

# BURNERTIP

SUPPLY › SERVICE › SATISFACTION ›

www.EnergyUSA.com

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## GAS FACTS IN BRIEF

› June Settlement Price	\$11.916
› Current July Trading	\$12.14
› Winter Strip '08-'09	\$12.51
› Summer Strip '09	\$10.68
› One Year Strip	\$11.98
› Gas Drilling Rig Count:	
UP 6 TO 1,479 Rigs	
› Gas Storage Levels:	
Net Injection to 1,701Bcf	
46% Full (vs. 3,703 Bcf)	

## WORSE THAN A NIGHTMARE

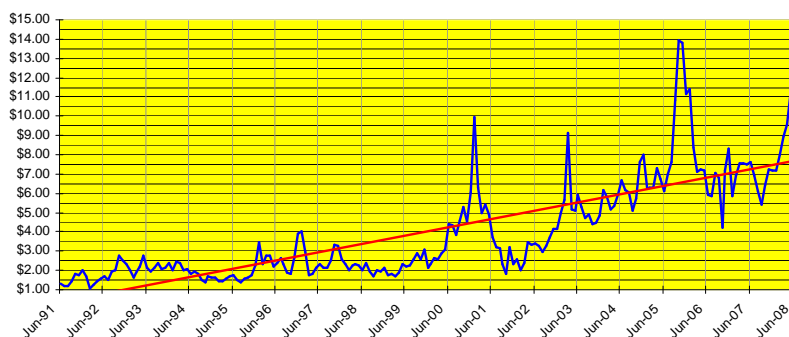
If April was a nightmare, then I have no idea how to classify May. The June front month began trading just a few pennies below the \$11 threshold. As the first few trading days progressed, things were looking "down" as the market fell to the \$10.50 range and sub-\$10 seemed to be in sight. However, crude jumped \$3 on Friday, Turkish planes dropped some bombs in Iraq and the market rebounded a couple of dimes to close at \$10.777. Next winter also finished the week strong at \$11.683.

The first full trading week stunned traders as Monday prices shot up \$.40. There were lots of reasons for the strength including another jump in crude, a weaker dollar and political issues in Nigeria. As the week progressed, prices continued to climb with the front month finally closing the week at \$11.537. Winter prices also participated, gaining roughly \$.70 to finish at \$12.39. Dropping LNG imports were a prime area of concern late in the week. It seems that as expensive as natural gas is in the US, it is even more expensive overseas as Europe and Asia continue to offer higher prices.

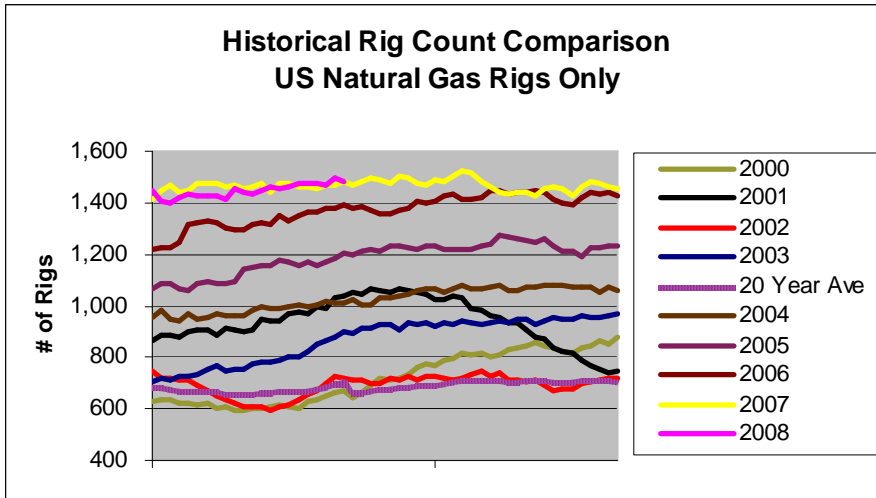
Week 2 began with a nice quarter drop as there was a lack of bad news. Of course, that changed mid-week as news of a delay in re-start of the Independence Hub pipeline drove prices to a high of \$11.68. As the week closed, an odd thing happened. Despite LOTS of bad news on the oil front, natural gas actually fell hard, closing the week at \$11.094. The winter also fell, giving up about \$.30 of the previous week's gain to close at \$12.099.

