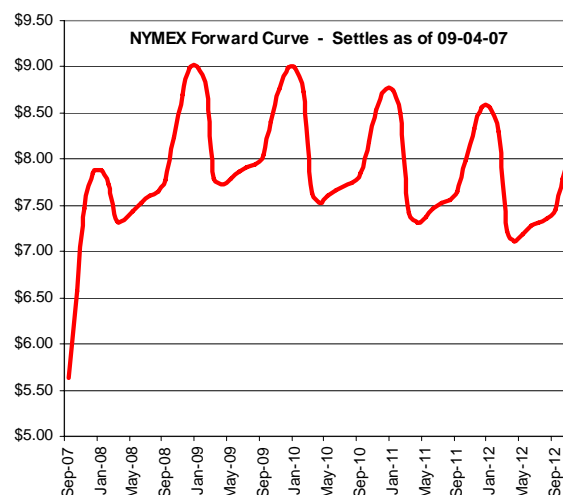


Natural Gas Market Report

September 6, 2007

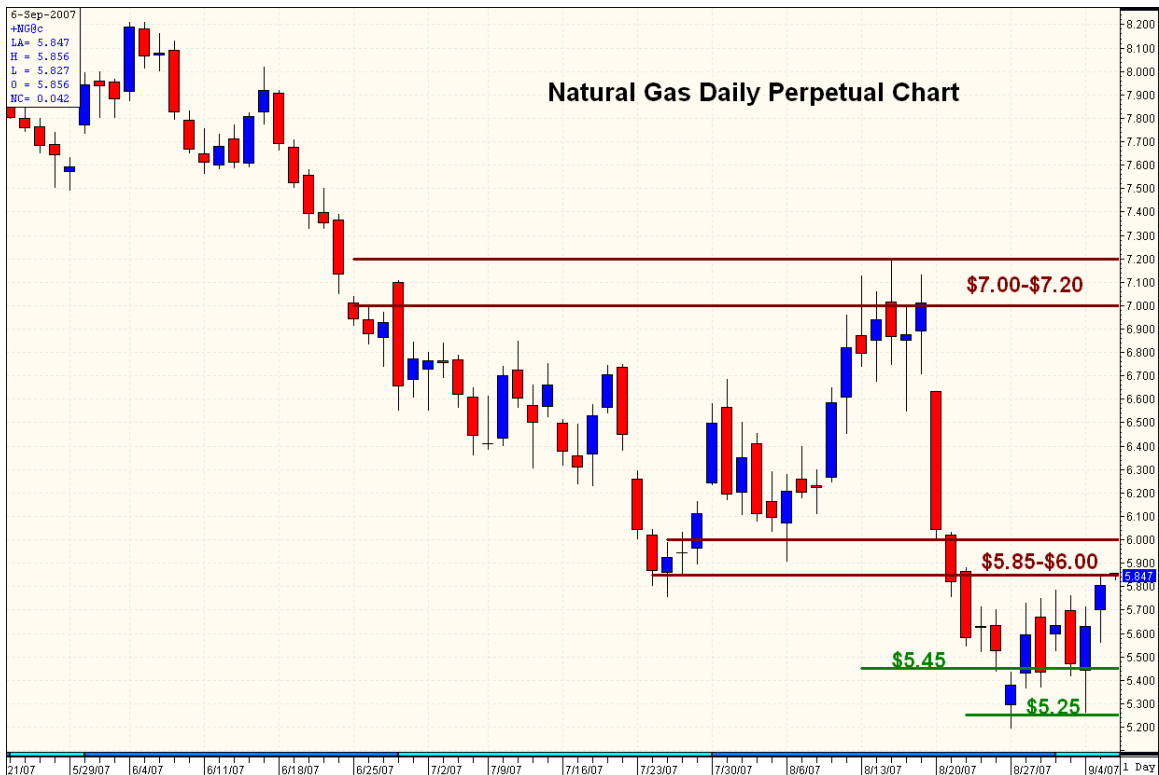
| NYMEX Settle Price As of Wednesday, September 5, 2007 | | | |
|--|---------|---------|-------------------|
| Oct | 5.805 | Apr | 7.390 |
| Nov | 6.690 | May | 7.415 |
| Dec | 7.520 | Jun | 7.503 |
| Jan-08 | 7.905 | Jul | 7.598 |
| Feb | 7.932 | Aug | 7.670 |
| Mar | 7.775 | Sep | 7.710 |
| Strips | Six | Twelve | Nov 07- Mar 08 |
| | \$7.271 | \$7.409 | \$7.564 |



