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GAS FACTS IN BRIEF

- October Settlement Price \$7.472
- Current November Trading \$7.698
- Winter Strip '08-'09 \$8.054
- Summer Strip '09 \$8.210
- One Year Strip \$8.148
- Gas Drilling Rig Count:
DOWN 47 To 1,559 Rigs
- Gas Storage Levels:
Net Injection to 3,023Bcf
81.6% Full (vs. 3,703 Bcf)

SEPTEMBER VOLATILITY REIGNED

First of all, thanks to everyone that attended one of our 10 Market Update and Strategy Road Shows during September. The turnout was great and the feedback gratifying. If everyone that attended embraced the EUSA team, we received over 160 hugs. Again, thanks for your support. We do appreciate your attendance and your business. Mark your calendars—March 4, 2009—our Spring Conference.

October front month trading began just slightly over \$8.81 when a shocking storage injection of 102 BCF was reported. Traders responded with a resounding SELL, pushing prices down as low as \$7.72 before rebounding to \$8.05. And that was just the first day of October trading as the prompt month. The rest of the upcoming winter closed the short week at \$8.82 while next summer remained strong at \$8.71. The out years all closed in the high \$8's.

The first full week of September saw a continued decline with October bouncing off of the \$7.02 floor twice before ending the week at \$7.449. Fears of hurricane Ike prompted the late week rally as the winter closed at \$8.32, next summer at \$8.49 and the out years finished in the high \$8.60s.

Week two featured continued strength early as Ike came ashore in Texas. However, after landfall, prices relaxed and the front month ended the week down a bit at \$7.37 from the previous week. Winter also dropped to \$8.075 with next summer down to \$8.19. The out years followed closing around \$8.40.

The third full week of the month was characterized by volatility, a crazy run up led by other commodities and then a very slight dip to close at \$7.53. Winter closed at \$8.28, next summer at \$8.35 and the out years around \$8.50. These moves because, or in spite of most Gulf production remaining off line.

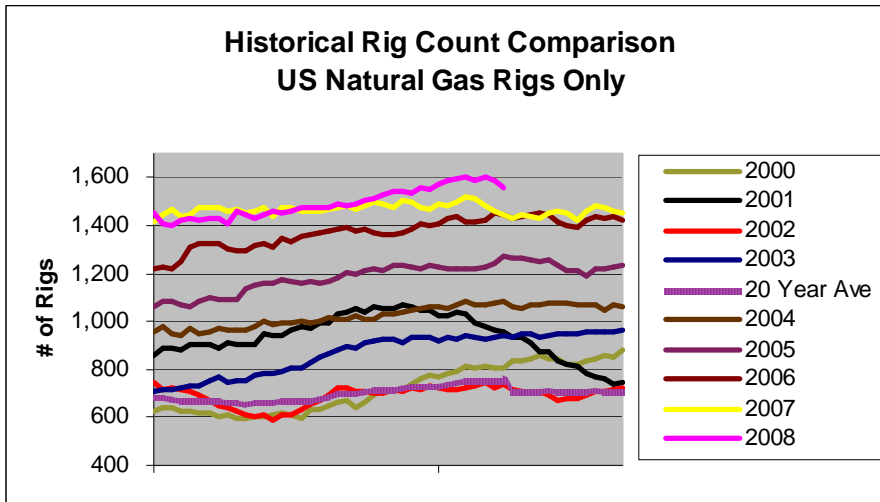
The final few trading days saw continued volatility and slightly higher prices as October finally closed at \$7.47, lower than where the month began. Winter closed at \$8.06 and summer at \$8.21, also both lower. The out years closed just a bit short of \$8.50. What a topsy-turvy, wild trading month. Hang on!

