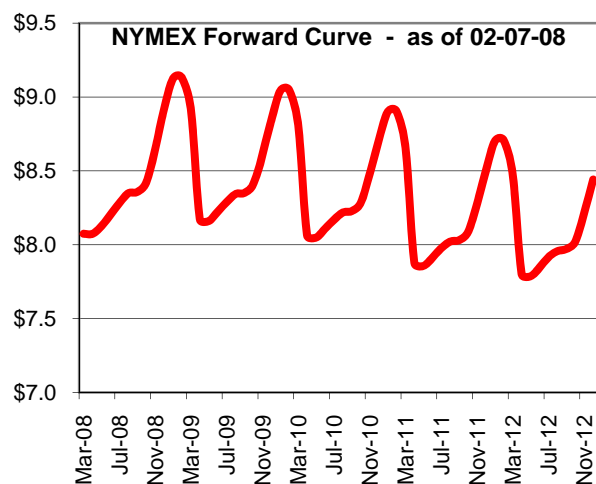


Natural Gas Market Report

February 7, 2008

NYMEX Settle Price As of Wednesday, February 6, 2008			
Mar	7.994	Sep	8.334
Apr	8.022	Oct	8.396
May	8.091	Nov	8.671
Jun	8.174	Dec	8.971
Jul	8.255	Jan-09	9.186
Aug	8.325	Feb	9.196
Strips	Six	Twelve	Apr 08- Oct 08
	\$8.144	\$8.468	\$8.228



Review and Outlook

Since the beginning of the year the natural gas market appears stuck in a range from roughly \$7.50-\$8.50 with the March contract currently trading just above the midpoint of the range. From a technical standpoint, a settle above the \$8.10-\$8.15 area would be seen as a bullish indicator that there may be enough strength in the market to test resistance in the \$8.40-\$8.50 area. Even if \$8.15 breaks, I'm skeptical that \$8.50 will be taken out in the short-term without a major, currently unforeseen, event pushing the market to that level. However, as referenced later in the report, the large speculators have accumulated a massive short position, if they become motivated to cover this position, it could drive the market to levels that may not be justified by the fundamental situation at the moment.

On the downside, a break of \$7.80 would be an indicator that the bottom end of the recent range at \$7.50 will be tested. While a test of this level may be called for in the coming months, a move below \$7.50 may prove difficult until at least a few more weeks of winter are behind us. A test of \$6.70 is called for if \$7.50 is broken soon.

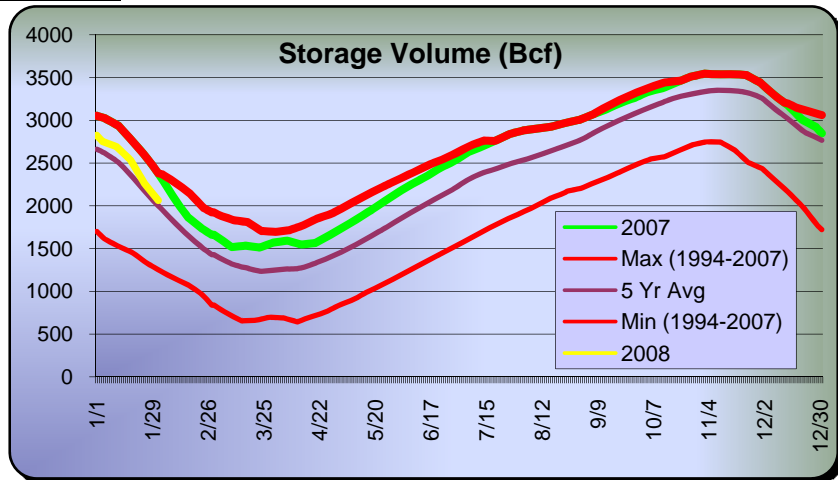
Below is the daily natural gas perpetual chart showing areas of support and resistance.



Pricing Factors

Storage (through February 1st)

Weekly Change
-200 Bcf
Current Storage
2,062 Bcf
Last Year
2,379 Bcf
5-Year Average
2,000 Bcf
Historical Low
1,252 Bcf (2001)
Historical High
2,379 Bcf (2007)

