a publication of the commercial/industrial sales team

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www.EnergyUSA.com NOVEMBER | 2008 VOLUME : 07 ISSUE : 11

INSIDE THIS ISSUE

GAS FACTS IN BRIEF

- November Settlement Price $6.469
- Current December Trading $6.585
- Winter Strip '08-'09 $6.803
- Summer Strip '09 $7.096
- One Year Strip $7.042
- Gas Drilling Rig Count:

  DOWN 7 To 1,552 Rigs
- Gas Storage Levels:

  Net Injection to 3,393Bcf

  91.6% Full (vs. 3,703 Bcf)

"SOMETHING IN OCTOBER SETS THE GYPSY BLOOD ASTIR"

This last month has definitely been a time that tried our souls. Falling equity markets, dwindling credit and the mortgage meltdown have all taken their toll. The only bright spot in this whole mess has been a dramatic drop in energy prices. Not only has natural gas taken a tumble, but vehicle fuels are hitting lows unseen for years. Some stations were selling unleaded gasoline for less than $2.00/gallon last week, a level unseen since early in 2005.

Futures prices began the month on a down note, falling $.40 on news that the House failed to pass the emergency bailout plan. That first day ended at $7.221 with winter trading at $7.664 and next summer at $7.894. As the first week progressed, prices rallied on the belief that some kind of bailout would in fact happen. A healthy storage injection squashed the rally and the week finished at $7.358.

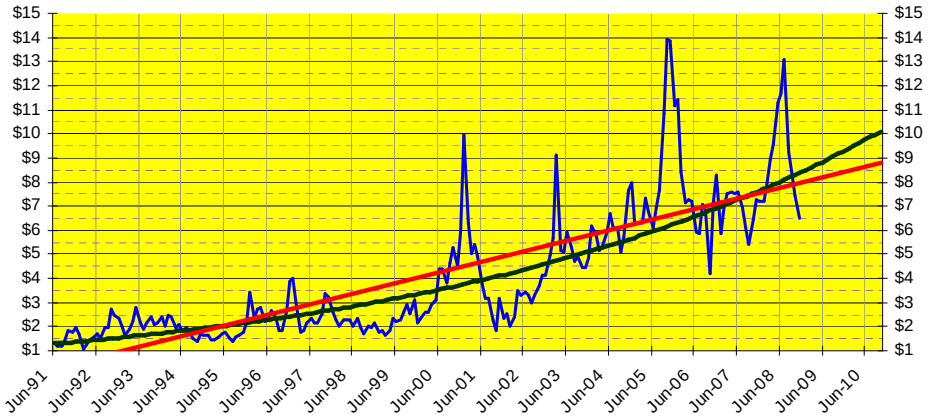
The second trading week of October began with a sharp drop as traders worried about the global economy. After trading sideways through the week, November prices finished at $6.535, it's lowest price in nearly 1 year. The upcoming winter and summer also both ended down finishing at $7.006 and $7.329 respectively.

Week 3 bounced around the high $6's, finally closing November at $6.786 for the week. The upcoming winter was a bit stronger finishing at $7.153 while the summer followed suite ending at $7.303. Had we seen the bottom and were prices rallying?

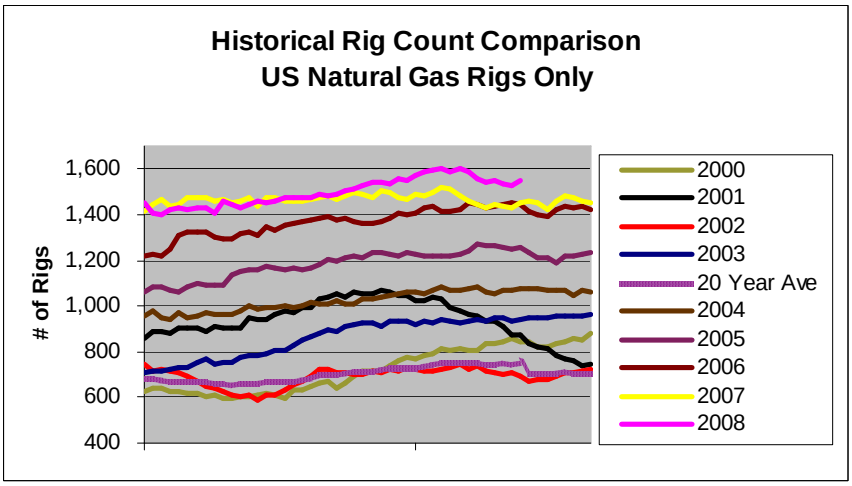
NO! After beginning with a brief rally north of $7, prices began to drop in earnest, falling throughout the 4th week. After trading as low as $6.15, November ended the week at $6.239. The winter and summer strips saw similar drops. The November contract finally expired at $6.469, $1.159 lower than the previous expiration. The winter strip finished at $6.892 while the summer ended at $7.232. The gypsy blood is boiling!