HISTORIC GAS PRICE CHART

RED TREND LINE—LINEAR GREEN TREND LINE - VOLATILITY WEIGHTED



BAKER HUGHES DRILLING RIG COUNT



Change	
Oct-08	1,559
Oct-07	1,443
Change	116
% Change	8%

vs. Last Month	
Oct-08	1,559
Sep-08	1,606
Change	(47)
% Change	-3%

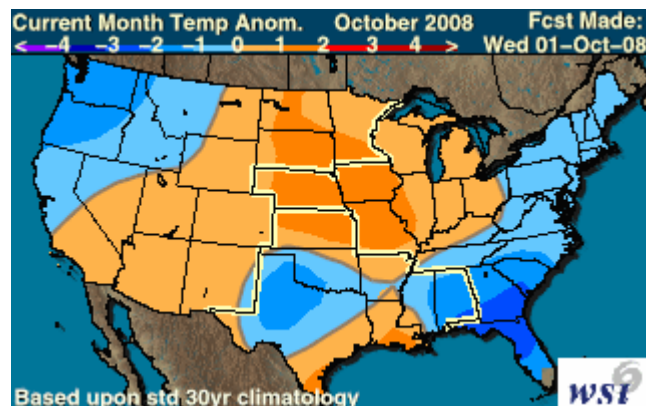
INDUSTRY TERMS—SHALE GAS

Shale gas is natural gas produced from shale. Because shales ordinarily have insufficient permeability to allow significant fluid flow to a well bore, most shales are not sources of natural gas. Shale has low matrix permeability, so gas production in commercial quantities requires fractures to provide permeability. Shale gas has been produced for years from shales with natural fractures; the shale gas boom in recent years has been due to modern technology in creating extensive artificial fractures around well bores. Horizontal drilling is often used with shale gas wells. Shales that host economic quantities of gas have a number of properties in common. They are rich in organic material, and are mature petroleum source rock. They are sufficiently brittle and rigid enough to maintain open fractures. In some areas, shale intervals with high natural gamma radiation are the most productive. Some of the gas produced is held in natural fractures, some in pore spaces, and some is adsorbed onto the organic material. The gas in the fractures is produced immediately; the gas adsorbed onto organic material is released as the formation pressure declines. A record 4,185 shale gas wells were completed in the US in 2007. Shale gas tends to cost more to produce than gas from conventional wells, because of the expense of massive hydraulic fracturing treatments required to produce shale gas, and of horizontal drilling. One study concluded that the Fayetteville (AK) shale required a NYMEX gas price above \$5.95 per MMBTU, Woodford (OK) shale a price above \$7.24 and Marcellus (NY PA OH) shale a price above \$7.00.

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

WSI
OCTOBER 2008
FORECAST



THE RISE OF NATURAL GAS POPULISM

Watching Sunday Night Football last weekend, I was intrigued to see an ad featuring Aubrey K. McClendon, the head of Chesapeake Energy, the largest independent gas producer in the country, intoning on the virtues of natural gas-fired cars.

Since the beginning of the month, readers may have also seen Mr. McClendon's face peering out from advertisements in this newspaper, as well as The Washington Post, USA Today and The Wall Street Journal. "Let's Rescue America's Economy," the ad states. "Demand Natural Gas Now!"

If it seems like Pickens redux, it's not an accident. Back in August, I wrote about Mr. Pickens's energy plan, which has itself been accompanied by a slick advertising campaign. The Pickens Plan — or Pickenomics, as I like to think of it — calls for a massive increase in the use of wind power for electricity generation, and for moving our car and truck fleets off of foreign oil and onto home-drilled natural gas.

Mr. Pickens's \$58 million campaign has included a Facebook presence, TV commercials, and an email list that has ignored repeated requests from me to unsubscribe. Mr. Pickens has a big stake in Clean Energy Fuels, the country's largest natural-gas fuels supplier, and it's certainly no surprise that Chesapeake, a natural gas producer, has hopped on the bandwagon.

While less than one percent of vehicles in this country run on natural gas, Chesapeake would substantially pad its profits if it could persuade millions of consumers to drive with the fuel — and persuade the government to subsidize infrastructure investment to make that possible.

What is interesting about the Pickens/Chesapeake twin campaigns is their direct, populist appeal. Most firms go to Washington to lobby for what they want, and there's not doubt Mr. Pickens and Chesapeake are doing their measure of that. But they are also spending millions of dollars doing things the old-fashioned way: taking their case over the heads of politicians and directly to the people — or more specifically, to consumers.

"We're a producer of this stuff. We're not in the business of building compressor units," said Tom Price, a Chesapeake spokesman. In other words, Chesapeake needs to find a way to reach ordinary Americans, who do not usually come into contact with the company. Chesapeake's goal, said Mr. Price, is to "try to inspire the consumers themselves to make contact with their legislators and say, 'Help us!'"