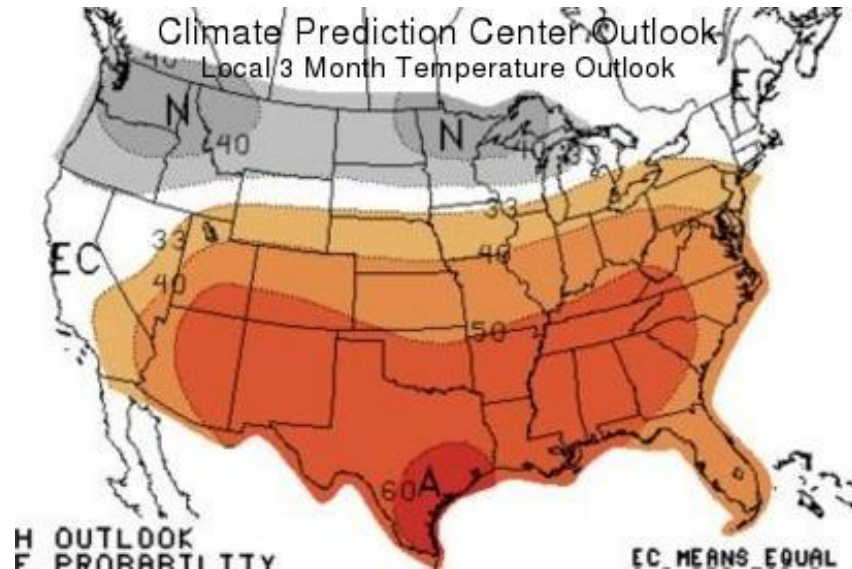


Weather

The forecast for the next few days shows normal temps everywhere but Texas (warmer than normal) and the upper Midwest (colder than normal). The six to ten day outlook is more bearish, with normal temps predicted across the southern half of the country and into the Mid-Atlantic States with normal temps predicted in the Midwest and Northeast. The eleven to fifteen day forecast will bring colder than normal readings to the Midwest, Mid-Atlantic States and the Northeast, normal temps will prevail in the Southeast with warmer than normal temperatures forecast for most of the western half of the country.

The outlook for February, March and April period according to the National Weather Service appears below. Overall, this is a bearish forecast, although the critically important Northeast shows and equal chance of above or below normal temperatures.

A-above normal N-normal B-below normal EC-equal chance for above/below normal



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.

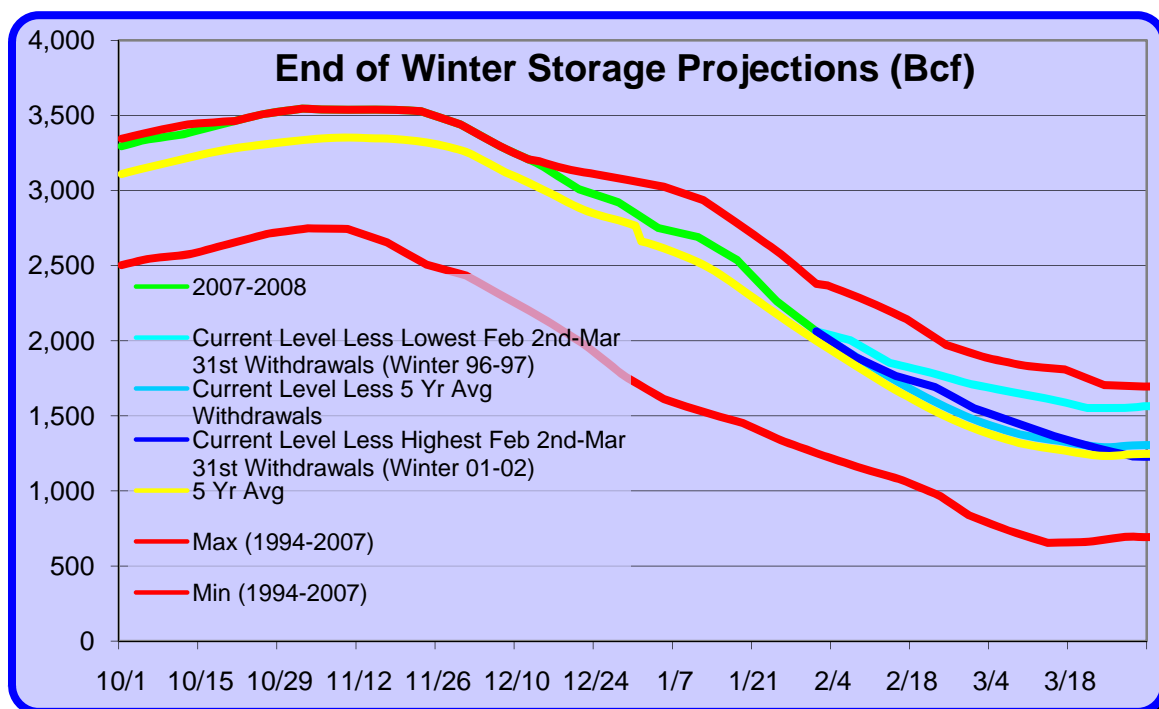
As briefly referenced above, something that may limit the downside from this point is the fact that the large speculators are very short the natural gas market. How many more positions to the short side are they willing to add? Since they are already at history setting levels, the answer may be not much. In addition to limiting the downside, if events turn and become bullish speculative short covering could exaggerate the amount of a move to the upside. While no extreme bullish events are expected in the short term, it makes good sense to keep a wary eye on the size of the speculators' position.