The final trading days of May saw a significant market rally as June futures actually traded above \$12 for a few hours. Volatility reigned as prices bounced hard and often. June finally closed at \$11.916 while the winter strip finished the month at \$12.754. What more can I say? If there is anything EnergyUSA to do to help you survive this, please call us.

## HISTORIC GAS PRICE CHART



# BAKER HUGHES DRILLING RIG COUNT



Change	
Jun-08	1,479
Jan-07	1,484
Change	(5)
% Change	0%

vs. Last Month	
Jun-08	1,479
May-08	1,473
Change	6
% Change	0%

## INDUSTRY TERMS

This month—Wind Power is gaining popularity. Below are a few of the terms that you may increasingly hear.

**Airfoil**--The cross section profile of the leeward side of a wind generator blade. Designed to give low drag and good lift. Also found on an airplane wing.

**Drag**--In a wind generator, the force exerted on an object by moving air. Also refers to a type of wind generator or anemometer design that uses cups instead of blades with airfoils.

**Freewheeling**--a wind generator that is NOT connected to a Load is freewheeling, and in danger of self-destruction from overspeeding.

**Horizontal Axis Wind Turbine**--A "normal" wind turbine design, in which the shaft is parallel to the ground, and the blades are perpendicular to the ground.

**Propeller**--The spinning thing that makes an airplane move forward. Often incorrectly used to describe a wind turbine Rotor!

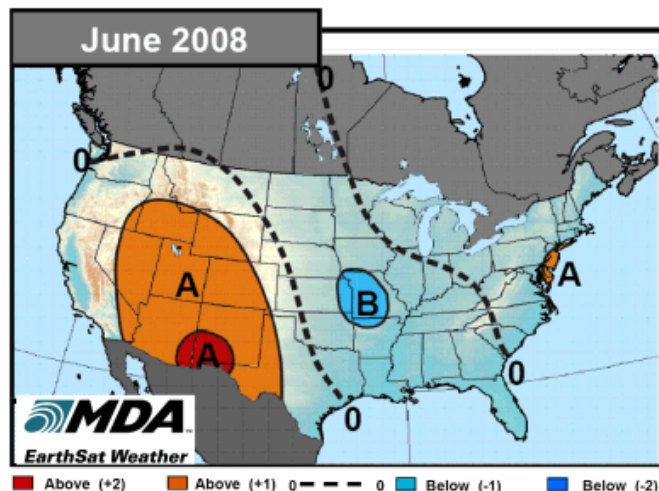
**Vertical Axis Wind Turbine**--A wind generator design where the rotating shaft is perpendicular to the ground, and the cups or blades rotate parallel to the ground.

**Wind Turbine**--A machine that captures the force of the wind. Called a Wind Generator when used to produce electricity. Called a Windmill when used to crush grain or pump water.

## ENERGY EQUIVALENTS

- 1 CF of natural gas = 1,000 Btu
- 1 Ccf (100 CF) gas = 100,000 Btu
- 1 Therm = 100,000 Btu
- 10 Therms = 1 Dekatherm
- 1 DTH = 1,000,000 Btu = 1 MMBtu
- 1 Mcf = 1 Dekatherm
- 1BCF = 1 billion CF of natural gas
- 1 Gallon of #2 fuel oil = 140,000 Btu
- 1 Gallon of Propane = 91,500 Btu
- 1 kWh electricity = 3,413 Btu
- 293 kWh electricity = 1,000,000 Btu
- 1 Gallon Ethanol = 76,100 Btu
- 1 Bushel Corn = 314,000 Btu

**MDA EARTHSAT  
JUNE 2008  
FORECAST**



**RUSSIAN NATURAL GAS UP**

RIA Novosti reported that Russia's natural gas output reached 234.3 billion cubic meters in the first four months of 2008 up 1.4% against the same period of last year.

