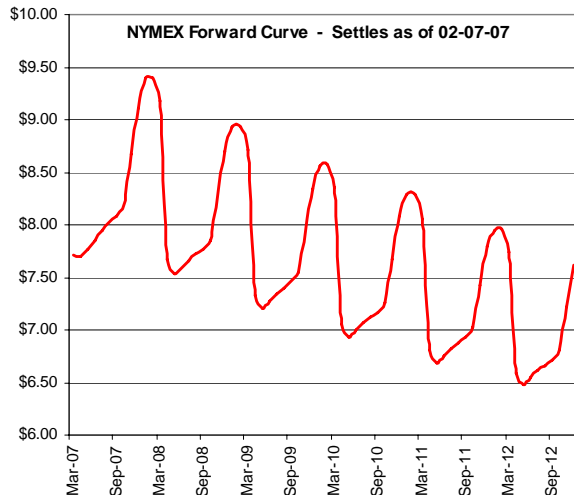


Natural Gas Market Report

February 8, 2007

NYMEX Settle Price As of Thursday, February 7, 2007			
Mar	\$7.709	Sep	\$8.082
Apr	\$7.702	Oct	\$8.196
May	\$7.768	Nov	\$8.666
Jun	\$7.843	Dec	\$9.111
Jul	\$7.943	Jan-08	\$9.396
Aug	\$8.033	Feb	\$9.391
Strips	Six	Twelve	Apr 07- Oct 07
	\$7.833	\$8.320	\$7.841



Review and Outlook

The March contract has made several runs at the \$8.00 mark in the past couple of weeks, failing to hold that area each time. Instead March has retreated and shown difficulty in settling much over \$7.70. Judging from the heavy selling in front of the \$8.00 mark the last couple of moves up, there should be a decent amount of speculative short positions near this level. If another attempt is made on this area, especially if it accompanied by a bullish storage report, will there be anyone left willing to sell it? Not only may there be fewer sellers but those caught short could cover their position by buying it back and worse yet they may switch to an outright long position. This is why I think that if (and it is a big if) the market moves higher from here it may do so as part of a big move possibly surging through resistance at \$8.00 and with the next technical target at \$8.35. On the flip side, if \$8.00 is challenged again and the bears win, holding below \$7.80 on a settlement basis, then any move higher from here would be in jeopardy and support could be tested. Support lies at \$7.40 followed closely by \$7.30 and \$7.20, with \$7.20 being key. A settle under \$7.20 increases the probability of a move to test support at \$6.90 and quite possibly lower.

Below is the daily perpetual natural gas chart, showing its fall from its high in early December through January and February's expiration and detailing resistance at the \$8.00 and \$8.35 areas.



Pricing Factors

Storage

Withdrawal for week ending January 26, 2007

-186 Bcf

Current Storage

2,571 Bcf

Last Year

2,419 Bcf

3-Year Average

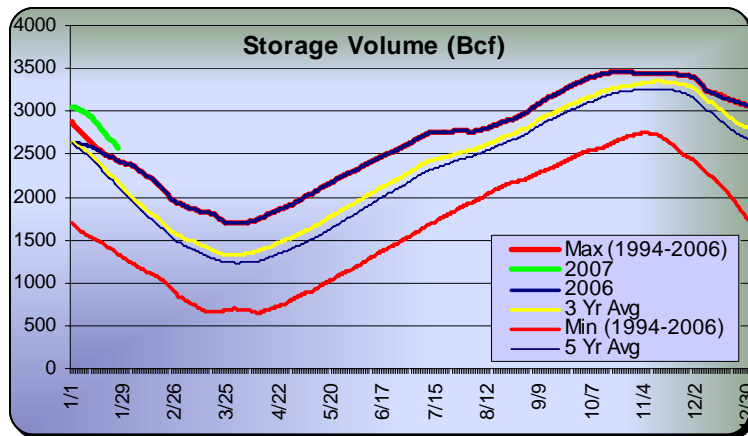
2,172 Bcf

Historical Low

1,333 Bcf (2001)

Historical High (pre 2007)

2,419 Bcf (2006)

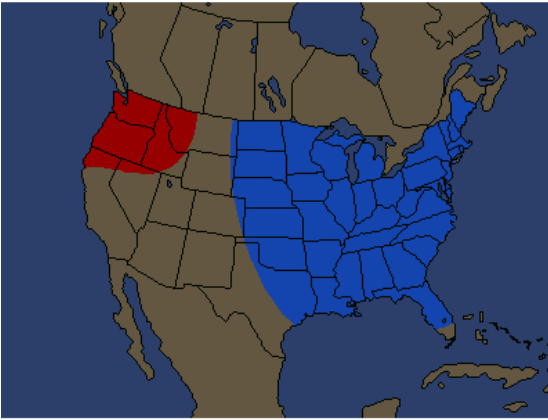


Weather

AccuWeather's short term forecast for days one through ten predict below average temperatures for the Great Plains, Midwest and Northeast and average temps for the deep Southeast. Days eleven through fifteen are expected to be at or a tad below seasonal norms from the Rockies all the way to the east coast.

Below are the temperature anomaly maps for the thirty and ninety day periods according to AccuWeather. They remain bullish, although a few degrees below normal in late February and March is not nearly as cold as a few degrees below normal in January and early February.