Review and Outlook

Natural gas traded has traded below \$6.00 for the past couple of weeks, spending more time below that level than at any one time since last September when prices collapsed to the low \$4.00 area. With everyone's attention turned to even lower prices, it is easy to forget that the market was trading above \$7.00 on August 17th and could easily return to those levels if another storm threatens the Gulf. Barring a storm bearing down on the production region the market should meet resistance in front of the \$6.00 mark. If prices can cross that level and maintain that level for a couple of days then the October contract could extend the rally to the \$6.50's. In order to push past that mark in the next couple of weeks some help from a tropical storm is likely needed and with forecasters still calling for an active end to hurricane season this is certainly possible. Hurricane Dean defined the top of the market in the presence of a vague threat from a storm at \$7.20 and the only time Dean was projecting a path toward the production area was when it was 10 days out. I hate to see what this market can do if the five day outlook is forecasting a storm to hit the region. While it is difficult to argue that the storage situation is anything but bearish, it wouldn't surprise me if the dwindling surplus to prior years over the next few weeks begins to be cited as justification for further price increases. On the flip side, support will likely be met at \$5.45 and \$5.25. If the market does not erode the storage surplus over the next few weeks a fall below \$5.00 will become much more likely.

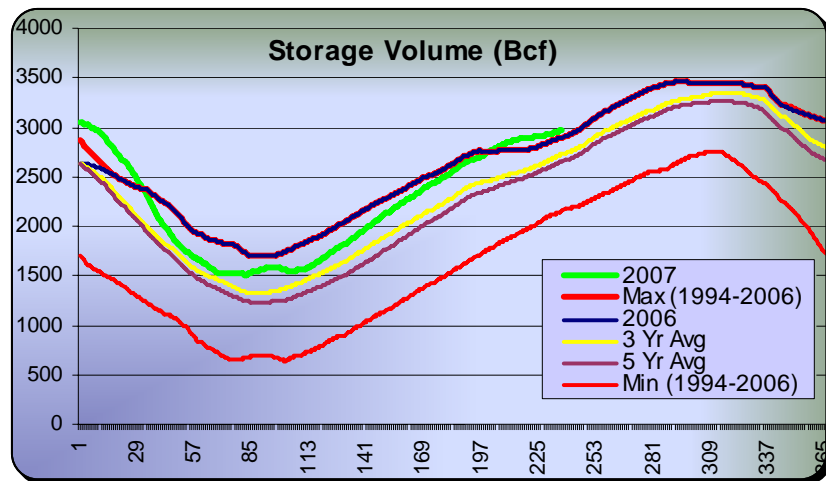
Below is the daily natural gas chart showing short term support and resistance. In addition to illustrating recent market history, it also illustrates that even though everyone likes to talk about prices in the \$4's the greater risk at this point is to the upside.



Pricing Factors

Storage (through August 24th)

Weekly Change
 +43 Bcf
 Current Storage
 2,969 Bcf
 Last Year
 2,898 Bcf
 3-Year Average
 2,725 Bcf
 Historical Low
 2,158 Bcf (1996)
 Historical High
 2,898 Bcf (2006)

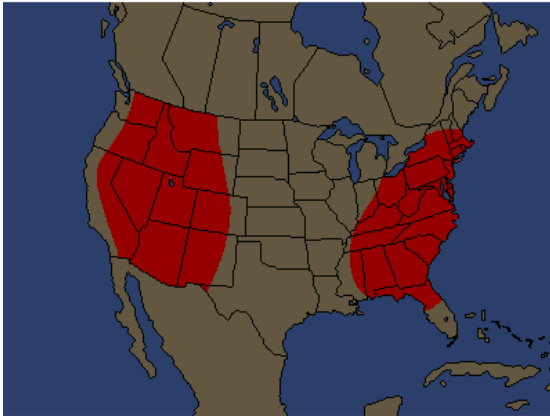


Weather

AccuWeather's forecast for days one through five predicts above average temperatures everywhere except the Northwest and Florida. The six to ten day outlook limits that above average temps to the east and west coasts with the upper Midwest dipping to below normal. The forecast for days eleven through fifteen see the return of above normal temps to everywhere but the Northeast.

The thirty and ninety day outlooks according to AccuWeather appear below. The thirty day outlook is neutral to bullish. The ninety day outlook is bearish as a warmer than normal fall would indicate an extended injection season.