According to preliminary estimates, Russian consumers received 165.2 billion cubic meters of gas in the first four months of 2008. It exported 76.7 billion cubic meters of natural gas in January to April 2008. Gas exports to countries outside the post-Soviet CIS totaled 62.3 billion cubic meters up by 35% YoY. Exports to other CIS countries reached 14.4 billion cubic meters, down 11.9%, due to a reduction in supplies to Ukraine.

According to government forecasts, Russia's gas output will rise 3% YoY in 2008 to 673 billion cubic meters.

*Steel Guru—June 2, 2008*

**EXPERTS RETHINK LNG**

The cost of a gallon of gasoline gets all the headlines, but the natural gas that will heat many American homes next winter is going up in price as fast or faster. That fact makes the scene in the languid, alligator-infested marshland in coastal Louisiana all the more remarkable.

Only a month after Cheniere Energy inaugurated its \$ 1. 4 billion liquefied natural gas terminal in Cameron Parish, an empty supertanker sat in its berth with no place to go while workers painted empty storage tanks.

The nearly idle terminal is a monument to a stalled switch to liquefied natural gas, one that was supposed to import so much liquefied natural gas from around the world that homes would be heated and factories humming at bargain prices.

But now liquefied natural gas shipments to the United States are slowing to a trickle, and Cheniere and other companies have dropped plans to build more terminals. A long-standing assumption of American energy policy has been that natural gas would be plentiful abroad and therefore readily available for importation, as production falls off in North America, where many fields are tapped out. But some experts are starting to question that idea, saying natural gas could be subject to the same jump in overseas demand that has made oil so expensive.

As it is, the supertankers that were supposed to deliver cargoes of gas from Africa and the Middle East to the United States are taking them to places like Spain and Japan instead, pushing up gas prices and depleting the nation's stockpiles as the hurricane season arrives.

While natural gas prices in the United States have risen to more than \$ 11. 80 per thousand cubic feet from \$ 7. 50 at the beginning of the year, the price gas producers can fetch is several dollars higher in many other countries in the world. All they need are terminals in producing countries that can chill natural gas to minus 260 degrees for shipping across oceans and terminals in consuming countries that can re-gasify cargoes. Just about the only place

where demand for liquefied natural gas seems not to be growing is the United States, an abrupt shift from expectations as little as one year ago.

World demand for natural gas has grown about 2. 6 percent a year over the past decade, but in Asia, the Middle East, Latin America and Africa it has averaged 7 percent over the same period, according to a recent UBS report. Growth in the developing world is expected to be supported in the years ahead by a construction boom in refineries and power and petrochemical plants.

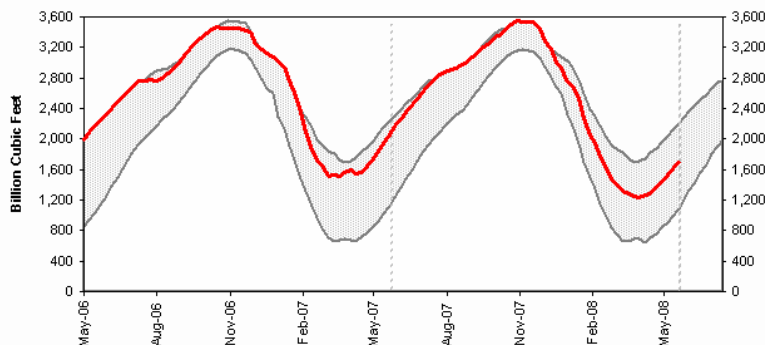
Supplies of liquefied natural gas are going to grow in the next few years, but experts say they will not be enough to satisfy the growing demand. Liquefaction plant projects that prepare the gas for shipping in producing nations like Nigeria and Russia are being delayed and even shelved because of political turbulence, cost overruns and increasing domestic demand for gas in their own countries. Production in one major terminal in Indonesia is sliding because of a declining field, and production in another in Norway is facing mechanical difficulties.