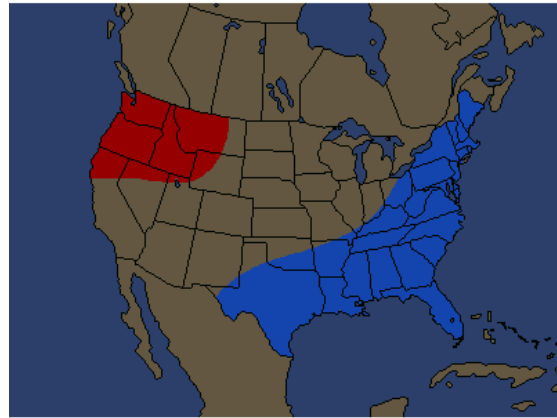
30 DAY TEMPERATURES COMPARED TO NORMAL



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90 DAY TEMPERATURES COMPARED TO NORMAL



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Supply/Demand Balance

Just when the market bears had everyone convinced that winter was over, it wasn't and isn't. The long awaited arrival of cold weather brought with it some much needed larger storage withdrawals. There is a good chance that today's withdrawal will bring us even with last year's storage level, erasing a 418 bcf surplus over last year in just thirty three days. While that may sound bullish, it is important to remember that the 2006 level at this time was record setting, as January '06 set records for warmth. In fact, during the same thirty three days the industry will erase that 418 bcf surplus to last year; it will only erase approximately 88 bcf from the surplus to the three year average. After today, the surplus to the three year average will stand at 333 bcf if the predictions of a withdrawal of 218 bcf prove correct, still a sizable bubble. So storage is still a bearish factor, right? Overall, yes it is, however, winter isn't over yet, the market stands to erase over 100 bcf over the next couple of weeks from the three year average surplus and if temperatures remain at seasonal norms or below they will continue to will continue to chip away at the surplus.

Last month's comments included the following: '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 everything 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.' Now that it appears that Mother Nature has turned bullish for at least part of winter and still may as well for summer and/or hurricane season, the possibility that low for the year has been set has only increased in likelihood from when I typed those words a month ago.

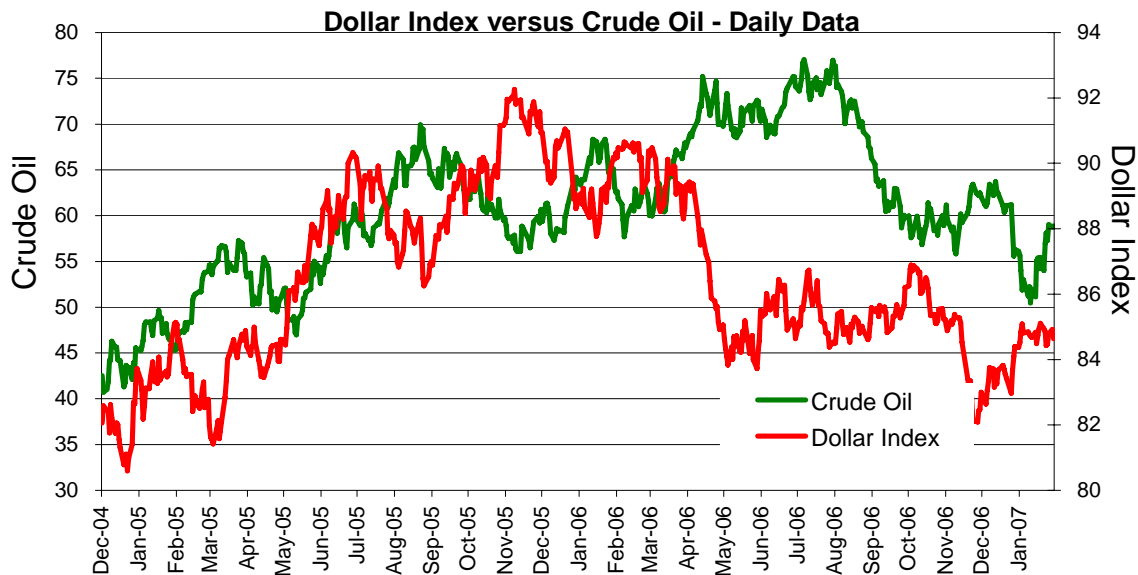
Baker Hughes Rig Count			
Report Dated 2/2/07			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,446	1,313	133
U.S. Oil Rigs	264	197	67
Total Rigs - North America	2,374	2,240	134

Crude Oil

Since announcing production cuts in November OPEC has been unsuccessful in holding itself to its new quotas, however they have been successful in cutting some production and those cuts appear to be taking hold in the form of rising prices. Crude oil bounced off of the \$50.00 mark a few weeks ago and quickly recovered to challenge the \$60.00 level the past few days. Thus far it has been unsuccessful in breaking this barrier with March settling yesterday at \$57.71. This area, \$57.50-\$57.75, could present some support with the more important number being the \$55.00 mark. If prices get much below \$55.00 a retest of \$50.00 could occur, however, I expect the \$55.00 area to hold for now. On the flip side, the market should have good tests at \$60.00, then \$64.00. If prices get much above \$64.00 then the market would begin eyeing the \$70.00 mark once again.

Dollar Index versus Crude Oil

The dollar index and crude oil graph is printed below. The last couple of weeks has seen crude oil rebound while the dollar index has traded sideways. If the negative correlation between the two is to be maintained one would expect the dollar to decrease in the coming weeks.



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