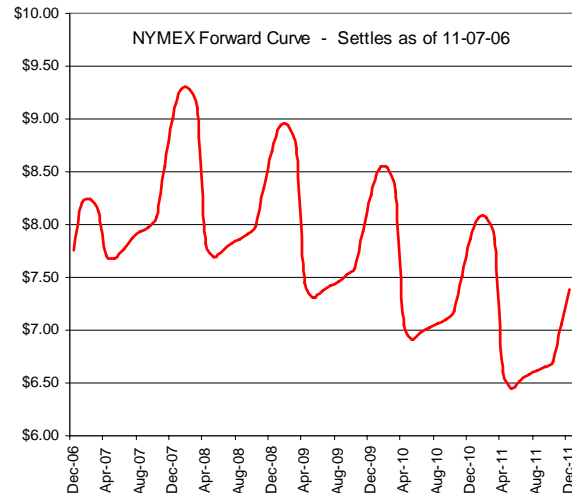


# Natural Gas Market Report

## November 8, 2006

NYMEX Settle Price As of Tuesday, November 7, 2006			
Dec	\$7.755	Jun	\$7.770
Jan-07	\$8.210	Jul	\$7.870
Feb	\$8.250	Aug	\$7.930
Mar	\$8.130	Sep	\$7.980
Apr	\$7.710	Oct	\$8.075
May	\$7.680	Nov	\$8.545
Strips	Six	Twelve	Dec 06- Mar 07
	\$7.956	\$7.992	\$8.086



### Review and Outlook

The short term forecast shifted yesterday from predicting above normal temps to at or below normal for much of the country. This bit of news is the reason given for yesterday's reversal; stopping an early morning slide in prices and spurring a rally. December finished up \$0.265 on Tuesday after having trading in negative territory for the first hour of the day session.

As seen yesterday, this market continues to be very sensitive to the prospect of cold weather, reacting immediately at the first hint of a cold forecast and giving some ground when the temperatures warm. This will likely continue, with an upward bias, at least through November and most likely into December. It won't be until late December for the market to have a clearer picture as to how this winter will play out and if the current high storage level will last through the season. Until then, most traders will continue to be nervous about compiling large short positions.

From looking at the natural gas perpetual chart on the next page it appears that the \$8.00 level, or slightly above, could prove an important resistance area. A settle over \$8.00 on the weekly chart hasn't occurred since January. There have been other breaks above \$8.00 on a daily basis but those were not sustained. Those pushes above \$8.00 on the daily chart (not shown) indicate another probable area of resistance at the \$8.30 area. A break above \$8.30 would increase the chance for a move to the \$9.00 mark.



There are many layers of support below the market; unfortunately, most will likely remain untested until more of the winter is behind us. A warm last half of November could change this and result in a test lower sooner rather than later. A few support numbers to watch out for when looking at the December contract are the \$7.20-\$7.30 area followed by \$6.90-\$7.00. A settle below the second support level would be short term bearish indicator and could lead to a drop to the \$6.50 area.

### Pricing Factors

#### Storage

Withdrawal for week ending October 27, 2006

-9 Bcf

Current Gas in Storage

3,452 Bcf

Last Year Gas in Storage

3,164 Bcf

3-Year Average Gas in Storage

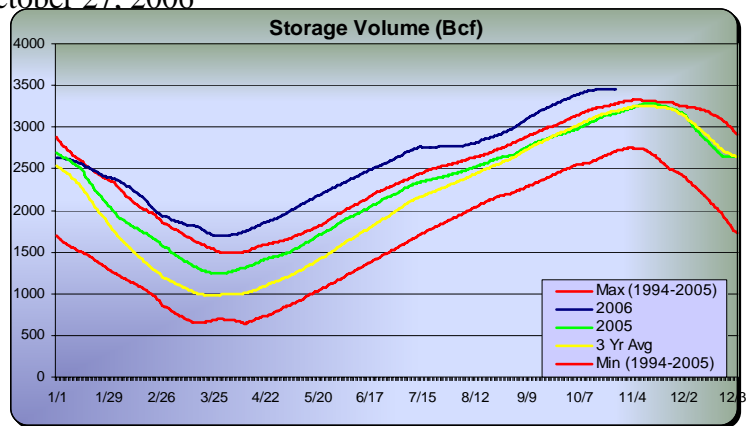
3,193 Bcf

Historical Low

2,713 Bcf (2000)