Another issue to keep on the radar for this summer is the on-going drought conditions in the Southeast. Late last summer and again recently, reports surfaced that the levels for lakes that are used for cooling at power plants may be getting dangerously too close for comfort. While this is far from being an imminent problem, the potential is there for natural gas fired plants to be called upon to replace some of the load lost to other plants late this summer if drought once again grips the Southeast.

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 especially this summer as re-fill rates may be affected.

The national underground storage level remains just above the five-year average with plenty to last through the winter, however, it is below last year's level giving market bulls some hope. The next couple of reports are likely to be bearish, decreasing the deficit to last year while increasing the surplus to the five year average.

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.

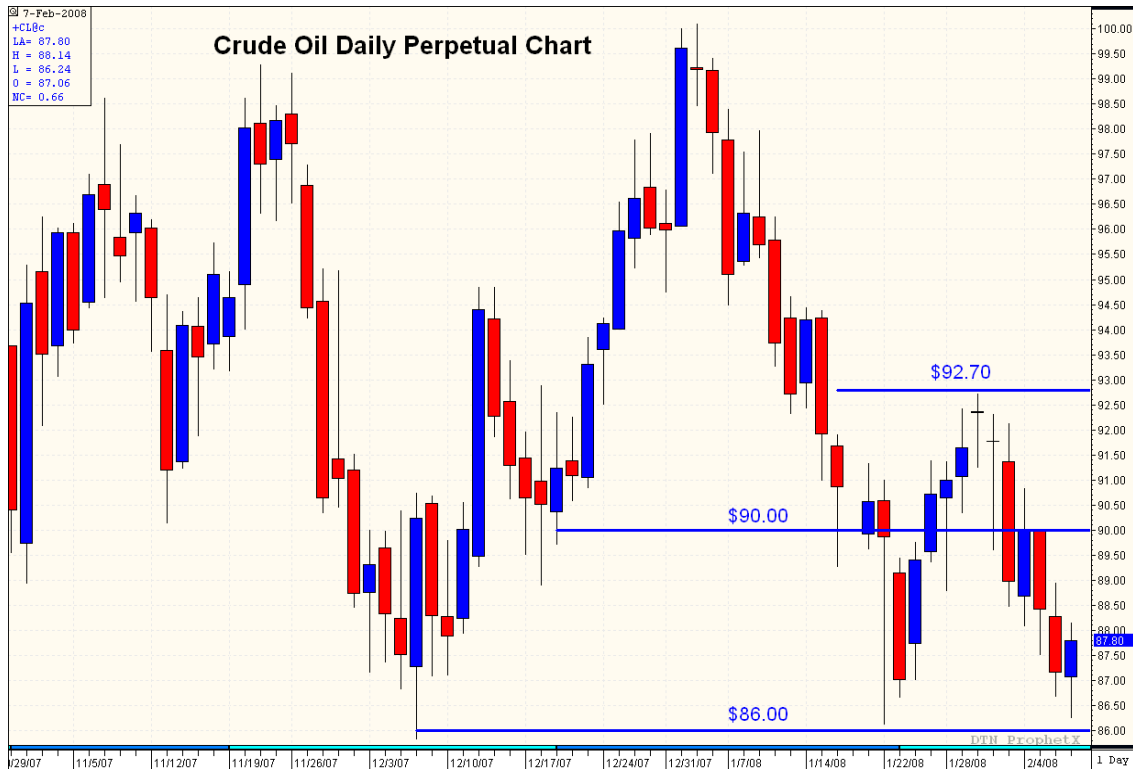


Baker Hughes Rig Count			
Report Dated 02/01/08			
	Current Year	Prior Year	Increase (Decrease) over Prior Year
U.S. Gas Rigs	1,432	1,446	-14
U.S. Oil Rigs	324	264	+60
Total Rigs - North America	2,356	2,374	-18

Crude Oil

The crude oil market has retreated from the \$100 mark over the last month and barring an international event that causes a disruption of supplies or provides an excuse for speculators to bet on the market going up it appears ready to test lower. The \$86.00-

\$86.50 area has proven to be good support and remains an important number to watch on the downside. The \$90.00 level is the first area to keep an eye on to the upside with \$92.70 even more important. A move past \$92.70 would be an indicator that the market is not ready to give up yet and may be ready to challenge the upper \$90's again.



Dollar Index Compared to Crude Oil

Below, is a graph of the dollar index versus 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.

