



**1st Quarter 2006**  
Sections 1 - 6  
**Hedge Service**  
**Natural Gas**

**REDACTED VERSION**

Kase and Company, Inc.  
PO Box 226  
Cheyenne, WY 82003

Headquarters Tel: (713) 589-4521  
Support Center Tel: (505) 237-1600  
[www.kaseco.com](http://www.kaseco.com)  
E-mail: [kase@kaseco.com](mailto:kase@kaseco.com)

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# Section 1: Outlook for the Market First Quarter 2006

*Cutoff Date December 7, 2005*

## **Overview**

In the last quarterly outlook we said that the major target for the perpetual chart was \$13.25 and above that \$15.0. These were rough estimates given the instability caused in the market by hurricane season and related weather. The major downside threshold was \$10.0. The three- and six-month strips showed initial resistance at \$12.1 followed by the same \$13.25 target for the perpetual. The twelve-month strip lagged by about \$1.00 with initial resistance at \$11.0, followed by \$12.1 and then \$13.25. For the “heat to come off” the three- six- and twelve-month strips all needed to solidly close below \$11.0, specifically \$10.85.

Each of the four instruments went on to make new contract highs last quarter of \$14.75, \$14.702, \$14.389 and \$12.702 for the perpetual, three-, six-, and twelve-month strips respectively. After making historical highs the market recovered making lows of \$10.88, 11.518, 10.848 and \$10.464 respectively.

This quarter the twelve-month strip shows that the market is sitting right below critical resistance at \$11.8. Above \$11.8 we could expect to see a test of the high with the objective being \$12.8. There is intermediate resistance at \$12.25 and \$12.45. but \$12.8 serves as the barrier to a spike type scenario to much higher prices. Resistance for the six-month strip is verisimilar just running at about a 60¢ premium to the twelve. For the three-month strip the key target is \$14.00 above which resistance is found in 25¢ increments up to \$15.0 where a spike to \$16.0 could take place.

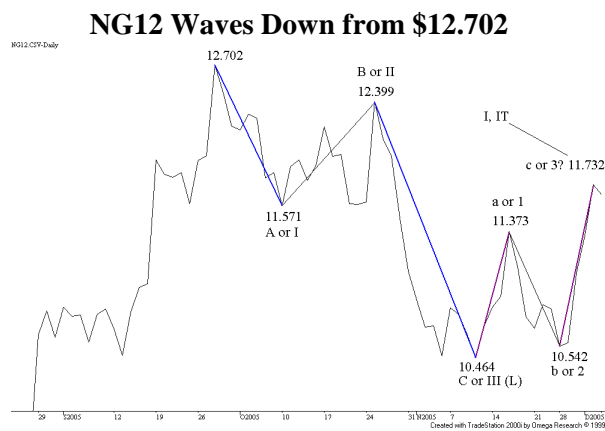
At this time it was very difficult to evaluate the downside targets due to a lack of waves, so we had to mainly rely upon the retracement tables to the recent swing high. For the three-, six- and twelve- month strips the critical thresholds show up as \$12.42, \$11.43, and \$10.95 respectively. Closes below these levels, which are the 62% retracements, would call for a test of the recent lows.

The perpetual contract lines up very well with the three-month strip as far as resistance is concerned just one step ahead. So initial resistance is at \$14.0 followed targets about every 25¢ to \$15.08, which serves as a last barrier to higher prices with \$19.0 as the “spike type” target. Initial support for the perpetual contract is \$13.15 followed by critical support at \$12.6 with the lower threshold defined at \$11.3.

## Resistance Twelve-Month Strip

The structure of the twelve-month strip does not allow for much detail in terms of the present outlook. It is clear though that the market both remains weather driven and that it retains a slight bias to test support.

This can be seen in an evaluation of the wave structure over the past few months. The move down formed either a larger than ABC pattern, or waves one through three of a trending pattern yet to completely unfold.



The endpoint of the pattern overshot its target by about 10¢. On the other hand, the move up, which can be viewed in the same manner, could be thought of as having met its intermediate target, as well as its IT projection, but it missed those levels by about 10¢. So on the “downs” the target was exceeded, and on the “ups” it was missed.

It is interesting to see that the level to which the strip rose was also just shy of \$1.00 above the low.

The DevStops show that the \$11.80 just mentioned continues to be important, as it constitutes the initial Dev1 weekly resistance level. Confluent above that is a price another \$1.00 higher at \$12.8 – in line with the strip high. We consider this upper threshold the instability point above that a spike could ensue.

NG Short	Dev1	Dev2	Dev3	Dev4.5	Dev6
Daily - 12	-	11.97	12.27	12.47	12.8
Weekly - 12	11.8	12.26	12.8	13.3	13.94

The retracement table for the twelve-month strip shows a similar setup with \$11.85 the very critical 62% retracement of the entire move down.

The \$12.25 and \$12.45 areas both show as confluent on the stops as well as the retracements. They provide resistance targets for a continued move higher, but in the absence of much data from the waves there is no means to differentiate among the targets, other than to look at them as successive layers that could be taken out in series.

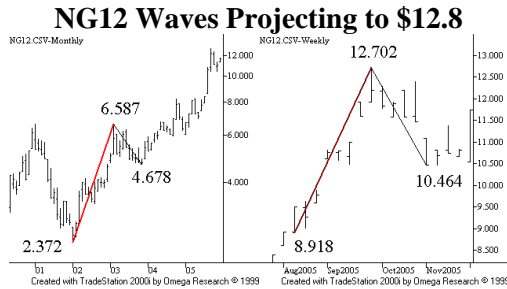
### NG12 Retracements to \$10.464

From:	12.399	12.702
62%		11.85
78%	11.97	12.21
89%	12.19	12.46

The table below shows how \$12.8 has been embedded in the market for years, as the first wave shown was completed in November of 2003. It is the smallest extension for the most recent wave of significance up to the \$12.702 high, as shown in the second row.

X	Y	Z	12.81
2.372	6.587	4.678	IX
8.918	12.702	10.464	S
10.542	11.732	11.654	E

Finally the entire “intermediate” abc pattern could unfold to a higher magnitude structure where “abc” becomes A of a larger configuration. A larger scale equal to structure targets \$12.8 as shown.



### Resistance Six-Month Strip

The six-month strip has stalled just below resistance like the twelve-month strip. Dev1 is \$12.39, just pennies above the swing high of \$12.364.

### NG6 Retracements to \$10.848

From:	13.917	14.389
50%	12.38	12.62
62%	12.74	13.04
78%	13.24	13.61
89%	13.58	14.00

### NG6 Resistance DevStops

NG Short	Dev1	Dev2	Dev3	Dev4.5	Dev6
Daily - 6	12.39	12.81	13.31	13.63	14.16
Weekly - 6	12.57	13.31	14.17	14.72	15.64

Given the fact that there is only one up wave to review for the six-month strip, it is advisable to leverage off the twelve-month strip for now, assuming around a 60¢ premium (or backwardation) versus the twelve-month strip. Note that as the winter comes to a close, this differential is likely to flatten out.

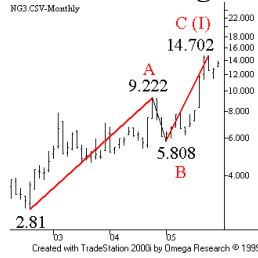
The same is true for the retracements with the next price level \$12.38 as the 50% retracement for the entire move down.

### Resistance Three-Month Strip

The overall formation on the three-month strip parallels that for the six- and twelve. Starting with resistance, the three-month strip like the six-month strip made a new low for the most re-

cent swing and thus has only one up wave. Unlike the other two strips, the upmove did meet an exact impulse projection target, as shown in the chart below.

### Intermediate Target Met



This acts in two ways that could be quite bullish. First the wave shown above projects to \$16.15 as its larger than target. Second it ties together a string of prices from \$14.87, just above the old high of \$14.702, to \$15.05 to \$16.15. The structure that relates to the \$14.87 to \$15.05 to \$16.15 targets is found both in early waves, shown below with the wave just discussed in *italic*, but also the more recent waves.

### NG3 Wave Projections

X	Y	Z	14.87	15.09	<i>16.21</i>
1.102	2.622	1.38	3X		
"	9.183	1.99		L	
1.99	3.905	2.81		3X	
<i>2.81</i>	<i>9.222</i>	<i>5.808</i>			<i>L</i>
4.644	7.043	5.09			3X
5.808	11.984	11.333		S	
11.333	14.702	11.518	E		I
11.518	13.882	13.882			E

A clear diagonal cascade for the trend terminus calculation is seen with the \$15.05 and \$16.15 targets both showing a pairing of the larger than target and trend terminus in each respective column.

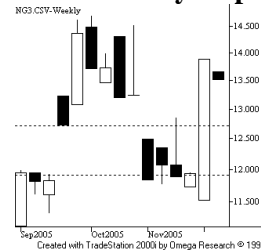
The last wave up to \$14.702 (the next to last listed in the table) ties together \$14.87 and \$16.15, and then connects the earlier structure to the most recent (the last wave listed) in a down the column impulse projection cascade from the

intermediate to equal to targets at \$16.15, and in addition from the equal to at \$14.87 to the equal to at \$16.15, diagonally.

