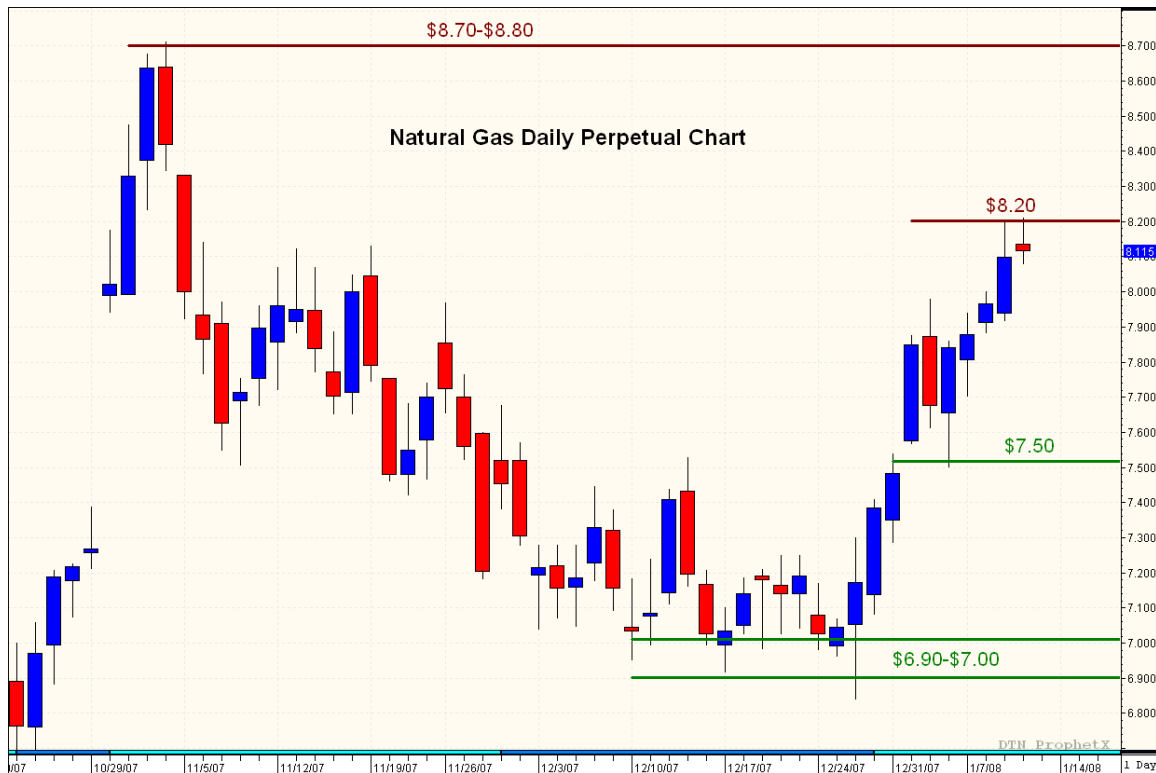


### Review and Outlook

The February contract rallied from a low of \$6.95 on February 27<sup>th</sup> to a high of \$8.209 yesterday as the recent cold snaps have provided a nice boost to this market. More below normal temps are predicted to be on their way, allowing prices to hold firm, at least for the time being. The \$8.20 area is an important resistance area for the February contract and the market has tested but failed to break it the past two days. If prices hold below this area through the week a test of support becomes likely. (As I type, prices are breaking above this mark. I'll be watching to see if February can settle above for a couple of days.) First support is at \$7.90-\$8.00, followed by \$7.70 and then \$7.50. It's not until \$7.50 breaks that the move up is in any real jeopardy, so there is plenty of room to correct lower while still maintaining a slightly bullish outlook.

A break of \$8.20 would be a bullish indication. At that point, targets at \$8.80 on up to \$10.00 come into play. For that upper range to have a serious chance to be challenged the remainder of winter will likely have to be colder than is currently predicted.