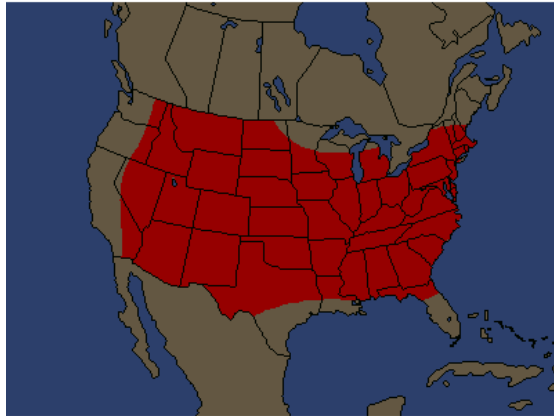
30 DAY TEMPERATURES COMPARED TO NORMAL



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90 DAY TEMPERATURES COMPARED TO NORMAL



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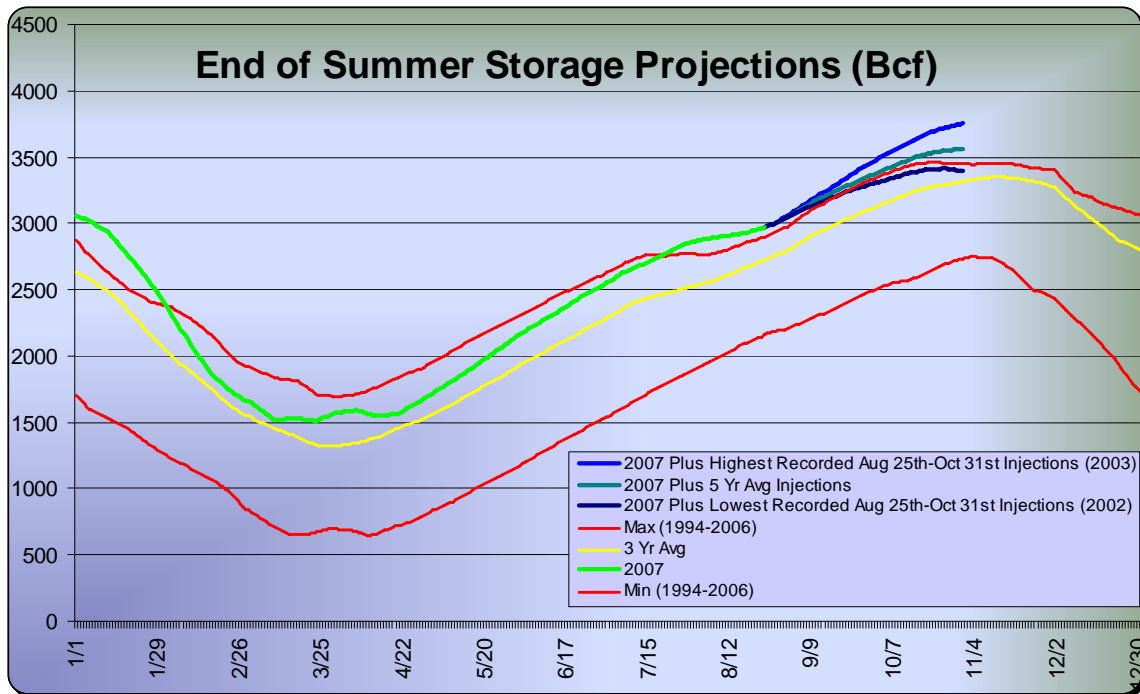
AccuWeather.com

On September 4th, the Colorado State hurricane forecasters issued an update to their predictions and they did *not* further reduce the total number of expected hurricanes for the season (they had already adjusted it lower in August). Instead, they pointed out that conditions are such that an above average last half of hurricane season is likely. They are holding to their current prediction of 15 named storms. So far we have had six with the seventh possibly brewing off the Georgia coast. If it develops enough to be a named storm it is not expected to develop into a powerful storm and will not affect the production area.

Supply/Demand Balance

One factor that will help support prices, at least somewhat, is that the natural gas market could continue to pick up demand from fuel switching as the price of oil continues to trade at lofty levels compared to gas.

More on storage: the industry now stands 71 Bcf above last year's level. There is a chance that this surplus will evaporate over the next three weeks. Below are projections for the end of summer storage levels given several scenarios and it is less bullish than a month ago. This makes sense given the heat we experienced over the past month. The top line on the graph cannot occur, as there simply isn't that much storage available. The middle line is more likely and shows a new October 31st record being set. As of today, it appears that the worst case scenario is for the market to not set a new end of season record but still finish 78 Bcf above the three year average. A month ago the worst case scenario still had the market setting a new record, albeit only slightly.