The key here is that these prices have been embedded in the market structure for a long time, and have been recently confirmed. The fact that there is a threat of the market fulfilling these targets over the next quarter is unsurprising given the seasonality. Even if the three-month strip is able to decline below critical support (see below) the threat will remain until prices close below at least \$11.0.

Next, the gap left in the market on the weekly chart in late September confirms \$16.15 as an upper target.

### NG3 Weekly Gap



From:	Projections:
8.52	<i>16.12</i>

Of course for this potential scenario to play out, resistance relative to the move down from \$14.702 must be overcome.

### NG3 Retracements to \$11.518

From:	14.526	14.702
78%		<i>14.00</i>
89%	<i>14.20</i>	14.35

Certainly the even \$14.00 is a key resistance barrier. Above this are increments of about 25¢

with \$14.35 being the 89% retracement, and \$14.50 being confluent as first resistance on the DevStop chart.

### NG3 Resistance DevStops

NG Short	Warn	Dev1	Dev2	Dev3	Dev4.5
Daily - 3	14.53	15.01	15.40	15.96	16.31
Weekly - 3	-	-	14.52	15.50	16.13

### Support

#### Three-, Six-, and Twelve Month Strips

Support is even more difficult to define here than resistance due to the lack of detail in the wave formations. Thus we must almost fully rely for now on the retracements for the recent move up, as shown in the tables below.

#### NG Strip Retracements

Strip:	Three	Six	Twelve
From:	11.518	10.848	10.464
To:	13.882	12.364	11.732
21%	13.39	12.05	11.47
38%	12.98	11.78	11.25
50%	12.70	11.61	11.10
62%	12.42	11.43	10.95

As the table shows, the six-month strip is maintaining about a 50 to 60¢ lead over the twelve-month strip. However, this could narrow due to seasonality as time progresses, spiking on an intermediate basis due to rallies hitting the front, winter months.

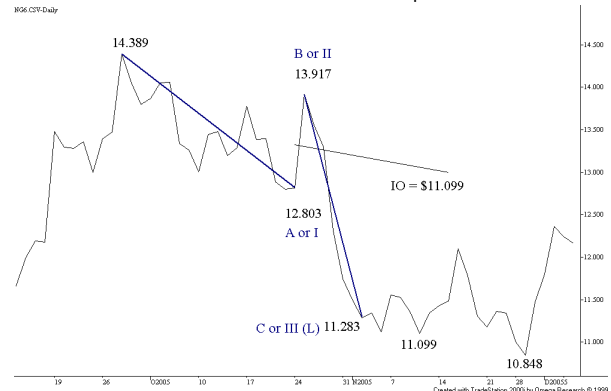
The three-month strip is almost \$1.00 above the six-month strip, but again, similar to the comments made on the relationship between the six- and twelve- the backwardation level of the three- relative to the six- could narrow.

If prices are able to decline such that sustained closes below the 62% retracements take place, we will then be able to assess further downside potential. It appears clear though, from the cur-

rent structure that price roughly \$1.20 or so below this extreme retracement (\$10.15 for the six-month strip and \$9.60 for the twelve-month strip) are confluent, as shown in the table below.

The chart below shows the six-month strip and the three-month strip parallel for the chart shown above for the twelve-month strip in the resistance section.

#### NG6 Waves Down from \$14.389



The larger than target for this strip was exceeded on the downside by about 35¢, and made a new low with the last swing of \$10.848, so there could be more bearishness on a relative basis for this strip than for the twelve-month strip. Indeed, on a ratio basis, it is the three-month strip the same size (same ratio) as the first wave down.

**NG6 Wave Projections**

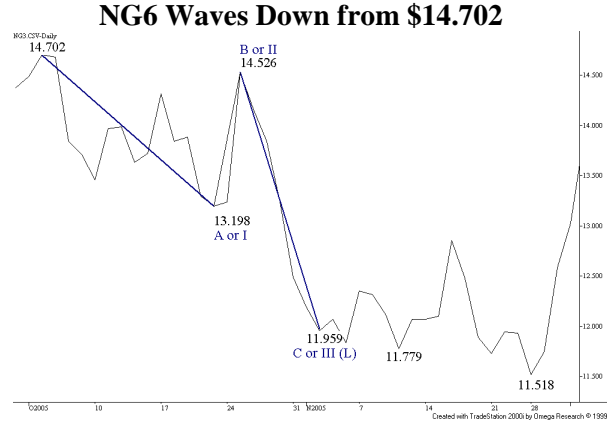
X	Y	Z	10.15
14.389	12.803	13.917	3X
"	10.848	12.364	S

This table refers back to the chart containing the down ABC formation for the twelve-month strip that was shown above.

**NG12 Wave Projections**

X	Y	Z	9.60
12.702	11.571	12.399	3X
"	10.464	11.732	E, IT

A similar structure exists for the three-month strip as noted earlier. The price that parallels the \$10.15 target for the six-month strip is \$10.67 for the three-month strip, which has been a critical lower objective for the front months for some time.



This is, of course only about a 50¢ difference versus the \$1.00 differential on the retracements shown above. And, thus supports the idea that on a prolonged decline the backwardation could dampen quite a bit.

**NG3 Wave Projections**

X	Y	Z	10.67
14.702	13.198	14.526	3X
"	11.518	13.882	E

**Resistance Perpetual Contract**

Now, switching the focus to the first nearby perpetual contract, we find that it lines up well with the three-month strip, but is one step ahead. The \$14.0 level is the 62% retracement versus the 78% for the three-month strip, and \$14.2 is the 78% versus the 89% for the three-month strip. The perpetual contract allows for a small excursion of about 10 to 15¢ above the three-month strip numbers on a test of resistance.

**Perpetual Retracements to \$13.3**

From:	14.45
62%	14.01
78%	14.20
89%	14.32

These numbers would apply to a renewed push back to the upside relative to the most recent swing of \$14.45.

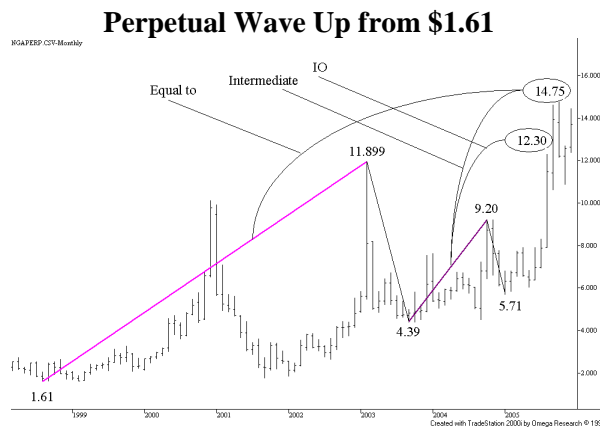
Above \$14.45 as, in a sense, a last line of resistance relative the old \$14.75 high is \$15.08 above which prices will probably get thrown up into the low \$15's with \$15.47 a major upper barrier. The other issue, as illustrated in the table below is that a move to \$15.08 could still be considered corrective of the move down from \$14.75. Though it will have exceeded the 89% retracement, it is the normal "larger than" target for the wave. Conversely, \$15.47 is both the trend terminus and XC projection and meeting

this target could very well trigger a continuation higher.

**Perpetual Wave Projections**

X	Y	Z	14.64	15.47
13.3	13.975	13.58	L, IO	3X, XC

The chart below shows the \$14.75 as the equal to target for the wave \$1.61 – 11.899 – 4.39. This makes waves commencing with \$1.61 as well as those containing the YZ swing \$11.899 – 4.39 of importance.



The first wave below, \$1.25 - 11.899 - 4.39, which contains that important YZ leg, projects to a price solidly above \$15.0 at \$15.08 as its equal to target, forming a “diagonal” cascade with the wave shown in the table below. It also projects all the way up to \$19.0 as the next impulse projection, the “intermediate” target.

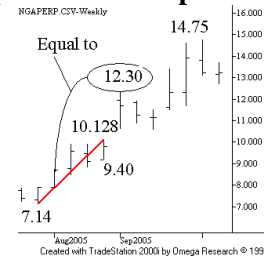
**Perpetual Wave Projections**

X	Y	Z	15.08	15.47	19.01
1.25	11.899	4.39	E	I	
1.61	10.10	1.76		L	
“	14.75	10.88			S
4.39	9.20	5.71			XC

The two waves shown from the important \$1.61 low form another diagonal connecting to the first wave’s \$15.08, then moving from \$15.47 to \$19.0. The last wave on the table is also reflected on the chart above as having met two of its targets. So again, because some of its targets have been met, it is of increased importance. In this case, the price of \$19.0 is the XC projection, in a “down the row impulse projection cascade for this wave.

The next chart shows a wave up from \$7.14 having met \$12.3, which was an important intermediate resistance target, also met by the wave just discussed.