The New York Times, Kate Galbraith—September 26, 2008

PROSPERITY IN PIPELINES

DIMOCK TWP., PA -- The people who live among the hills of southern Susquehanna County tend to make a living from the land. They quarry stone, pasture cows and raise honeybees. In the past year, though, the natural gas trapped 7,000 feet beneath the hills has

become the most coveted harvest.

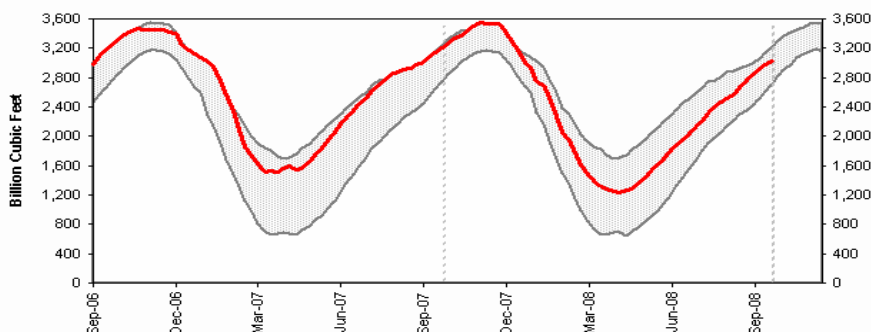
In Northeast Pennsylvania, the potential of the gas-bearing Marcellus Shale formation -- and the intensive development necessary to get to the gas -- is most visible in the small neighboring townships of Dimock and Springville. Thirteen wells have been drilled there this year, and Cabot Oil and Gas Corp., the firm exploring for gas in the towns, holds permits to drill 18 more. The exploration has made a landscape dominated by trees and fields into one dotted with 3-acre gravel drilling pads. It has made country roads into byways heavily traveled by water tankers, drilling rigs and dump trucks. It also has the potential to make many of the townships' 3,000 citizens wealthy, but because the drilling is so new, that has not happened yet.

Landowners in Dimock and Springville were among the first in the region to sign natural gas leases and so did not have the benefit of experience, widespread public information or competition to help drive up the price of the leases. Most signed with Cabot in 2006 for \$25 an acre and 12.5 percent royalty minus post-production costs -- a paltry number compared to the \$2,761.50 an acre and 16.85 percent royalty granted by Citrus Energy to Wyoming County landowners this month. For those in the townships who have gas wells on their property, the upside is that drilling is being done now.

The Scranton Times-Tribune—September 28, 2008

GAS STORAGE LEVELS

Working gas in storage was 3,023 Bcf as of Friday, September 19, 2008, according to EIA estimates. This represents a net increase of 51 Bcf from the previous week. Stocks were 162 Bcf less than last year at this time and 35 Bcf above the 5-year average of 2,988 Bcf. At 3,023 Bcf, total working gas is within the 5-year historical range.



GAS SUPPLY FACTS

FERC Authorizes First LNG Terminal on the West Coast. The FERC approved the first new liquefied natural gas import terminal and a sendout pipeline to serve the Pacific Northwest on September 18, 2008. The new LNG terminal, Bradwood Landing, would deliver up to 1.3 Bcf of natural gas per day to Georgia Pacific's Wauna Mill and Portland General Electric's Beaver Power Plant, and into intrastate and interstate pipeline systems through interconnections with Northwest Natural Gas Company and Williams Northwest Pipeline. The Bradwood Landing LNG terminal is planned to be constructed on the Columbia River in Clatsop County, Oregon.

BILL'S PAGE

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There are so many things to talk about regarding natural gas; I can't talk about it all, so, I'll try to summarize my over-riding thoughts.

Just 3 months ago, we legitimately feared \$18 natural gas. Thankfully, \$14 resistance held in June; prices fell like a rock in July... continued to erode in August... traded sideways within a relatively tight \$7 - \$8 range in September. Why?

Shale Gas: Sustained high prices in the first half of 2008 brought production out of the woodwork. Expensive supply suddenly became cost-justified. Lost Canada and LNG imports were replaced with a new unconventional domestic supply... shale gas. Note: While the Midcontinent is in the midst of an unprecedented pipeline expansion... it remains to be seen if there is enough capacity to move the shale gas from the Midcontinent to the Midwest and Northeast in a timely manner.

