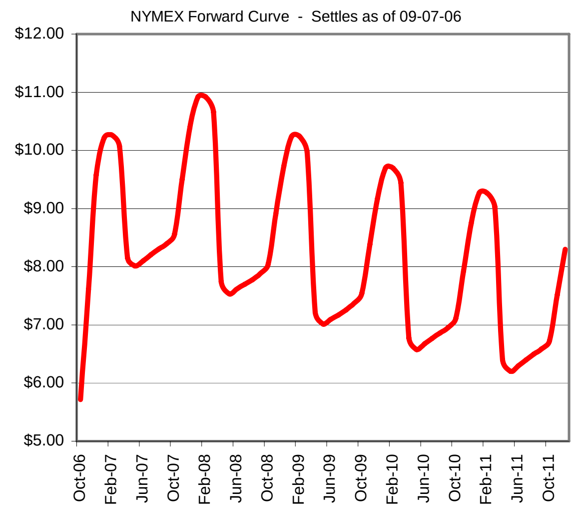
Natural Gas Market Report
September 8, 2006

NYMEX Settle Price As of Thursday, September 7, 2006			
Oct	$5.718	Apr	$8.153
Nov	$7.608	May	$8.013
Dec	$9.578	Jun	$8.103
Jan-07	$10.213	Jul	$8.208
Feb	$10.263	Aug	$8.303
Mar	$10.073	Sep	$8.393
Strips	Six	Twelve	Nov 06-Mar 07
	$8.909	$8.552	$9.547



<u>**Review and Outlook**</u>

The lack of extreme heat during recent weeks and the surprisingly quiet hurricane season has blunted each attempt the market has made to rally. Each serious rally this summer was prodded by a possible threat to the production region from a tropical storm. However, each of the past couple of storm-engendered rallies has fallen short of the previous one. That is not to say that the next threat will not result in a rally exceeding the summer high of $8.619, however, it will likely struggle to reach such heights before a definitive storm track is determined as the market is likely growing weary of false alarms.

With Thursday's settle of $5.718 the market appears poised to challenge important support at the $5.45-$5.55 area. If the market breaks through $5.45, it will face another stern test of support at $5.25. If the $5.45 area holds, which it may, at least until another couple of weeks of hurricane season have passed, any rally will likely struggle to surpass resistance at the $6.00-$6.10 area, at least not without some help from mother nature. A rally past $6.45 would likely change the market sentiment to one that is more neutral to bullish rather than the current bearish outlook.

The chart on the next page extends a chart I have included the last couple of months. It highlights the range from $5.70 down to $5.40 as being a very significant support area. The market has not been below this level since Ivan, nearly two years ago. The market was trading in the $4.50's before Ivan struck. Could prices make it that low before winter hype sets in? While this seems unlikely right now, it is not out of the realm of possibility.

Pricing Factors

Storage

Injection for week ending September 1, 2006

71 Bcf

Current Gas in Storage

2,976 Bcf

Last Year Gas in Storage

2,664 Bcf

3-Year Average Gas in Storage

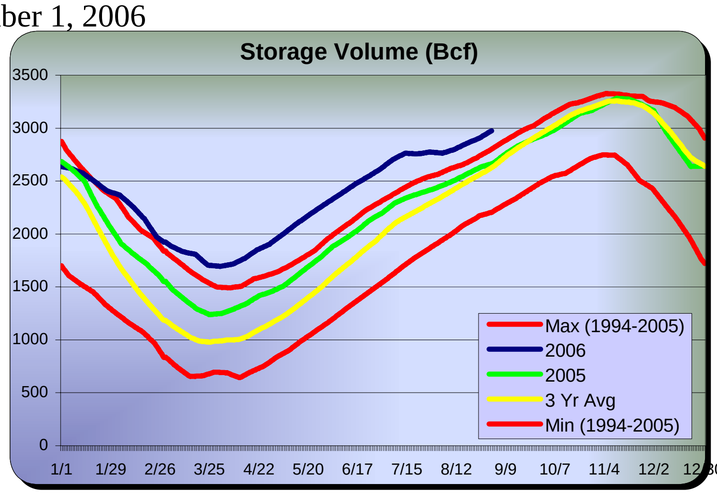
2,626 Bcf

Historical Low

2,205 Bcf (2000)

Historical High (prior to 2006)