**Perpetual Wave Up from \$7.14**



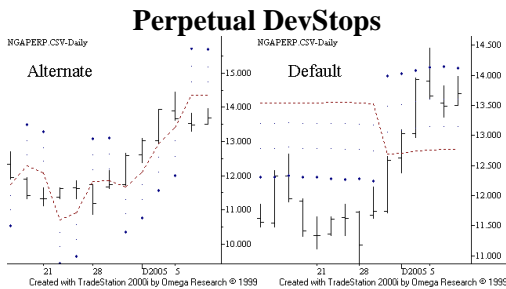
The two sequential waves up from \$7.14 both project to \$19.0, which connects them to the other waves listed. Additionally the wave, \$7.14 - 12.30 - 10.608, that can be thought of as a compound equal to abc pattern could itself unfold to higher magnitude targets of \$15.08, \$15.47 or \$19.0 as shown in the table, with \$15.47, the normal minimum anticipated.

**Perpetual Wave Projections**

X	Y	Z	15.08	15.47	19.01
5.71	7.904	6.03	3X		
7.14	9.91	8.85			3X
“	12.3	10.608	IO		L

10.88	14.45	13.30	IT	S	L
-------	-------	-------	----	---	---

Both the normal DevStop table that is used when most stops have been hit (the alternate chart) and the default stops are shown below.



Though the array in the stops is non-standard it is clear that \$15.08 is confluent for both tables and that \$19.0 is an upper threshold price.

### Perpetual Resistance DevStops

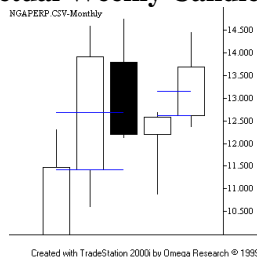
NG Alternate	Warn	Dev1	Dev2	Dev3	Dev4.5
Daily - Perp	14.35	14.73	15.18	15.71	16.04
Weekly - Perp	15.07	15.91	16.95	18.17	19.0
NG Default	Dev1	Dev2	Dev3	Dev4.5	Dev6
Daily - Perp	-	-	-	14.50	15.07
Weekly - Perp	-	-	-	-	14.43

### Resistance Perpetual Contract

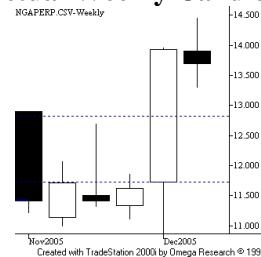
Support must be found in a similar manner to the strips given the lack of downward waves. Here it appears that a price of around \$12.6 is most important. This is interesting because it is right in line with resistance on the strips. This price is an important completion and confirmation price.

setup that includes the completion and confirmation price on this pattern.

### Perpetual Weekly Candlesticks



### Perpetual Weekly Candlesticks



Back	[0]	[0]	[3]	[3]
Month	Complete	Confirm	Complete	Confirm
Perp	13.16	12.62	12.58	11.25

Week	Complete	Confirm
Perp	11.46	11.3

As can be seen a price just above \$13.0 is initial support, and \$11.3, in line with the January swing low, is the lower threshold. The weekly candlestick chart shown below confirms the lower threshold, which shows a Harami star

The prices just discussed are also reflected the levels just discussed, with the \$11.3 level again the critical threshold in the 89% retracement position.

### Perpetual Retracements to \$14.45

From:	10.88
38%	13.09
50%	12.66
62%	12.24
89%	11.27

## **Section 2C: Consumer Hedge Recommendations**

### **First Quarter 2006**

*Cutoff Date, December 1, 2005*

REFER TO THE CHARTS ON THE LAST PAGE WHILE READING THESE SECTIONS.  
BE SURE TO READ THE SECTIONS -- DO NOT JUST FOCUS ON THE TABLES

All of the current settings, for their respective time frames, are at the highest-settings. We would like to raise the triggers somewhat regardless. To do this, for both the Bands and Scales all time settings, shrt, med and lng are set to zero "0", which sets all the lookback lengths to the shortest allowable. These changes are shown in pink in the table.

#### **Upper Bands**

With the change just recommended, the Bands for the three-month strip appear to be overly high, so we are lowering them slightly by changing UpLong from 0.50 to 0.25 standard deviations over the mean. For the six-month strip, our suggestion is to change hfactor, which allows for higher than normal Band settings from 1 (higher settings allowed) to 0 (no change).

#### **Lower Scales**

For all three lower Scales we recommend changing hfactor from 0 to 1. Doing this lowers the Scales overall, but with a setting of 0.40 standard deviations below the mean, the highest allowable setting (the least number of standard deviations below the mean), the Scales are somewhat too high. Increasing DnLong from 0.40 to 1.50 standard deviations below the mean for all three strips is recommended, in which case the Scale trigger levels are somewhat moderated.

**Note that as always we will reflect the changes we are suggesting on the Internet HedgeModel. Because our remarks above as suggestions only and your company's particular situation warrant an alternative strategy, you may wish to make your own adjustments. If you don't currently have a PC version of HedgeModel, please contact the call center and we will send you the disks.**

### Manual Settings

For those who would like to compare their HedgeModel settings with ours, the table below shows the current trigger levels with puts set at-the-money for both the three-month and the six-month strips as of 12/05/05.

Three-Month			
Scale 1	8.705	Band 1	11.387
Scale 2	8.385	Band 2	11.707
Scale 3	8.066	Band 3	12.026
Six-Month			
Scale 1	8.732	Band 1	9.980
Scale 2	8.414	Band 2	10.300
Scale 3	8.094	Band 3	10.619
Twelve-Month			
Scale 1	8.541		
Scale 2	8.241		
Scale 3	7.941		

### Reversals in Cents per mmBtu from 4Q05

<i>Reversals</i>	<i>3 Month</i>	<i>6 Month</i>	<i>12 Month</i>
<i>1</i>	16.9	23.0	16.9
<i>2</i>	28.4	29.9	20.7
<i>3</i>	42.2	54.5	42.2

### Reversals in Cents per mmBtu for 1Q06

<i>Reversals</i>	<i>3 Month</i>	<i>6 Month</i>	<i>12 Month</i>
<i>1</i>	18.8	17.7	13.8
<i>2</i>	32.8	30.4	22.0
<i>3</i>	49.3	43.0	33.4