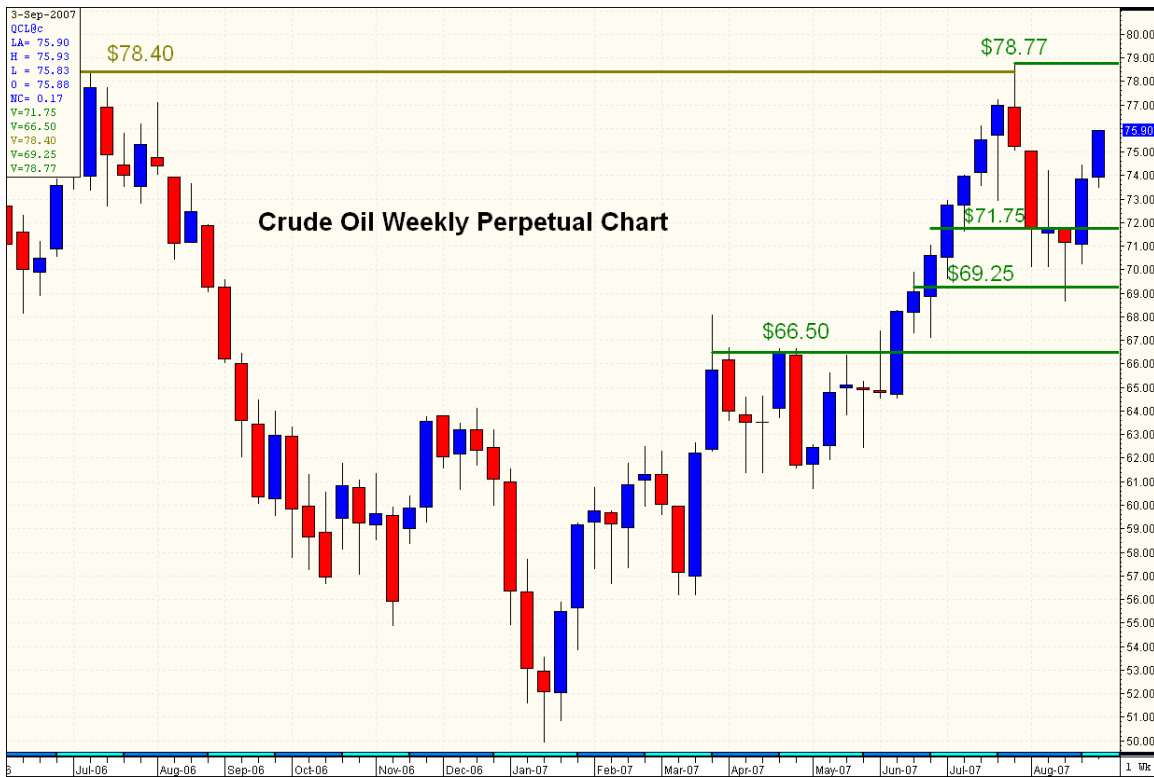
| Baker Hughes Rig Count | | | |
|-------------------------------|--------------|------------|---|
| Report Dated 8/31/07 | | | |
| | Current Year | Prior Year | Increase (Decrease) over Prior Year |
| U.S. Gas Rigs | 1,523** | 1,416 | +107 |
| U.S. Oil Rigs | 300 | 311 | -11 |
| Total Rigs - North America | 2,134 | 2,237 | -103 |

** This represents a new record level of natural gas rigs.

Crude Oil

The weekly crude oil perpetual chart appears below with the same support and resistance numbers as last month's chart. While the \$71.75 level was broken on a daily basis this longer term chart shows that on a weekly basis it only settled below it by a few cents on one occasion while the next support area of \$69.25 held on a closing basis on both the daily and weekly chart. Since then the market has rallied, settling above key resistance today and now sits poised to challenge the record high of a couple of weeks ago.

There is little in the fundamental news to support the recent rally. Instead, the recent rally appears to largely be based on speculation over what OPEC will do at their meeting next week. It is expected that OPEC will keep quotas the same which could make a projected fourth quarter supply / demand deficit a reality. However, that deficit will only become a reality if OPEC sticks to its quotas, which they currently are not doing, so while an announcement of no change in quota would be taken as bullish and could spur the market to a new high, I'm very skeptical that a deficit of the magnitude currently projected will actually occur.



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