Mild Summer/Weak Demand: We caught a weather break... Summer 08 was 7% cooler than a year ago. Demand for natural gas-fired electric generation was down 2.6 Bcf/day in 3Q08 vs. a year ago... overall demand was down 3.6 Bcf/day... storage went from "concern" to "adequate". Beginning of Winter 08/09 inventories are now forecasted by PIRA to be 3,400+ Bcf vs. 3,500+ Bcf a year ago. Note: This forecast is 100 Bcf less than pre-hurricanes Gustav and Ike... a reminder of just how quickly storage (and other fundamentals, for that matter) can change.

Less Speculation: While it is difficult to quantify, many feel rampant speculation (in addition to the unexpected cold second half of Win 07/08; the unexpected Gulf of Mexico's Independence

Hub outage; the loss of Canada/LNG imports; the crude oil rally to record prices; the weak U.S. dollar) had much to do with the 2008 rally. This massive speculation has left the market (at least for now), liquidating a huge long position.

So... where are current prices? This winter: high-\$7's (lowest since pre-Katrina... a \$7 "handle"... wow); **Next winter: high-\$8's** (~\$1 higher than pre-Katrina, but just north of strong \$8.62 support); **Three to five-year strips: low-\$8's**... flat (remember, the market's historical inflation rate is 9% per year). These prices have "disconnected" from the rest of world, and, are a bargain compared to other fuels (oil, propane, etc).

Where are prices heading? That's a tough one. Of course, the economy is at risk and demand is down. Additionally, supply is up .5 Bcf/day in 2008 YTD vs. a year ago. So, short-term fundamentals are bearish, but be careful. Fundamentals change quickly/unexpectedly, and, they are not the only price drivers. Some thoughts:

Tight credit could impact natural gas production. Incremental, unconventional supply is expensive and requires significant capital. It establishes a floor in the \$7's. Anything lower will likely be a short-lived anomaly.

Hurricanes Gustav/Ike: It is forecasted these two hurricanes will ultimately take a total of 300 Bcf off-line. Furthermore, 56.4% of the GOM's production remains shut-in. Restoration has been slow... 1% per day.

New demand for natural gas. There is much talk of natural gas as a fuel for vehicles. Honda is now offering a CNG (compressed natural gas) Civic; Toyota will display a CNG Camry at the upcoming LA Auto Show. However, this demand won't come fast... our country is not set up for it, and won't be for years. More importantly... in the short-term, natural gas is now competitive with coal in combined-cycle turbines for electric generation.

PIRA Energy Group's latest price forecast

is calling for Winter 08/09 prices in the \$7's and \$8's... Summer 09 in the high-\$6's... next winter in the \$7's (barring unforeseen anomalies... colder-than-normal weather, disruptions, etc).

What should you be doing?

Regardless of where prices go from here (although, they are likely closer to the bottom than the top), they represent good value now.

Trading has become very light (due to less "players"... due to the financial crisis) and liquidity is low. This increases volatility. This volatility will remain... putting unhedged budgets at risk.

Conservative to moderate buyers have already protected winter 08/09.

Diversity remains a prudent strategy. It is fun to guess the bottom of the market with some of your budget... but not prudent with all of it.

This is a great market to protect (at least a part of) 2-6 years. We've waited a long time for such an opportunity. Everything has lined up.

Miscellaneous:

In case you missed our Fall Road Show, the presentations are available on our website at: http://www.energyusa.com/EnergyUSA_conference_presentations.php. You can also go to www.energyusa.com; natural gas info; conference presentations.

If the market falls after a hedge... it is, unfortunately, human nature to lament the hedge. **Remember:** 1) There was legitimate fear of \$18 just 3 months ago; 2) Risk managers had to protect themselves and their budgets from catastrophe prices; 3) **Any hedge that satisfies a budget (or other objective) is defensible.**

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 Mid-western 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 (CO₂) 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 Zero carbon sequestration program. The Conservation Fund's Go Zero program makes it simple for individuals, corporations, or even entire communities to measure their CO₂ emissions and then offset those emissions by planting trees.



TRADESHOW UPDATE

Upcoming EnergyUSA Tradeshow Events

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

October 7—CES Exhibition—Cleveland, OH

October 15,16—Pennsylvania School Show—Hershey, PA

October 20,21—MHEC - Bloomington, IN

October 22—UPC—Sharonville, OH

November 5—Midwest Healthcare—Indianapolis, IN

November 9—OSBA—Columbus, OH

February 24/25, 2009—OH Energy Conference—Columbus, OH

March 4, 2009—EUSA Spring Energy Conference—South Bend, IN