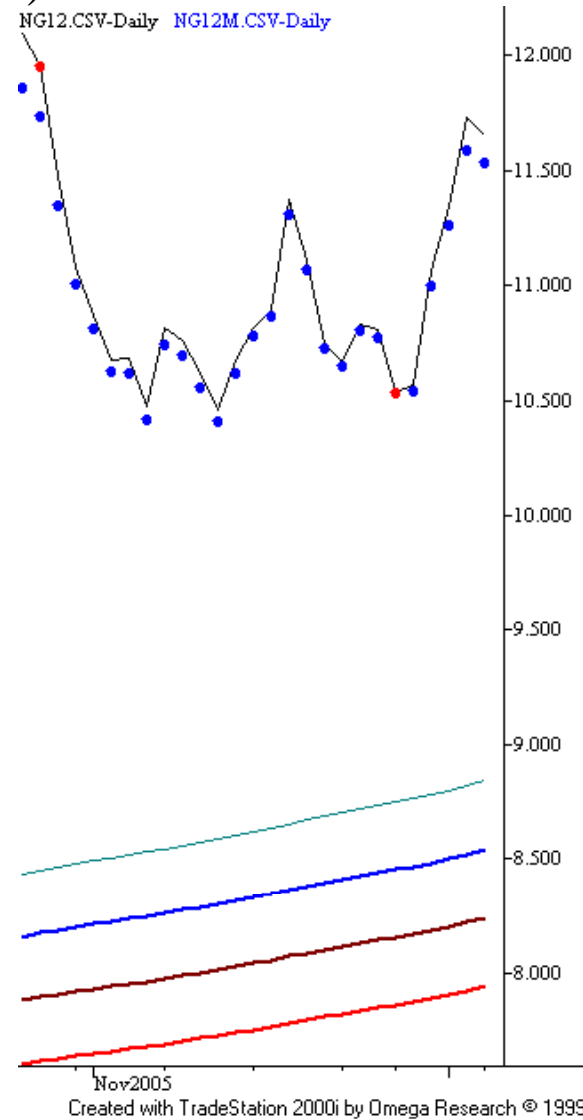
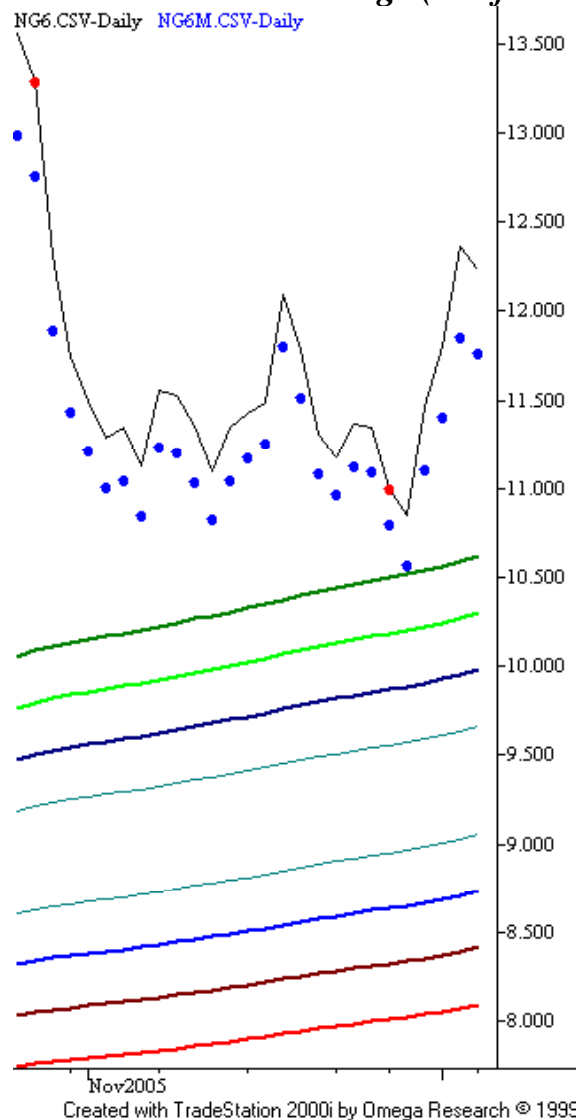
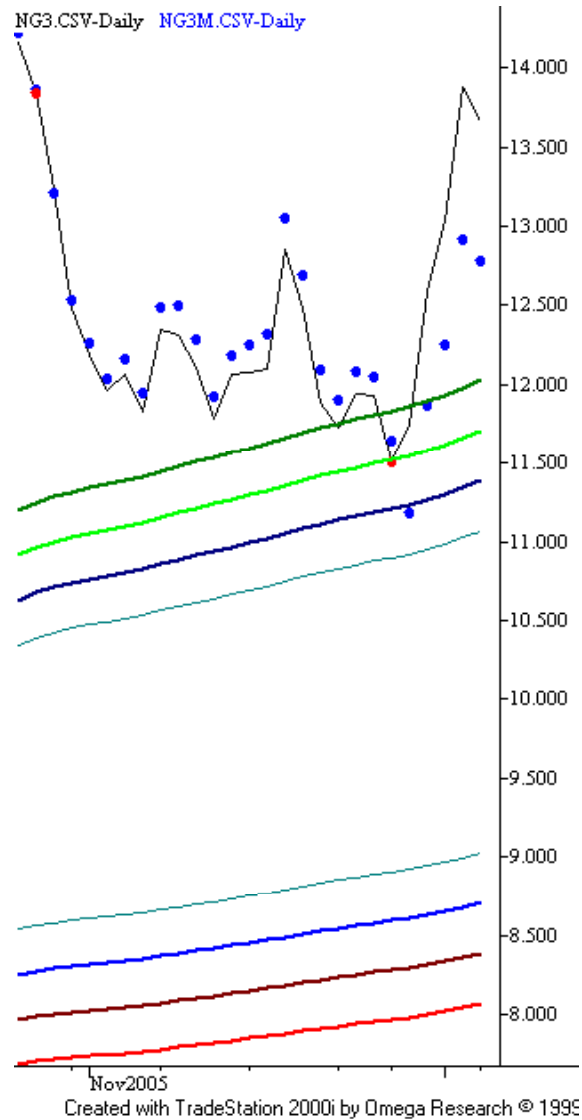
### Consumer Settings from 4Q05

	3 Month	6 Month	12 Month
UpLong	0.50	0.50	n/a
UpMed	0.50	0.50	n/a
UpShort	0.50	0.50	n/a
x	0.30	0.35	n/a
OTM	0	0	n/a
shrt	0	0	n/a
med	1	1	n/a
lng	1	1	n/a
hfactor	1	1	n/a
sfactor	0	0	n/a
LoPct	0.01	0.01	n/a
HiPct	0.03	0.03	n/a
DnLong	0.40	0.40	0.40
DnMed	0.40	0.40	0.40
DnShort	0.40	0.40	0.40
x	0.35	0.30	0.20
shrt	0	0	0
med	0	0	0
lng	1	1	1
hfactor	0	0	0
sfactor	0	0	0
LoPct	0.01	0.01	0.01
HiPct	0.03	0.03	0.03

### Consumer Settings for 1Q06

	3 Month	6 Month	12 Month
UpLong	0.25	0.50	n/a
UpMed	0.50	0.50	n/a
UpShort	0.50	0.50	n/a
x	0.30	0.35	n/a
OTM	0	0	n/a
shrt	0	0	n/a
med	0	0	n/a
lng	0	0	n/a
hfactor	1	0	n/a
sfactor	0	0	n/a
LoPct	0.01	0.01	n/a
HiPct	0.03	0.03	n/a
DnLong	1.50	1.50	1.50
DnMed	0.40	0.40	0.40
DnShort	0.40	0.40	0.40
x	0.35	0.30	0.20
shrt	0	0	0
med	0	0	0
lng	0	0	0
hfactor	1	1	1
sfactor	0	0	0
LoPct	0.01	0.01	0.01
HiPct	0.03	0.03	0.03

*Consumer Charts with Settings (as of 12/05/05)*



**Section 3: Natural Gas 1Q06 Report**  
**Review of Strategies from the Previous Quarter (4Q05)**  
*(Hypothetical) 08/30/05 through 11/28/05 (NGU5 expiration)*

**Summary of Quarterly Hedge Activity**

Hedger	Months Hedged	Volume Hedged	MTM/unit in Program
Existing Producers	12	99	0.11
New Producers	12	100	0.00
Existing Consumers	4	100	5.51
New Consumers	0	0	0.00

**Producers**

**Existing Producers**

Producers came into this quarter hedged in a combination of puts and costless collars for NGV5 through NGU6. The strategy last quarter was to hedge the first half of hedge volume in puts with the intention to cap them by selling calls at a later date towards the end of the hedge cycle. The latter half of volume was hedged in costless collars with caps around \$12.0. The table below shows the hedge position as of August 29, the cut-off date of the last report.

**Table 3.1 - Puts First 50%, Costless Collars 40%**

Contract	Put 50%	Premia	Costless Floor 40%	Costless Cap 40%	Previous Gain
NGV5	7.25	0.32	7.95	12.16	0.68
NGX5	7.76	0.38	8.99	12.51	0.63
NGZ5	8.23	0.42	9.46	12.87	0.70
NGF6	8.55	0.43	8.86	13.13	0.20
NGG6	8.56	0.44	9.29	13.11	0.19
NGH6	8.42	0.43	9.03	12.88	0.19
NGJ6	7.28	0.37	7.40	11.39	0.12
NGK6	7.13	0.37	7.00	11.16	0.11
NGM6	7.16	0.35	7.02	11.19	0.18
NGN6	7.21	0.31	7.00	11.24	-
NGQ6	7.30	0.29	7.04	11.27	-
NGU6	7.47	0.30	7.03	11.25	-
<b>Average</b>	<b>7.69</b>	<b>0.37</b>	<b>8.00</b>	<b>12.01</b>	<b>0.33</b>

**Month Four**

Month Four began with the twelve-month modified strip well above Scale 3. It wasn't until September 12 that a Scale 3 reversal took place. This called for the remaining 10% of volume to be hedged for NGX5 through NGQ6. Last quarter's advice recommended hedging the remaining 10% in just puts because of the bearish outlook for the market. Therefore the remaining 10% of volume was hedge in puts to be capped at a later date. Also, because NGV6 was now the thirteenth nearby it was also eligible for hedg-

ing, but because it was so far below all of the Scales through the entirety of Month Four it was never hedged.

There was also the opportunity to sell calls against the puts on September 12, but once again the strategy from last quarter recommended waiting to cap the puts due to the bullish tone that was hanging over the market at the time. A full HDev3 reversal took place on September 29 so at that time calls were sold against the existing puts to create a costless collar for 60% of the hedge volume.

### **First Pass Through the Bands**

A first pass through the Bands took place between October 28 and 31. Because volumes were fully hedged no hedges were placed.

### **Summary**

So at the end of the quarter, as of the cut off date for this report, November 28, existing producers were fully hedged in collars. The table below shows the current position and a mark-to-market as of November 28.