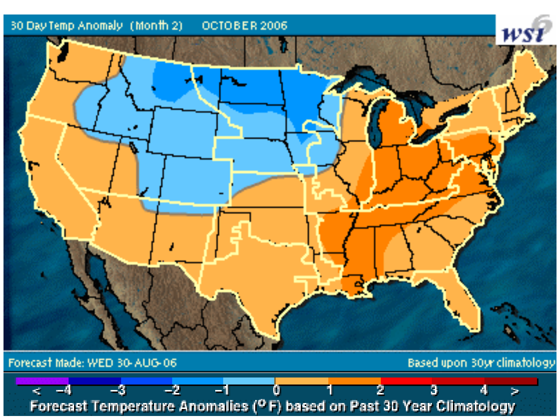
2,802 Bcf (2002)

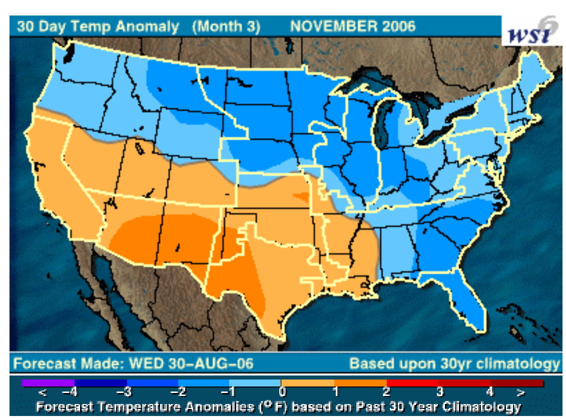


Weather

According to WSI's ten-day outlook: The eastern two thirds of the country will experience seasonal temperatures. The Northwest will be warmer than normal for much of the period but that won't cause much in the way of gas fired generation as temperatures are beginning to ease with summer winding down. So a few degrees above normal in mid-September isn't nearly as warm as the same deviation from normal in August.

The first map below is the predicted temperature anomaly map for October. The second map is for November. October's appears to be a bit bearish, while the opposite is true for November.





There has been some chatter in the newswire about the possibility of there being a mild el nino this winter. This is the phenomenon that occurs occasionally in which the waters in the Pacific Ocean are warmer than normal resulting in the United States having a warmer than normal winter.

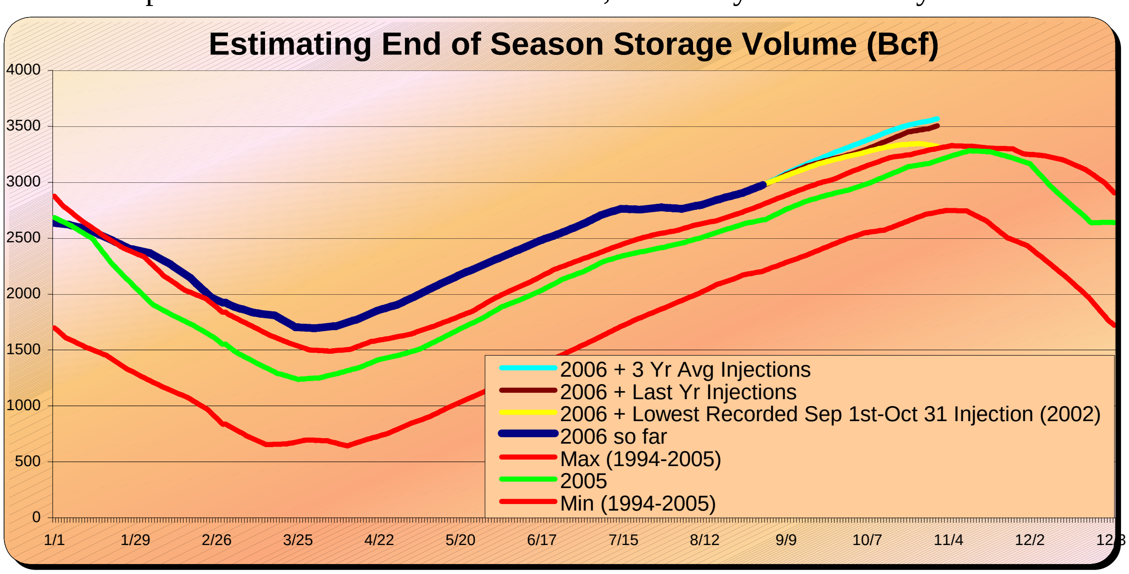
Tropical Storm Florence is still predicted to strengthen into a hurricane, which would make it the second hurricane of the season, however, it is not currently expected to be a threat to the continental United States, elsewhere in the tropics, all remains quiet.

So far the 2006 hurricane season has not come close to living up to the pre-season hype. For the second time in as many months, Dr. Gray of Colorado State University has been forced to revise his forecast downward.