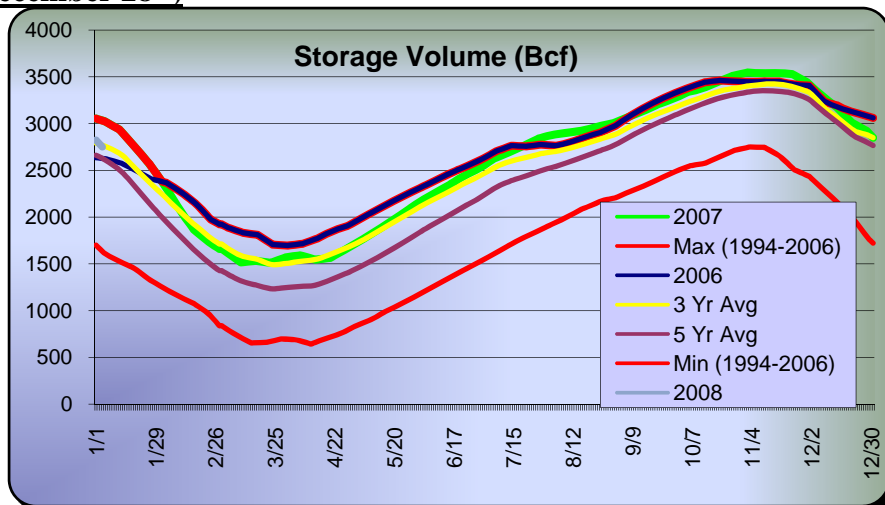
Below is the daily natural gas perpetual chart showing areas of support and resistance. The lower targets on this chart probably won't come into play unless we have a very warm first half of winter.



## Pricing Factors

### Storage (through December 28<sup>th</sup>)

Weekly Change  
-171 Bcf  
Current Storage  
2,750 Bcf  
Last Year  
3,032 Bcf  
5-Year Average  
2,628 Bcf  
Historical Low  
1,633 Bcf (2001)  
Historical High  
3,032 Bcf (2007)



## Weather

The forecast for the next few days shows warmer than normal temperatures dominating across much of the country, slightly warmer in the Midwest and Southeast, much above normal in the Northeast. However, these warm temps give way to cooler than normal in the southeast for days six through ten, while the Northeast will experience normal temps during that time frame. Days eleven through fifteen for the eastern half of the country are currently predicted to be cooler than normal with most of the rest of the country having seasonal readings.

The thirty and ninety day temperature maps from AccuWeather that are normally included here were not available this month. WSI's updated forecast for January and February calls for temperatures averaging warmer than normal in the eastern United States in January and February, with colder than normal temperatures north and west of a line from Phoenix to Boston during January, February and March. WSI forecasts colder than normal temperatures by March across the entire country -- except New Mexico, Mississippi, Texas and Louisiana -- with much colder than normal temperatures across the northern half of the country.

### **Supply/Demand Balance**

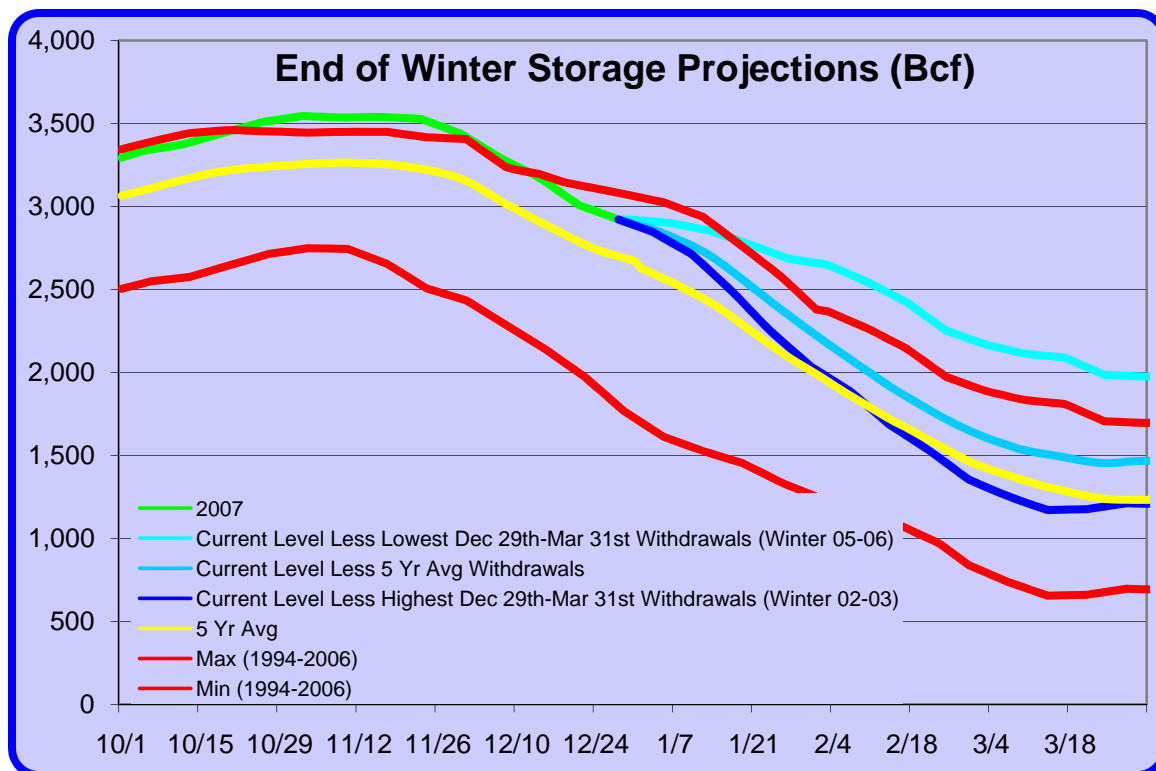
One factor that will help support prices is the lofty level that oil is trading at compared to natural gas. As we have experienced some cold this winter natural gas prices have risen, however, natural gas prices still have several dollars to run before oil products will begin to compete with it and demand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

