

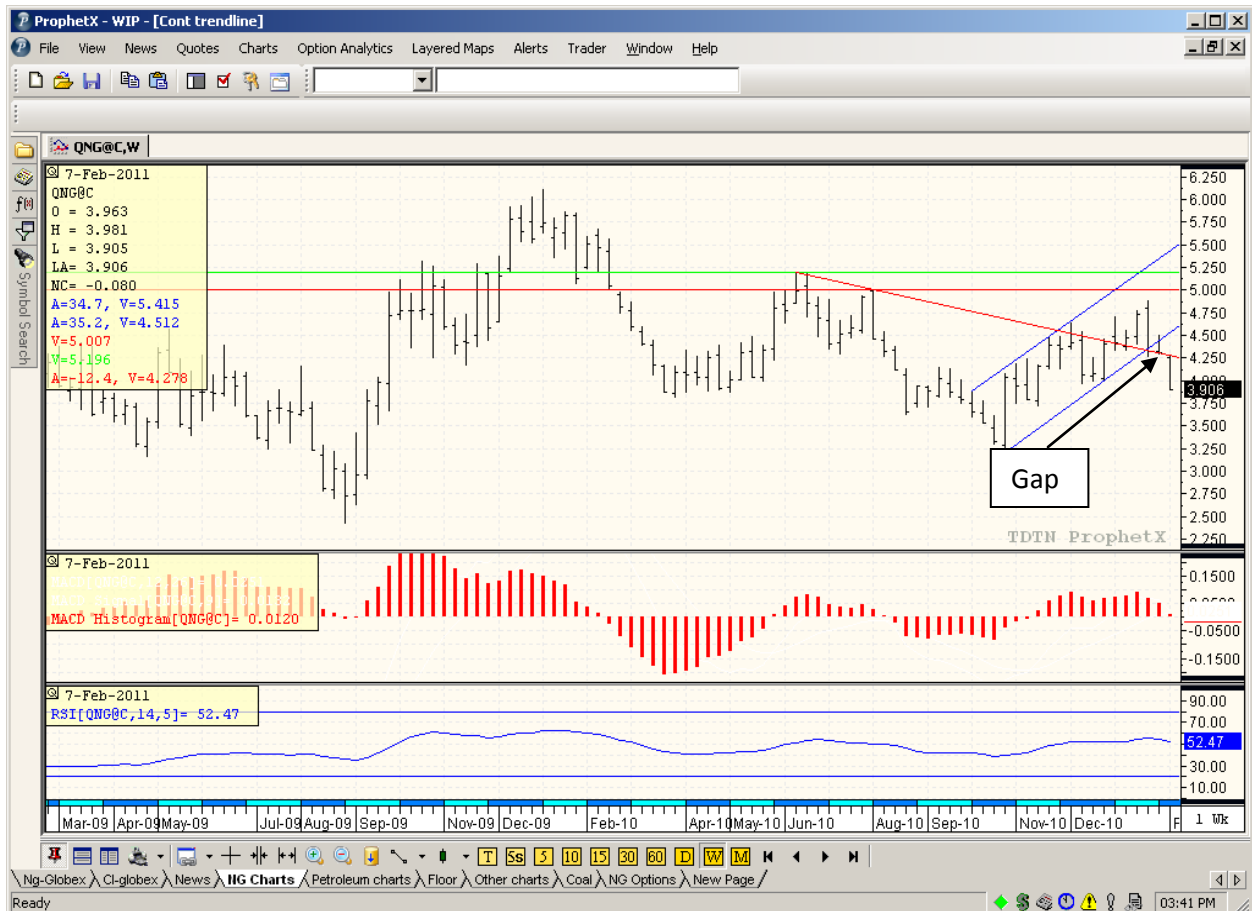
2/4/11

## Natural Gas Market Summary

*These views are provided by SCANA Energy Marketing for information purposes only – please see last page for details.*

This week, the March contract opened trading about \$.02/dt below last week's closing price, then moved lower, first trading below and then posting a daily closing price below the 20 week simple moving average. Prices moved marginally lower on Tuesday and Wednesday and when the Weekly Storage Report was released on Thursday, the March contract first traded below and then posted a daily closing price below psychological price support found at \$4/dt (\$3.986/dt). On Friday, the price move lower continued with March posting a weekly closing price of \$3.91/dt, down \$.40/dt from last week's closing price. This is the lowest prompt month weekly closing price since the week of 11/8/10. Below is a weekly continuation chart showing this price activity.

Notice that this week's closing price was below technical price support found at the declining trend line drawn from 2010 second and third quarter price highs (dark green line). Notice also that since March opened trading this week below last week's low price and never traded higher, a price 'gap' was created on the weekly chart (see arrow on chart below).



Strip prices:

1. Mar - Dec 11 - \$4.21/dt, down \$.32/dt from last week.
2. Apr – Oct 11 - \$4.15/dt, down \$.33/dt from last week.

**Bearish price factors:**

1. Storage – Working gas in storage was 2,144 Bcf as of Friday, February 4, 2011, according to EIA estimates. This represents a net decline of 209 Bcf from the previous week. Stocks were 98 Bcf less than last year at this time and 45 Bcf below the 5-year average of 2,189 Bcf.
2. 20-week moving average – this is the first week the prompt month has posted a weekly closing price below the 20-week simple moving average since the week of Nov 8, 2010.
3. Calendar 2012 strip – this week, the Cal 12 strip printed a new all-time low price and in the process, posted a weekly closing price below the lower boundary of the trend channel that has contained that strip price since early-October 2010 (see arrow on chart below).



4. Weather forecast – both the 6 – 10 and 8 – 14 day forecasts call for above normal temperatures for the eastern half of the country.
5. Percent price decline from the 4<sup>th</sup> quarter 2010 price high to the 1<sup>st</sup> quarter 2011 price low - to date, we have seen a 16% decline where the average decline since 2001 is 35%.

**Bullish price factors:**

1. Short-term technical indicators are beginning to show signs the market is becoming “over-sold” - a condition that often accompanies a short-term price reversal higher.
2. Gap on the weekly continuation chart – detailed in the opening paragraph.

**Technical indicators:**

The price path of least resistance appears to be lower.

**Technical price support and resistance (March contract):**

Resistance – +/- \$4.30/dt followed by +/- \$4.50/dt followed by +/- \$4.88/dt.

Support – +/- \$3.85/dt followed +/- \$3.71/dt followed by +/- \$3.12/dt.

**Summary:**

I was somewhat surprised by this week’s drastic price move lower.....not that it occurred, but the fact that it occurred as early in calendar February as it did. I was expecting a gradual price move lower through the end of February and then a more drastic decline in March. This week’s price action was certainly ‘bearish’ but due to the short-term oversold nature of the market coupled with the ‘gap’ that was created by this week’s price action, I wouldn’t be surprised to see a short-term price rally in the near future.....the gap will be closed with a March trade to \$4.29/dt.

Please be reminded the thoughts conveyed above are based on recent price movement and apparent Market sentiment. Random events that could occur may change the Market sentiment and as such, may result in price movement counter to what is mentioned above.

**Hedging:**

Depending on your risk tolerance and your need for price protection, below are some prices that may be considered as a possible purchase points.

Mar 11 - +/- \$3.85/dt

Apr 11 – Oct 11 - +/- \$4.00/dt

Of course, the commodity markets are impossible to predict with accuracy. I hope that you find these views helpful, but I cannot guarantee that my expectations will be accurate or that any particular strategy will be advantageous.

*Please call your account manager if you have questions or want to purchase a fixed price hedge.*

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