Supply/Demand Balance

Although the storage surplus, as compared to the beginning of the summer, has slowly been eroded it doesn't change the fact that the storage situation is in very good shape. The chart below projects end of summer storage levels assuming three different scenarios. The first assumption is that for the remainder of 2006 the injections are equal to the average of the past three years injections (light blue line). The next assumption (the dark red line) assumes a level of injections equal to last year and the third (the yellow line) assumes the remaining injections will match the lowest September 1st to October 31st injections (2002) since records have been kept.

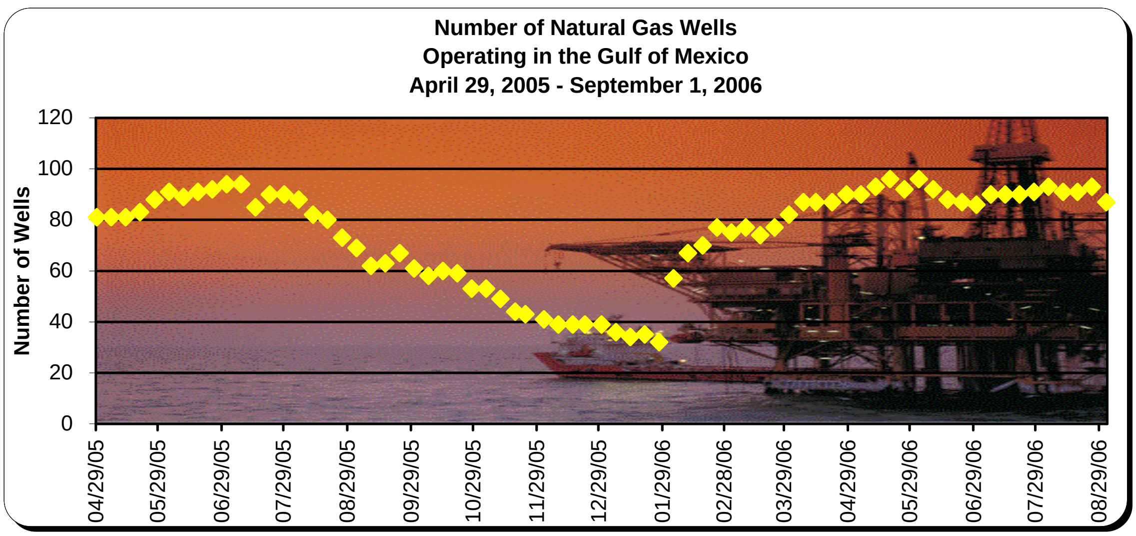
As can be seen from the graph below, despite the first ever summertime withdrawals, it is still likely that the industry will set a new record level for working gas in storage. In order to *not* set a new record, the industry will have to set a new record low for injections from this point until October 31st. While this could happen, it would not necessarily be a reflection of strengthening fundamentals as much as a reflection of consumers concerns regarding carrying too much storage into November. Last year's combination of high storage levels and a warm early November caught some consumers with too much gas scheduled and no hole in the ground to put it. With this in mind, the market may see reduced injections in October, not because the gas is being diverted to meet high demand, but due to operational constraints. If this occurs, we have yet to see this year's low.



Baker Hughes Rig Count			
Report Dated 09/01/06			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,416*	1,219	197
U.S. Oil Rigs	311	223	88
Total Rigs - North America	2,237	1,968	269

* - This is the third highest total ever on record, surpassed only by the prior two weeks.

Below, I have updated a graph I included the past few months. It shows, according to Baker Hughes, an equivalent number of natural gas wells operating in the Gulf of Mexico now as one year ago and very near the peak just before the storms of last fall. The amount of gas reported by the MMS doesn't include new wells in the Gulf, just old wells still off-line from the storms.



Crude Oil

Crude oil has dropped considerably as storage levels for crude and gasoline indicate a well-supplied market. Today's October crude oil contract low of $66.75 was as low as the prompt month crude oil contract has traded since April 7th. However, crude oil did manage a settle above $67.00 and from a technical standpoint a close under $66.50 is needed to really open the door to lower numbers. If $66.50 gives way the market could make a run at the low $60's where the next major test would take place. A recovery back above $71.00 is needed to switch the outlook to one that is more bullish than bearish. A move above $73.80 greatly increases the chance that the highs above $78.00 will be tested.

Dollar Index versus Crude Oil

The dollar index and crude oil remain inversely correlated as exhibited in the chart below.