Meanwhile, countries that produce oil and gas like Libya and Algeria are replacing their oil-powered electricity plants with natural gas-burning plants. That way, they are able to export more oil, which costs less to ship than liquefied natural gas.

*NWAnews—June 2, 2008*

**GAS STORAGE LEVELS**

Working gas in storage was 1,701 Bcf as of Friday, May 23, 2008, according to EIA estimates. This represents a net increase of 87 Bcf from the previous week. Stocks were 321 Bcf less than last year at this time and 8 Bcf below the 5-year average of 1,709 Bcf. At 1,701 Bcf, total working gas is within the 5-year historical range.



**GAS SUPPLY FACTS**

U.S. energy-related carbon dioxide emissions rose by 1.6 percent in 2007, from 5,888 million metric tons of carbon dioxide (MMTCO<sub>2</sub>) in 2006 to 5,984 MMTCO<sub>2</sub> in 2007, according to the U.S. Carbon Dioxide Emissions from Energy Sources 2007 Flash Estimate released on May 20. Natural gas emissions increased by 77 MMTCO<sub>2</sub> or 6.6 percent in 2007, totaling 1,234 MMTCO<sub>2</sub> and accounting for 20 percent of total emissions during the year. The U.S. economy, as measured by gross domestic product grew by 2.2 percent, while energy demand increased by 1.7 percent, indicating that energy intensity fell by 0.5 percent year-over-year. Carbon dioxide intensity also decreased by 0.5 percent.

## DAVE'S PAGE



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Tom Peters, the legendary author of 'In Search of Excellence' and many other books on leadership and business, is quoted as saying "If you're not confused, you're not paying attention". Well, I have been paying close attention and I'll be the first to admit, I am dazed and confused by what has transpired in the energy markets the past several months. Things used to be simple when fundamental supply and demand factors were the primary drivers of energy prices. In today's environment, market dynamics are much more complex. We have to consider geopolitical issues, the threat of terrorist acts, hedge funds, speculative traders, electronic trading, El Nino & La Nina and a host of other factors. One frustrated end-user summarized his feelings at a recent energy conference stating "Now, when a cockroach crawls across a pipeline in northern Canada, the price of gas can shoot up dramatically". I feel his pain!

One lesson I have learned through this whole mess is that the financial and commodity markets are irrevocably intertwined. Federal monetary policy affects interest rates, which affects the value of the dollar, which affects crude oil prices, which can affect natural gas prices. The value of the dollar is a strong indicator of where crude oil prices are heading. As the dollar strengthens, oil prices will soften. The U.S. economy continues to show sluggish growth (1Q08 GDP was + 0.9 %), despite record energy prices and the credit crisis.

This could cause Federal Reserve Bank officials to change their focus from preventing a recession to fighting inflation by increasing interest rates the second half of 2008. All this bodes well for the dollar and should provide some crude oil relief, which could spill over into the natural gas markets. Another interesting development we are following is the Commodity Futures Trading Commission's nationwide probe into potential oil-market manipulation and their expanding surveillance of energy markets. We have seen and heard this before, but it is an election year, and politicians seeking reelection this fall are pressing regulators hard to take action in response to the meteoric rise in gasoline prices and energy prices in general.