**Table 3.2 – Existing Producers Hedge Position as of November 28, 2005**

<b>Contract</b>	<b>% Hedged</b>	<b>Puts</b>	<b>Calls</b>	<b>Premia</b>	<b>Close 11/28</b>	<b>MTM per Unit</b>	<b>Previous Gains</b>	<b>MTM in Program</b>
NGV5	90	7.56	12.16	0.16	13.91	(1.91)	0.68	(1.03)
NGX5	100	8.64	14.66	-	13.83	0.00	0.63	0.63
NGZ5	100	9.11	15.71	-	11.18	0.00	0.70	0.70
NGF6	100	9.06	16.10	-	11.63	0.00	0.20	0.20
NGG6	100	9.23	15.94	-	11.74	0.00	0.19	0.19
NGH6	100	9.03	15.45	-	11.55	0.00	0.19	0.19
NGJ6	100	7.56	12.79	-	10.00	0.00	0.12	0.12
NGK6	100	7.29	12.56	-	9.89	0.00	0.11	0.11
NGM6	100	7.32	12.94	-	9.92	0.00	0.18	0.18
NGN6	100	7.34	13.25	-	9.97	0.00	-	0.00
NGQ6	100	7.41	13.53	-	10.01	0.00	-	0.00
NGU6	100	7.48	13.12	-	10.01	0.00	-	0.00
<b>Average</b>	<b>99</b>	<b>8.09</b>	<b>14.02</b>	<b>0.16</b>	<b>11.14</b>	<b>(0.16)</b>	<b>0.33</b>	<b>0.11</b>

### **New Producers**

Throughout September, which was Month Four of the current hedge cycle new producers could have hedged full volumes. The first 50% was hedged with the trend between August 30 and September 16 with puts purchased \$0.50 out-of-the-money. The second half of volume was hedged on the reversal that took place September 30. This latter volume was hedged in costless collars and calls were sold against the puts to offset the cost and collar the put position. The table below shows the volume hedged as of November 28, all of which has a mark-to-market of zero as the contracts are all within the collar.

**Table 3.3 – New Producers Hedge Position as of November 28, 2005**

<b>Contract</b>	<b>Puts</b>	<b>Calls</b>	<b>Close 11/28</b>
NGX5	11.93	14.00	13.83
NGZ5	11.84	14.35	11.18
NGF6	11.55	15.07	11.63
NGG6	9.15	14.74	11.74
NGH6	8.78	14.50	11.55
NGJ6	8.81	12.00	10.00
NGK6	8.85	12.00	9.89
NGM6	8.89	12.00	9.92
NGN6	8.87	12.25	9.97
NGQ6	8.90	12.33	10.01
NGU6	9.27	12.24	10.01
NGV6	9.64	12.17	10.05
<b>Average</b>	<b>9.71</b>	<b>13.14</b>	<b>10.82</b>

## Consumers

### Existing Consumers

At the end of the last quarter existing consumers were fully hedged through NGF06 in calls. The table below shows the strikes of the calls and the hedge position as of August 29.

**Table 3.4 – Consumer Position as of August 29, 100% Hedged**

<b>Contract</b>	<b>Call Strike</b>	<b>Premia</b>
NGV5	7.84	0.35
NGX5	8.32	0.50
NGZ5	8.79	0.70
NGF6	9.01	1.09

### Case 3 RR Signal and Summary

On October 7 an HDev3 reversal of \$0.545 took place on the six-month intraday chart. This triggered a Case 3 Reset/Restructure Signal. The table below shows the results of the reset. Note that NGV5 expired on September 28 so it was not actually reset, but rather expired deep in the money. At the end of the quarter the six month strip has dropped significantly and is sitting right on top of the consumer Bands.

**Table 3.5 – Consumer Position Reset**

<b>Contract</b>	<b>% Hedged</b>	<b>Call Strike</b>	<b>Premia</b>	<b>Reset At</b>	<b>Premia 10/7</b>	<b>MTM in Program</b>
NGV5	100	7.84	0.35	13.91	6.07	5.72
NGX5	100	8.32	0.50	14.21	5.96	5.46
NGZ5	100	8.79	0.70	14.71	6.17	5.47
NGF6	100	9.01	1.09	15.06	6.48	5.39
<b>Average</b>	<b>100</b>	<b>8.49</b>	<b>0.66</b>	<b>14.47</b>	<b>6.17</b>	<b>5.51</b>

### New Consumers

No hedges were placed this quarter.

## **Section 4: Monte Carlo Simulations**

### **Natural Gas, 1Q06 Three-Month Expectation**

*as of December 7, 2005*

The Monte Carlo is computer-generated simulation that enables users to study probable outcomes of complex systems. In order to perform the Monte Carlos on a quarterly basis, a program was written to automate the determination of the inputs. These two major inputs required are a daily volatility and bias.

Because there is no appreciable correlation between bias and volatility the average volatility prevails for all bias categories. Thus, for each instrument on which the simulations are run (i.e., perpetual, three-month strip, etc.) the same volatility is used for each bias case except for the extreme strong up and down scenarios, which use a higher percentile of volatility.

Once the volatility and bias are established prices are randomly generated over 3000 iterations based upon the bias and volatility inputs. The data can then be statistically analyzed and made into percentile ranking tables that are used to find probabilities for price moves in scenarios that are based upon increased or decreased bias and volatility.

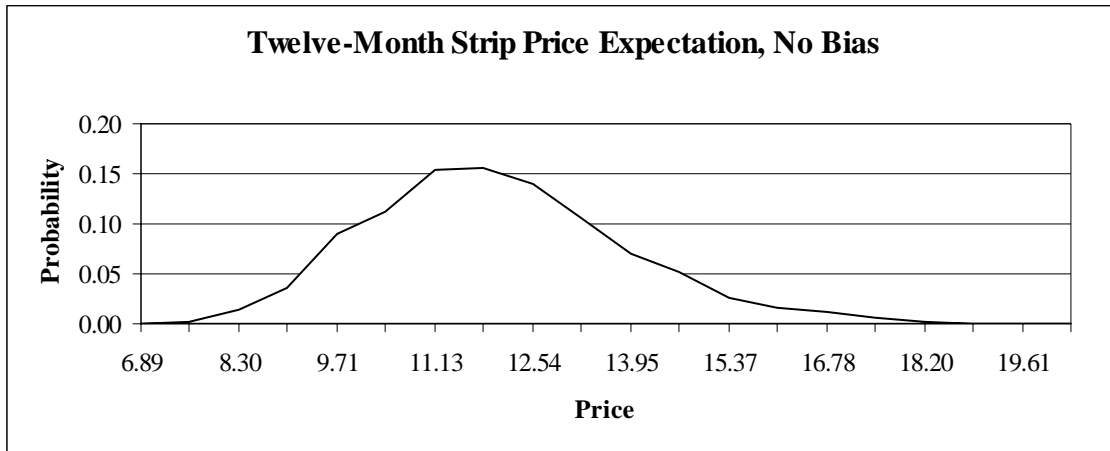
Two other variables involved in the program are the lookback length and the lookforward length. The look-back length is the amount of data that the program evaluates in order to determine the proper volatility and bias. The look-forward length is the number of days forward to which the model projects price. The 63-day period is meant to approximate a three-month forward period as this Report is produced on a Quarterly basis.

It is certainly possible to run the model on periods of one to six months. Beyond six months, mean reversion characteristics need to be more highly considered. Should you wish to have a custom time frame run, please call our office at (505) 237-1600.

The results for each instrument are listed below. Each page has the no bias case graph and the numerical output statistics for each instrument. The input tables for each instrument have been left out in this report. Each expectation has been done for the perpetual, three, six, nine, and twelve-month strip.

To determine the most probable outcome for the down and up cases, refer to the median. To determine VAR, use the no bias case with the confidence level you wish.

## Expectations for the Twelve-Month Strip from \$11.71 on 12/7/05



Twelve	Strong Down	Normal Down	Weak Down	No Bias	Weak Up	Normal Up	Strong Up
Mean	9.88	10.52	11.43	11.68	12.08	13.04	13.73
StdDev	1.89	1.69	1.84	1.84	1.88	2.06	2.55
Variance	3.56	2.87	3.39	3.40	3.54	4.23	6.49
Percentile							
2.5	6.66	7.63	8.18	8.49	8.69	9.37	9.42
5	7.07	8.01	8.66	8.96	9.19	9.90	9.98
10	7.60	8.50	9.10	9.42	9.82	10.54	10.68
15	7.97	8.85	9.53	9.78	10.19	10.96	11.17
20	8.27	9.07	9.87	10.08	10.50	11.29	11.58
25	8.54	9.31	10.14	10.38	10.77	11.61	11.96
30	8.82	9.53	10.39	10.61	11.03	11.84	12.29
35	9.05	9.76	10.63	10.85	11.23	12.12	12.59
40	9.28	9.97	10.85	11.07	11.49	12.39	12.85
45	9.50	10.17	11.05	11.31	11.72	12.68	13.14
50	9.74	10.37	11.28	11.53	11.96	12.92	13.50
55	9.96	10.58	11.50	11.76	12.18	13.15	13.84
60	10.19	10.77	11.74	11.97	12.43	13.42	14.17
65	10.45	11.02	12.02	12.21	12.67	13.67	14.52
70	10.72	11.27	12.29	12.49	12.93	13.96	14.83
75	11.01	11.54	12.59	12.81	13.20	14.30	15.22
80	11.34	11.86	12.94	13.15	13.52	14.68	15.67
85	11.78	12.24	13.31	13.58	13.92	15.17	16.22
90	12.32	12.78	13.82	14.17	14.53	15.79	17.05
95	13.18	13.56	14.68	14.88	15.40	16.59	18.30
97.5	14.06	14.32	15.48	15.76	16.29	17.60	19.38