Historical High (prior to 2006)

3,280 Bcf (2004)

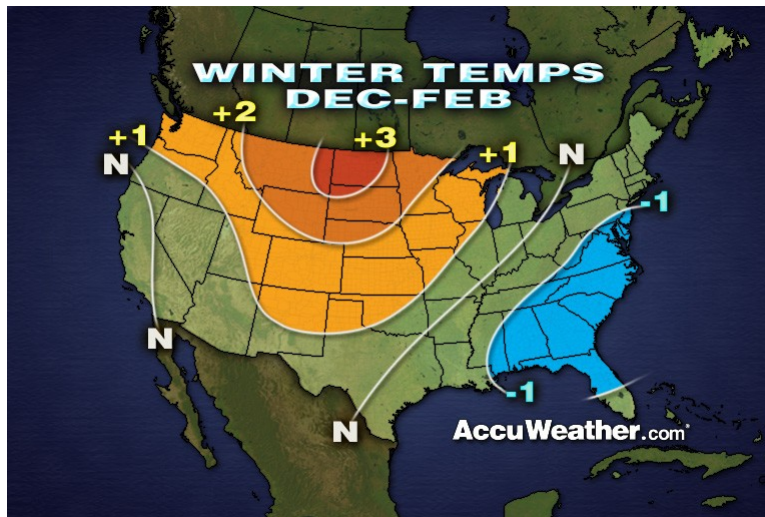


#### Weather

The short term forecast, days six through fifteen, shifted from predicting above normal temps to now predicting at or slightly below normal for much of the country. If proven correct it could result in a strong floor under the market.

The map below is the predicted temperature anomaly map for the December-February timeframe according to AccuWeather. It predicts a normal winter for the gas consuming

regions of the upper Midwest and the Northeast and slightly cooler than normal for the Southeast.



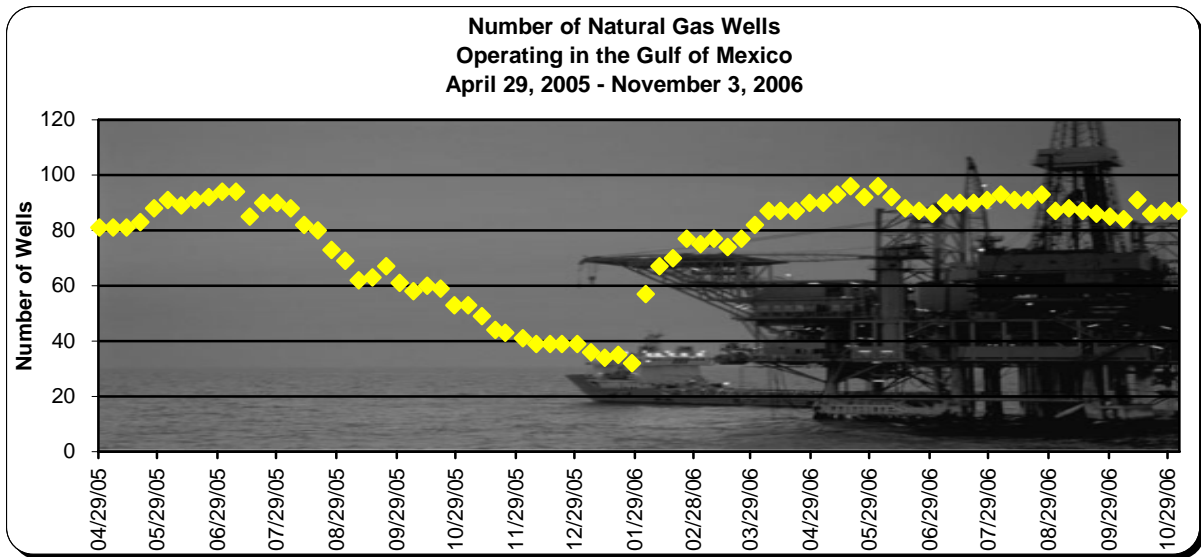
There remains talk about there being an El Nino this winter, although talk of it having much of an impact has diminished over the past month.