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.

With the past few winters having above average temperatures only average temperatures are enough to appear quite bullish to this market. This is an important factor to keep in mind going forward; it will not take extreme temps to bolster this market, close to average will produce bullish storage and demand comparisons to recent years and could have a ripple effect for prices lasting throughout the year.

More on storage: the industry set a new all-time record high early in November by reporting a storage level of 3,545 bcf of gas in storage; however a couple cold snaps in December eliminated the surplus to last year, although levels are still comfortable for this time of year.

The chart below shows possible end of winter storage levels. Starting from current levels, I made three different assumptions: one assume 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 bearish picture, with winter projected to be warmer than normal (but cooler than last year) it is unlikely that we will drop below the three year average by winter's end and may not even reach that low.

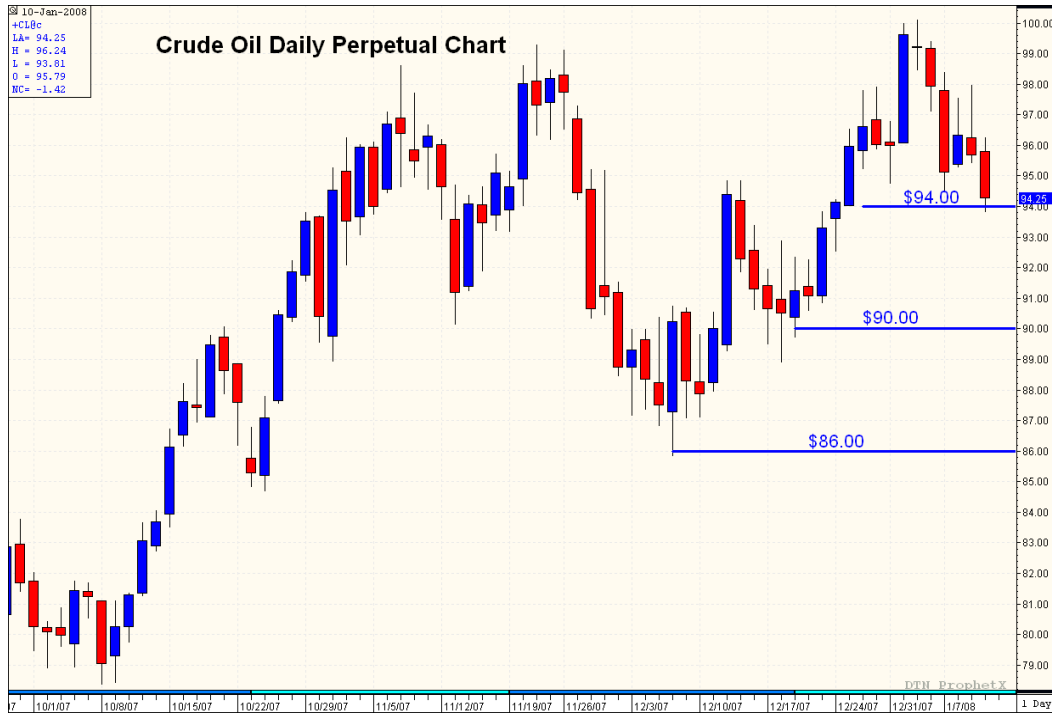


<b>Baker Hughes Rig Count</b>			
Report Dated 01/04/08			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,450	1,411	+39
U.S. Oil Rigs	316	279	+37
Total Rigs - North America	2,093	2,112	-19

## **Crude Oil**

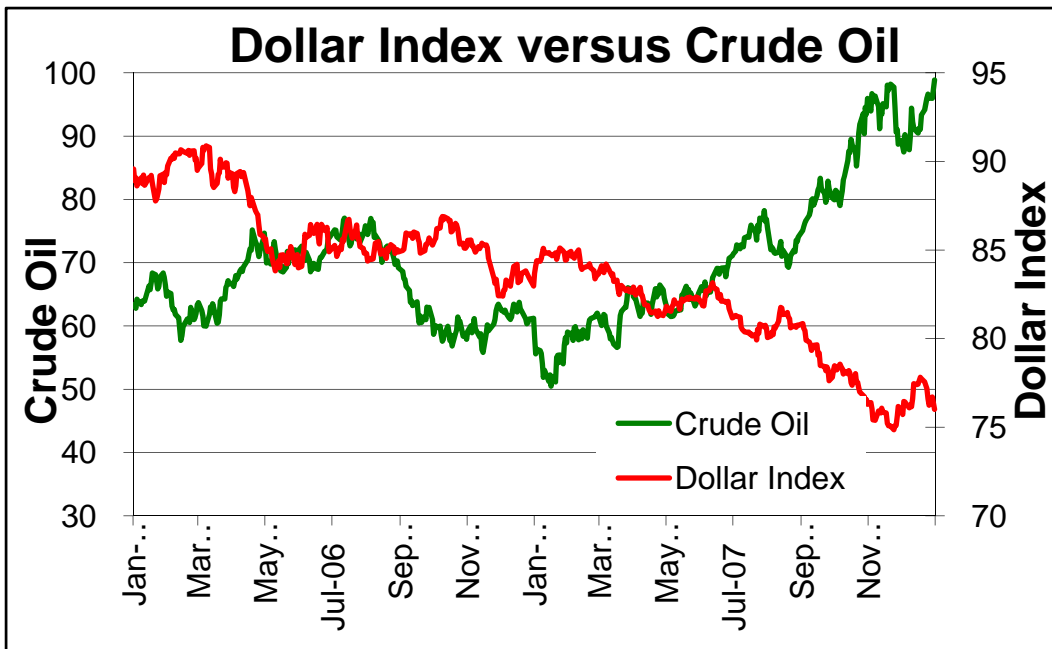
The crude oil market finally reached the magical \$100 mark on the first two trading days of the year as speculative money flowed back into the market. However, since touching \$100 on January 2<sup>nd</sup> the market has settled below the previous day four out of five days and appears headed for another negative day today. Hopefully, with the \$100 target met, traders will begin to focus more on a fundamental picture which has consistently had to revise demand projections lower and production estimates a bit higher over the past six months. As this reality begins to take hold there should be an opportunity for a much deeper sell-off in this market. Immediate support is at \$94.00, a settle under this area opens the door to another challenge of \$90.00, if \$90.00 gives way a retest of the lows in the month of December around the \$86.00 mark becomes probable. At this point a steeper sell-off could occur as breaking the \$86.00 mark will likely be viewed as a significant bearish event.

Of course this market must first close below the \$94.00 mark and if it instead manages to hold above it, or the move lower stalls anywhere above \$90.00, renewed buying interest may enter the market, resulting in another challenge of the \$100 area.



**Dollar Index Compared to Crude Oil**

Below, is a graph of the dollar index vs. crude oil. With most oil transactions denominated in the U.S. dollar and the dollar having being weak of late, it provides a rationalization for oil prices to stay high. The inverse correlation between the two in recent times is shown on the chart below.



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