## Section 5: Price and Volatility Appendix

*as of December 7, 2005*

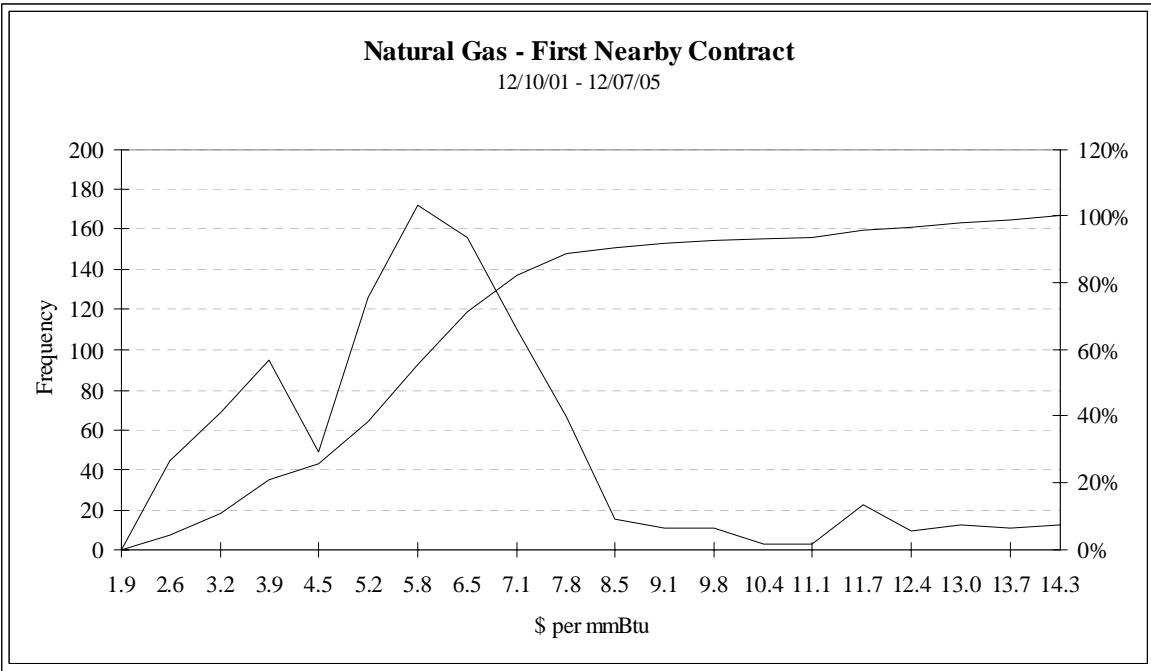
**Table 5.1 - Natural Gas Descriptive Statistics: 12/10/01 - 12/07/05**

<b>Contract</b>	<b>1st NB</b>	<b>3T</b>	<b>3M</b>	<b>3R</b>	<b>6T</b>	<b>6M</b>	<b>6R</b>	<b>12T</b>	<b>12M</b>	<b>12R</b>
<b>Average</b>	5.85	5.95	6.02	5.55	5.98	5.98	5.29	5.89	5.88	5.04
<b>Median</b>	5.63	5.70	5.76	5.71	5.74	5.67	5.51	5.68	5.61	5.41
<b>Minimum</b>	1.91	1.99	2.08	2.38	2.12	2.20	2.47	2.37	2.46	2.84
<b>Maximum</b>	14.34	14.70	14.92	12.58	14.39	13.97	10.51	12.70	12.46	8.59
<b>StdDev</b>	2.40	2.47	2.50	2.02	2.38	2.31	1.71	2.12	2.09	1.45
<b>Skew</b>	1.29	1.36	1.38	0.96	1.26	1.14	0.24	0.98	0.96	0.07
<b>Avg +1 StdDev</b>	8.25	8.42	8.52	7.56	8.36	8.30	7.01	8.02	7.97	6.49
<b>Avg -1 StdDev</b>	3.45	3.49	3.52	3.53	3.60	3.67	3.58	3.77	3.80	3.59
<b>Last</b>	13.49	13.52	12.68	12.54	12.17	11.72	10.45	11.62	11.51	8.56

NB = Nearby Daily Closes  
 T = Traditional  
 M = Modified  
 R = Rolling Average

**Table 5.2 - Natural Gas Closing Price Ranks and Percentiles: 12/10/01 - 12/07/05**

<b>Percentile</b>	<b>1st NB</b>	<b>3T</b>	<b>3M</b>	<b>3R</b>	<b>6T</b>	<b>6M</b>	<b>6R</b>	<b>12T</b>	<b>12M</b>	<b>12R</b>
<b>0</b>	1.91	1.99	2.08	2.38	2.12	2.20	2.47	2.37	2.46	2.84
<b>2.5</b>	2.27	2.29	2.33	2.45	2.37	2.42	2.54	2.60	2.67	2.85
<b>5</b>	2.68	2.75	2.75	2.60	2.78	2.80	2.64	2.93	2.99	2.87
<b>10</b>	3.13	3.19	3.29	3.06	3.35	3.43	2.81	3.53	3.56	2.97
<b>15</b>	3.40	3.50	3.57	3.23	3.62	3.71	3.03	3.75	3.79	3.11
<b>20</b>	3.81	3.93	4.01	3.41	3.94	3.96	3.31	3.96	3.98	3.29
<b>25</b>	4.44	4.57	4.50	4.06	4.41	4.33	3.58	4.34	4.34	3.61
<b>30</b>	4.77	4.96	4.99	4.85	4.94	4.93	4.62	4.84	4.84	4.10
<b>35</b>	5.06	5.14	5.17	5.01	5.15	5.13	5.13	5.03	5.01	4.41
<b>40</b>	5.26	5.32	5.30	5.50	5.31	5.29	5.28	5.25	5.21	4.90
<b>45</b>	5.43	5.50	5.51	5.63	5.52	5.49	5.37	5.40	5.38	5.21
<b>50</b>	5.63	5.70	5.76	5.71	5.74	5.67	5.51	5.68	5.61	5.41
<b>55</b>	5.81	5.87	5.97	5.79	5.94	5.93	5.70	5.91	5.85	5.47
<b>60</b>	6.06	6.10	6.13	5.89	6.16	6.24	5.82	6.12	6.13	5.53
<b>65</b>	6.24	6.25	6.28	5.95	6.33	6.41	5.91	6.31	6.31	5.58
<b>70</b>	6.41	6.42	6.42	6.18	6.48	6.56	5.97	6.48	6.48	5.70
<b>75</b>	6.72	6.73	6.68	6.44	6.68	6.77	6.36	6.75	6.79	6.15
<b>80</b>	7.01	7.15	7.17	6.79	7.18	7.19	6.49	7.23	7.24	6.21
<b>85</b>	7.33	7.53	7.70	6.94	7.68	7.74	6.75	7.74	7.73	6.49
<b>90</b>	8.12	8.47	8.83	7.17	8.47	8.48	6.92	8.18	8.18	6.63
<b>95</b>	11.63	11.95	<b>12.21</b>	9.37	<b>11.68</b>	<b>11.43</b>	8.17	<b>10.79</b>	<b>10.65</b>	7.51
<b>97.5</b>	<b>12.98</b>	<b>13.24</b>	13.41	<b>11.71</b>	13.00	12.54	<b>9.42</b>	11.71	11.56	<b>8.14</b>
<b>100</b>	14.34	14.70	14.92	12.58	14.39	13.97	10.51	12.70	12.46	8.59



#### Statistics

<b>Average</b>	5.85
<b>Median</b>	5.63
<b>Minimum</b>	1.91
<b>Maximum</b>	14.34
<b>StdDev</b>	2.40
<b>Skew</b>	1.29
<b>Avg +1 StdDev</b>	8.25
<b>Avg -1 StdDev</b>	3.45
<b>Last</b>	13.49

#### Percentiles

<b>0</b>	1.91
<b>2.5</b>	2.27
<b>5</b>	2.68
<b>10</b>	3.13
<b>15</b>	3.40
<b>20</b>	3.81
<b>25</b>	4.44
<b>30</b>	4.77
<b>35</b>	5.06
<b>40</b>	5.26
<b>45</b>	5.43
<b>50</b>	5.63
<b>55</b>	5.81
<b>60</b>	6.06
<b>65</b>	6.24
<b>70</b>	6.41
<b>75</b>	6.72
<b>80</b>	7.01
<b>85</b>	7.33
<b>90</b>	8.12
<b>95</b>	11.63
<b>97.5</b>	<b>12.98</b>
<b>100</b>	14.34