Here is a sobering look at what the "experts" are saying about future natural gas prices:

- PIRA Energy, a highly respected energy consulting firm, increased their July '08 through March '09 Henry Hub/NYMEX price forecast last week to approximately \$14.00 per MMBTU on concerns of a widening U.S. storage deficit and major supply challenges inhibiting storage refill this summer/fall.
- Analysts at Barclays Capital are forecasting heightened volatility and stronger prices for the remainder of this year. They estimate NYMEX prices will average \$10.70 per MMBTU 2Q08, \$11.80 3Q08 and \$11.70 4 Q08. They cite lower LNG imports, robust industrial demand ( e.g, electric generation, ethanol, steel sectors) and hurricane risks as the primary price drivers.
- The Kiplinger Letter is predicting the commodities bubble (e.g., crude oil, copper, platinum, nickel, corn) will burst by midsummer, with

one glaring exception: natural gas. They feel prices this winter will stay well above \$10.00 per MMBTU.

- EnergyUSA believes that with the remaining summer '08 NYMEX strip ( i.e, 07/08 thru 10/08) currently trading at \$12.25 and the winter '08/'09 strip ( i.e, 11/08 thru 03/09) at \$12.51, we see upside potential in the \$13 to \$14 range without a catastrophe and \$15 to \$18 with a catastrophe. If we get a break from Mother Nature (i.e, mild summer, no major hurricanes in the Gulf), we see potential downside in the \$8.00 to \$9.00 range.

Conservative and moderate buyers with large remaining open positions should be ready to begin layering (25 to 33 % through Mar. '09) if the prompt month drops below the \$11.00 major support level. At a minimum, we recommend customers purchase their first layer through March '09 no later than the end of June '08, prior to the peak summer air conditioning season beginning. Waiting to purchase 100% of your winter requirements during a "fall price dip" that may or may not happen can be extremely risky, especially in this current market environment.

We realize you are facing unprecedented challenges in managing your energy budgets and it is difficult to remain calm and rational. We urge you to continue working closely with the EnergyUSA team to help you through these treacherous waters. Despite everything that is going on in the energy markets, we hope you are able to spend some quality time with friends and family, relaxing and enjoying all that summer offers.

## ABOUT ENERGYUSA

EnergyUSA is a wholly owned subsidiary of NiSource, Inc. NiSource is the largest natural gas energy company east of the Rocky Mountains. We own, operate and maintain a complete natural gas portfolio including storage, pipeline transportation and distribution to nearly 4 million customers.

EnergyUSA offers a full line of commodity and energy management products primarily focused on larger commercial and industrial customers in the Midwestern and Eastern areas of the country.

We value our relationships with customers and place high emphasis on customer satisfaction, service and education.



Through this highly popular program, EnergyUSA customers can choose to offset the carbon dioxide (CO<sub>2</sub>) emissions that result from their natural gas use by adding a contribution of \$0.25 per dekatherm to their monthly bill. Energy USA passes 100% of those donations on to The Conservation Fund's Go ZeroSM carbon sequestration program. The Conservation Fund's Go ZeroSM program makes it simple for individuals, corporations, or even entire communities to measure their CO<sub>2</sub> emissions and then offset those emissions by planting trees.



## UPCOMING EVENTS

### EnergyUSA Fall Market Updates meetings coming to a city near you!

Join us in late September as we host a series of two-hour breakfast meeting in various locations all over the Midwest. These sessions feature a market update with an emphasis on the fundamental and technical issues affecting natural gas supply and cost. We will also spend a considerable amount of time discussing successful hedging and risk management strategies. Watch this space for more details.

### New EnergyUSA website on the way

We are putting the finishing touches on our new website. The site features a everything and anything you need to manage your natural gas supply and use. Plus, you will be able to access current and historical use and billing information, all with a simple password. There should be something for everyone on the. We hope you will be able to visit us at [www.energyusa.com](http://www.energyusa.com) when the new site goes live later this month!

### Upcoming EnergyUSA Tradeshow Events

We are planning an active fall season. If attending any of these events, stop by our exhibit.

**September 29—ISBA—Indianapolis, IN**

**October 22—UPC—Sharonville, OH**

**November 5—Midwest Healthcare—Indianapolis, IN**

**November 9—OSBA—Columbus, OH**