**Supply/Demand Balance**

Nuclear refueling coupled with cooler than normal temperatures resulted in a rare October withdrawal from storage last week. The weather has moderated but not early enough keep the prognosticators from predicting a second consecutive withdrawal, ending the injection season on a bullish note. Even with the recent withdrawals, overall, storage remains a bearish factor for the first part of winter. The current storage level is still 8.1%, or 259 Bcf, above the three-year average.

<b>Baker Hughes Rig Count</b>			
Report Dated 11/03/06			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,443	1,260	183
U.S. Oil Rigs	291	231	60
Total Rigs - North America	2,115	2,078	37

Below, I have updated a graph showing, according to Baker Hughes, an equivalent number of natural gas wells operating in the Gulf of Mexico as very near the peak just before the hurricanes of last year.



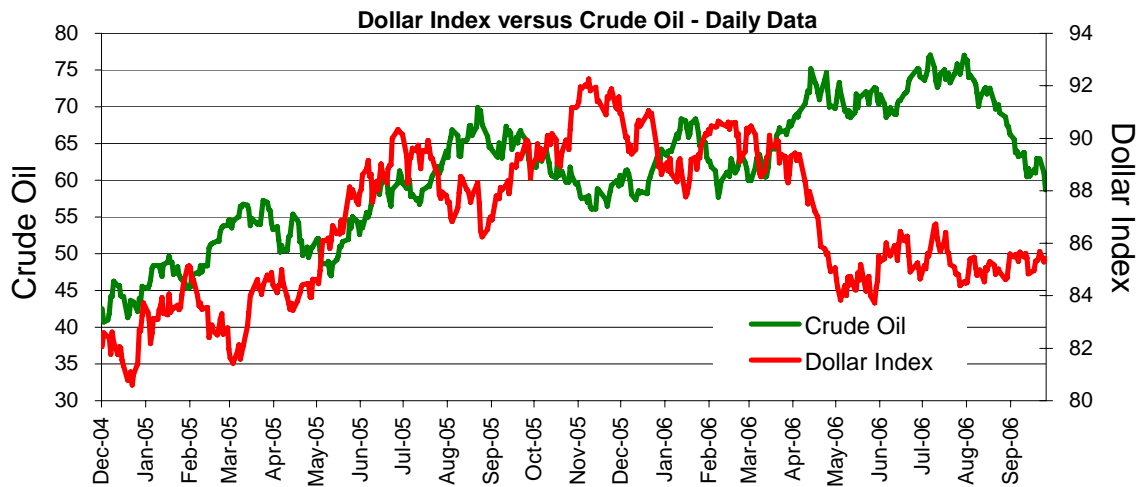
**Crude Oil**

Crude oil prices continue to struggle although it appears that good support has been established at the \$57.50-\$58.00 area. OPEC has certainly attempted to put a floor under prices with a hastily called meeting in October in which they agreed to production cuts beginning the first of November. This has likely helped stop the bleeding; however, it has not spurred much of a rally, at least not so far. Reports are that the market is in a wait and see mode, not quite willing to give OPEC the benefit of the doubt that it will follow through with the promised cuts in production. There is also talk of the possibility of another cut at OPEC's regularly scheduled meeting in December.

Besides the \$57.50-\$58.00 support area mentioned earlier, there is good support at the \$55.50 mark. For prices to break this area in the short term, it is likely that it would have to be proven that OPEC isn't holding the line on their production cuts. Resistance for the December crude oil contract is at \$2.00 increments starting at \$60.00 on up to \$66.00.

**Dollar Index versus Crude Oil**

The dollar index and crude oil graph is printed below. The crude oil contract has dropped significantly during the last couple of months without a noticeable increase in the dollar index. If the inverse correlation between the two is going to hold it would imply that the dollar index is likely to rebound soon.



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