**Table 5.3 Natural Gas Annualized Volatility Descriptive Statistics: 11/26/01 - 12/07/05**

<b>Contract</b>	<b>1st NB</b>	<b>3T</b>	<b>3M</b>	<b>6T</b>	<b>6M</b>	<b>12T</b>	<b>12M</b>
<b>Average</b>	49	45	41	38	35	30	28
<b>Median</b>	45	41	38	34	31	27	25
<b>Minimum</b>	12	12	12	12	12	10	9
<b>Maximum</b>	220	179	208	141	136	93	92
<b>StdDev</b>	24	19	20	15	15	12	11
<b>Skew</b>	3	2	4	2	3	2	2
<b>Avg +1 StdDev</b>	74	64	62	53	49	42	39
<b>Avg -1 StdDev</b>	25	26	21	23	20	18	17
<b>Last</b>	58	54	54	44	40	34	31

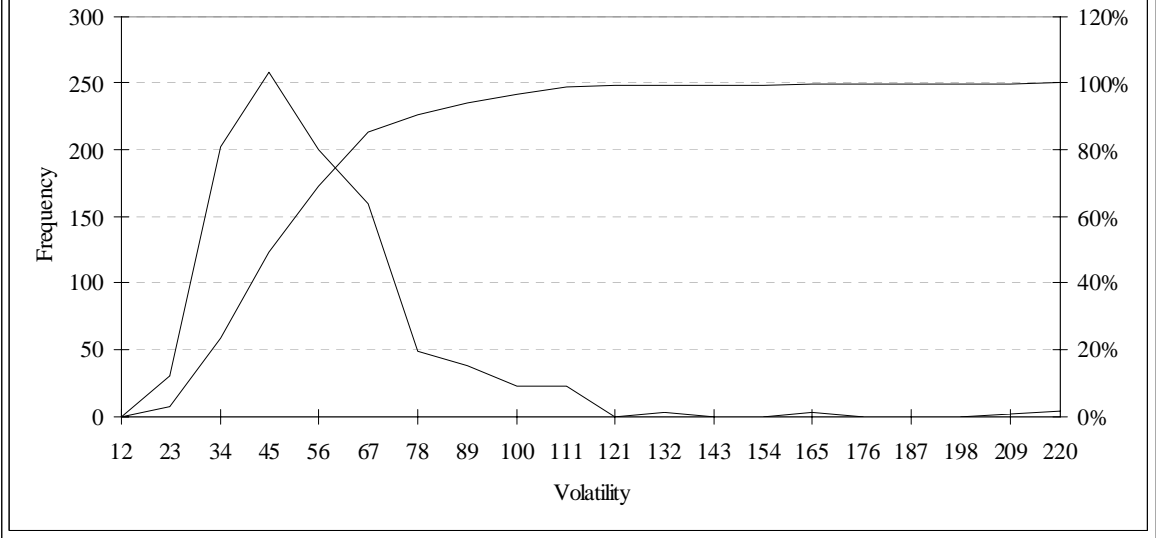
NB = Nearby Daily Closes  
T = Traditional  
M = Modified

**Table 5.4 Natural Gas Annualized Volatility Percentiles: 11/26/01 - 12/07/05**

<b>Percentile</b>	<b>1st NB</b>	<b>3T</b>	<b>3M</b>	<b>6T</b>	<b>6M</b>	<b>12T</b>	<b>12M</b>
<b>0</b>	12	12	12	12	12	10	9
<b>2.5</b>	21	21	20	19	17	14	13
<b>5</b>	24	23	22	21	19	16	15
<b>10</b>	28	26	25	24	22	18	17
<b>15</b>	30	28	26	25	23	19	18
<b>20</b>	32	30	28	27	24	21	19
<b>25</b>	34	33	30	28	25	22	20
<b>30</b>	36	34	32	29	27	23	21
<b>35</b>	37	36	33	31	28	24	22
<b>40</b>	40	38	35	32	29	25	23
<b>45</b>	42	40	37	33	30	26	24
<b>50</b>	45	41	38	34	31	27	25
<b>55</b>	48	44	40	36	33	28	26
<b>60</b>	50	45	41	38	34	30	27
<b>65</b>	53	47	43	40	36	32	29
<b>70</b>	<b>56</b>	50	45	<b>42</b>	38	<b>34</b>	<b>31</b>
<b>75</b>	59	<b>53</b>	48	45	<b>40</b>	36	33
<b>80</b>	61	57	50	47	43	37	34
<b>85</b>	66	61	<b>54</b>	50	46	40	37
<b>90</b>	77	65	59	56	51	44	41
<b>95</b>	95	77	65	64	60	51	48
<b>97.5</b>	103	90	79	77	72	60	57
<b>100</b>	220	179	208	141	136	93	92

### Natural Gas - First Nearby Contract (Annualized Volatility)

11/26/01 - 12/07/05



#### Statistics

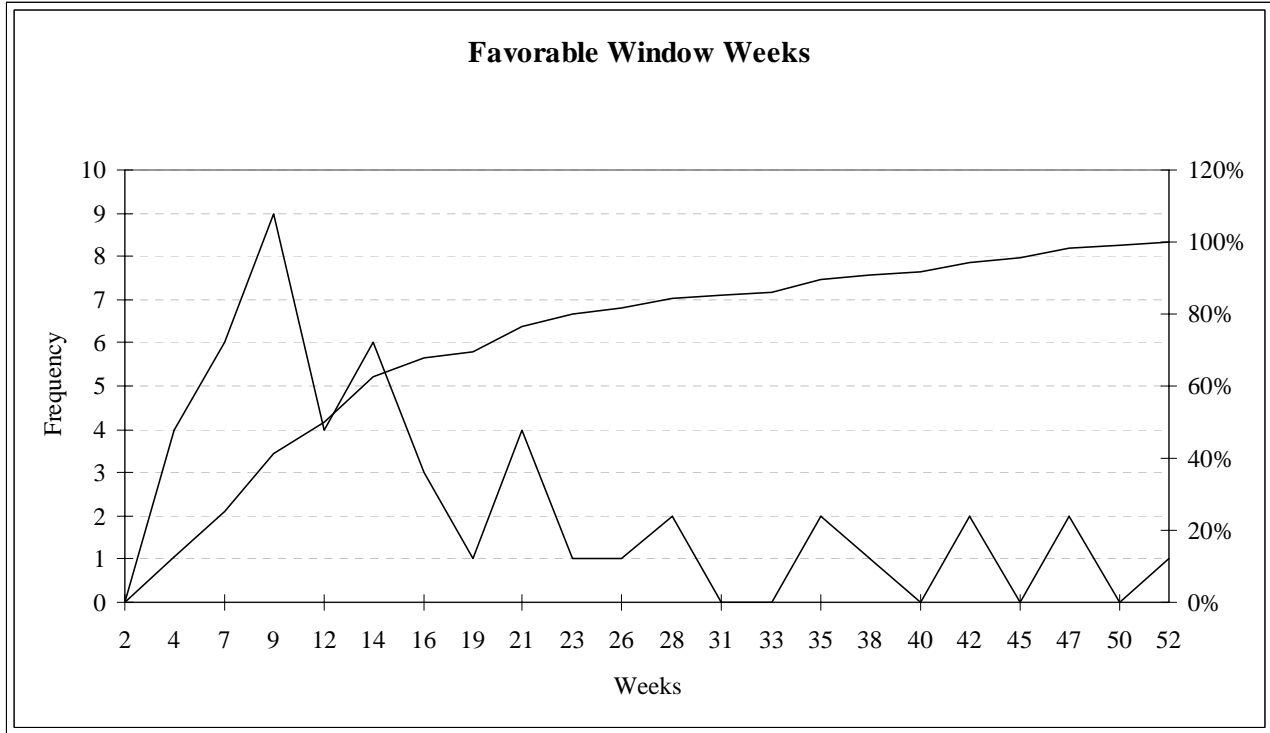
<b>Average</b>	49
<b>Median</b>	45
<b>Minimum</b>	12
<b>Maximum</b>	220
<b>StdDev</b>	24
<b>Skew</b>	3
<b>Avg +1 StdDev</b>	74
<b>Avg -1 StdDev</b>	25
<b>Last</b>	58

#### Percentiles

<b>0</b>	12
<b>2.5</b>	21
<b>5</b>	24
<b>10</b>	28
<b>15</b>	30
<b>20</b>	32
<b>25</b>	34
<b>30</b>	36
<b>35</b>	37
<b>40</b>	40
<b>45</b>	42
<b>50</b>	45
<b>55</b>	48
<b>60</b>	50
<b>65</b>	53
<b>70</b>	56
<b>75</b>	59
<b>80</b>	61
<b>85</b>	66
<b>90</b>	77
<b>95</b>	95
<b>97.5</b>	103
<b>100</b>	220

## Section 6: Zone Study Analysis

*as of December 7, 2005*



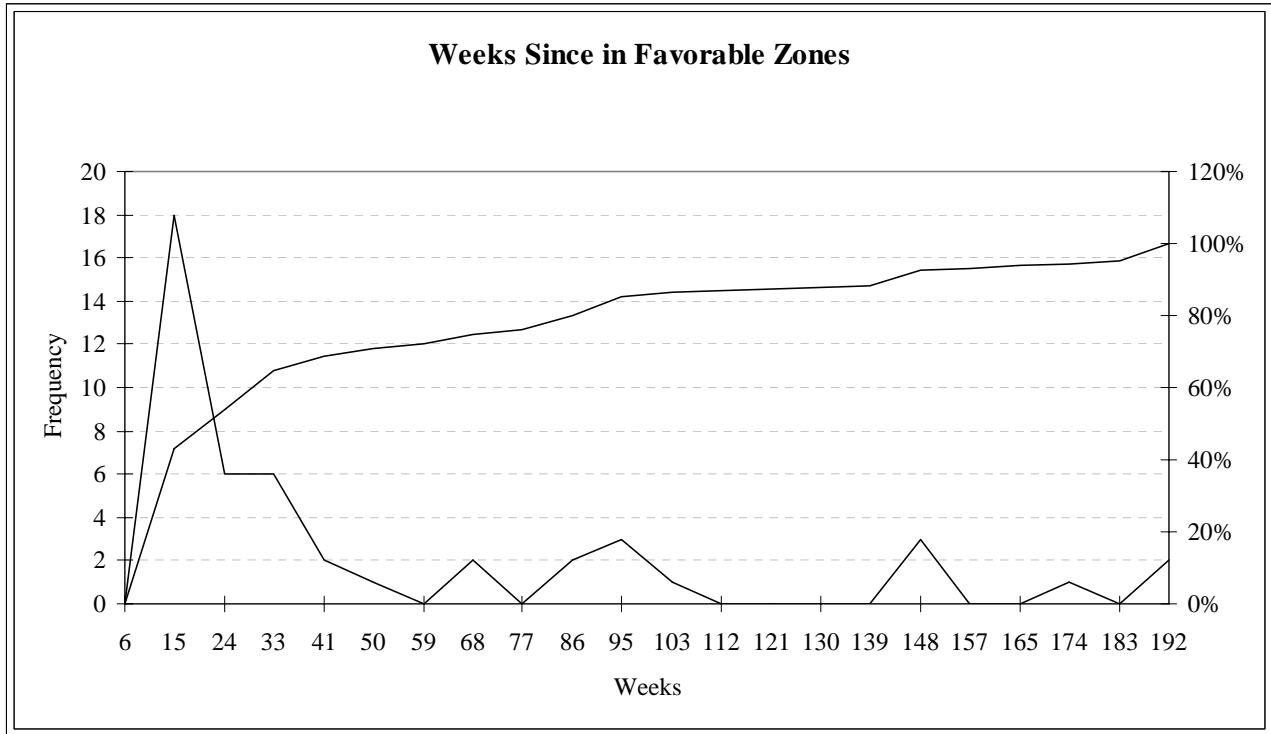
**Statistics**

<b>Average</b>	16
<b>Median</b>	12
<b>Minimum</b>	2
<b>Maximum</b>	52
<b>StdDev</b>	13
<b>Skew</b>	1
<b>Avg +1 StdDev</b>	29
<b>Avg -1 StdDev</b>	3

**Percentiles**

<b>0</b>	2
<b>2.5</b>	2
<b>5</b>	3
<b>10</b>	3
<b>15</b>	5
<b>20</b>	5
<b>25</b>	7
<b>30</b>	7
<b>35</b>	9
<b>40</b>	9
<b>45</b>	10
<b>50</b>	12
<b>55</b>	12
<b>60</b>	13
<b>65</b>	15
<b>70</b>	19
<b>75</b>	21
<b>80</b>	24
<b>85</b>	30
<b>90</b>	36
<b>95</b>	44
<b>97.5</b>	46
<b>100</b>	52

All	Average	Median	StdDev
<b>Producer</b>	18	12	14
<b>Consumer</b>	8	7	4
<b>NG</b>	16	12	13



#### Statistics

<b>Average</b>	47
<b>Median</b>	19
<b>Minimum</b>	6
<b>Maximum</b>	192
<b>StdDev</b>	55
<b>Skew</b>	2
<b>Avg +1 StdDev</b>	102
<b>Avg -1 StdDev</b>	-

#### Percentiles

<b>0</b>	6
<b>2.5</b>	6
<b>5</b>	6
<b>10</b>	7
<b>15</b>	9
<b>20</b>	9
<b>25</b>	11
<b>30</b>	12
<b>35</b>	13
<b>40</b>	14
<b>45</b>	16
<b>50</b>	19
<b>55</b>	25
<b>60</b>	30
<b>65</b>	33
<b>70</b>	45
<b>75</b>	68
<b>80</b>	86
<b>85</b>	92
<b>90</b>	139
<b>95</b>	180
<b>97.5</b>	191
<b>100</b>	192

All	Average	Median	StdDev
<b>Producer</b>	23	13	21
<b>Consumer</b>	128	139	55
<b>NG</b>	47	19	55

### Consumer Summary Tables

#### Favorable\_Consumer\_Average

Instrument	Window Weeks	Hedge Days	% in Zone 7	Weeks Since
NG_C_Average	9	28	14	121
All Consumers	9	28	14	121

#### Favorable\_Consumer\_Summary

Instrument	Window Weeks	Hedge Days	% in Zone 7	Weeks Since
NG_C_3	8	30	20	103
NG_C_6	10	33	18	129
NG_C_12	8	22	3	131
NG_C_Average	9	28	14	121
All Consumers	9	28	14	121

#### OutofUnfavorable\_Consumer\_Average

Instrument	Window Weeks	Hedge Days	% in Neutral	Weeks Since
NG_C_Average	15	57	88	38
All Consumers	15	57	88	38

#### OutofUnfavorable\_Consumer\_Summary

Instrument	Window Weeks	Hedge Days	% in Neutral	Weeks Since
NG_C_3	13	52	86	30
NG_C_6	17	65	89	40
NG_C_12	15	53	90	43
NG_C_Average	15	57	88	38
All Consumers	15	57	88	38

#### PercentPerZone\_Consumer\_Average

Instrument	MF	SF	TF	N	TUF	SUF	MUF	Zones MF,SF	Zones MF,SF,TF	Zones MF,SF,TF,N
NG_C_Average	1	1	2	18	7	7	64	2	4	22
All Consumers	1	1	2	18	7	7	64	2	4	22

#### PercentPerZone\_Consumer\_Summary

Instrument	MF	SF	TF	N	TUF	SUF	MUF	Zones MF,SF	Zones MF,SF,TF	Zones MF,SF,TF,N
NG_C_3	1	1	2	20	7	7	61	3	5	25
NG_C_6	1	2	2	18	6	7	64	3	5	22
NG_C_12	0	1	2	15	7	7	67	1	3	18
NG_C_Average	1	1	2	18	7	7	64	2	4	22
All Consumers	1	1	2	18	7	7	64	2	4	22

#### PercentPerEpisode\_Consumer\_Average

Instrument	MF	SF	TF	N	TUF	SUF	MUF	Zones MF,SF	Zones MF,SF,TF	Zones MF,SF,TF,N
NG_C_Average	2	4	7	19	24	27	18	6	12	31
All Consumers	2	4	7	19	24	27	18	6	12	31

PercentPerEpisode\_Consumer\_Summary

Instrument	MF	SF	TF	N	TUF	SUF	MUF	Zones MF,SF	Zones MF,SF,TF	Zones MF,SF,TF,N
NG_C_3	2	6	7	17	21	27	20	8	15	32
NG_C_6	2	5	7	20	25	25	17	6	13	33
NG_C_12	1	2	6	19	25	29	18	3	8	28
NG_C_Average	2	4	7	19	24	27	18	6	12	31
All Consumers	2	4	7	19	24	27	18	6	12	31

FavorableStdDevAve\_Consumer\_Average

Instrument	Window Weeks	Hedge Days	% in Zone 7	Weeks Since
NG_C_Average	0.41	0.56	1.48	0.53
All Consumers	0.41	0.56	1.48	0.53

FavorableStdDevAve\_Consumer\_Summary

Instrument	Window Weeks	Hedge Days	% in Zone 7	Weeks Since
NG_C_3	0.51	0.63	1.22	0.64
NG_C_6	0.47	0.67	1.21	0.36
NG_C_12	0.26	0.39	2.00	0.60
NG_C_Average	0.41	0.56	1.48	0.53
All Consumers	0.41	0.56	1.48	0.53

OutofUnFavorableStdDevAve\_Consumer\_Average

Instrument	Window Weeks	Hedge Days	% in Neutral	Weeks Since
NG_C_Average	0.73	0.86	0.21	1.13
All Consumers	0.73	0.86	0.21	1.13

OutofUnFavorableStdDevAve\_Consumer\_Summary

Instrument	Window Weeks	Hedge Days	% in Neutral	Weeks Since
NG_C_3	0.65	0.75	0.27	1.43
NG_C_6	0.77	0.86	0.17	0.82
NG_C_12	0.78	0.97	0.19	1.14
NG_C_Average	0.73	0.86	0.21	1.13
All Consumers	0.73	0.86	0.21	1.13