HISTORIC GAS PRICE CHART

RED TREND LINE—LINEAR GREEN TREND LINE - VOLATILITY WEIGHTED



BAKER HUGHES DRILLING RIG COUNT



Change	
Nov-08	1,552
Nov-07	1,455
Change	97
% Change	7%

vs. Last Month	
Nov-08	1,552
Oct-08	1,559
Change	(7)
% Change	0%

INDUSTRY TERMS—TAXES

Government authorities are becoming increasingly creative in their quest to increase revenues. This month, some common energy taxes:

Ad Valorem Tax - A charge levied on persons or organizations based on the value of transaction. It is normally a given percentage of the price at the retail or manufacturing stage and is a common form of sales tax; e.g. federal excise tax on new trucks and trailers.

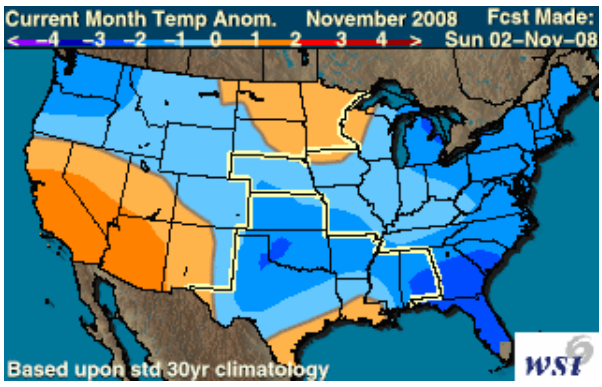
Gross receipts taxes - A tax with a simple structure, taxing all business sales with few or no deductions. Because they tax transactions, they are often compared to retail sales taxes. However, they differ in a critical way. While well designed sales taxes apply only to final sales to consumers, gross receipts taxes tax all transactions, including intermediate business-to-business purchases of supplies, raw materials and equipment. As a result, gross receipts taxes create an extra layer of taxation at each stage of production that sales and other taxes do not—something economists call “tax pyramiding.”

Energy Severance taxes—taxes levied upon the production of oil and natural gas—have long been popular with state governments. Such taxes are thought to have minimal impact upon the areas where wells are located, the costs of such taxes can be “exported” to a large and dispersed consumer base in other states, and an oil or gas well can not be moved to another state where taxes are lower.

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 NOVEMBER 2008 FORECAST



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ENERGY NEWS

RUSSIA PUSHES AN "OPEC" FOR NATURAL GAS NATIONS

The nations with the world's three biggest reserves of natural gas – Russia, Iran, and Qatar – are quietly moving ahead to form a "gas OPEC," an organization modeled after the oil cartel.

In Tehran last week, representatives of the Russian natural-gas monopoly Gazprom met with counterparts from Iran and Qatar and agreed to create "a big gas troika." The group will meet quarterly to discuss pricing and supplies. Between them, these three countries hold an estimated 55 percent of known global gas reserves. The new cartel plan may be finalized Nov. 18, when Russia hosts a forum of gas-exporting countries in Moscow, including possible additions to the group such as Algeria, Indonesia, Libya, and Venezuela.

As global energy prices plunge, cooperating with the Organization of Petroleum Exporting Countries (OPEC) to stabilize markets has gained fresh traction in the Kremlin while the long-discussed idea of creating a "gas OPEC" of leading producers is suddenly getting a big push from Moscow. Russia has earned huge profits in recent years amid soaring prices for its key exports, mainly oil and gas, which have enabled the government to accumulate significant currency reserves, now at $530 billion. Russia is one of the world's largest oil exporters, accounting for about 12 percent of the global supply.

Russian President Dmitry Medvedev hosted OPEC's Secretary-General Abdalla Salem el-Badri last week and announced that Russia will henceforth interact with the global oil cartel as a "key area of Russia's energy policy aimed at maintaining stable and predictable prices," in the petroleum market. Of course, energy industry experts point out that OPEC has never been very good at controlling oil prices and that Moscow's newfound interest in the group may reflect the Kremlin's shifting global political strategies.

Many experts also say that even if Moscow does succeed in creating a gas cartel, the gas market is different than the oil market. Most supplier-customer relationships are locked in by expensive pipeline infrastructure and long-term contracts. Russia now provides about 20 percent of Europe's natural gas and is making huge investments in two new pipelines: Nord-stream, which will connect Russia with Germany via the Baltic Sea, and South Stream, which will run from Russia's Black Sea coast to Bulgaria and southern Europe. But Russia and other gas producers may see a way to change the dynamic. Emerging liquefied natural gas (LNG) technology, of which Qatar is a pioneer, makes the gas a more easily traded commodity, like oil. Currently about 8 percent of natural-gas supplies are delivered in LNG form, but that will grow in the future. Russia is close to completing a big LNG facility at Gazprom's Sakhalin-2 project on Russia's Pacific coast, and Gazprom is reportedly mulling construction of another near St. Petersburg.

The Christian Science Monitor, Fred Weir—October 30, 2008

MARCELLUS NATURAL GAS ESTIMATE SWELLS

The Marcellus Shale region of Western Pennsylvania and bordering states could contain more than double the amount of recoverable natural gas than initially thought, a Pennsylvania State University professor who is a nationally known authority on the topic said Friday.

Terry Engelder's revised outlook is sure to expand the level of strong interest in what lies beneath the Allegheny Mountain area. Dozens of locally based and out-of-town energy producers are leasing acreage in the region and drilling into land that was an inland sea 350 million to 400 million years ago.

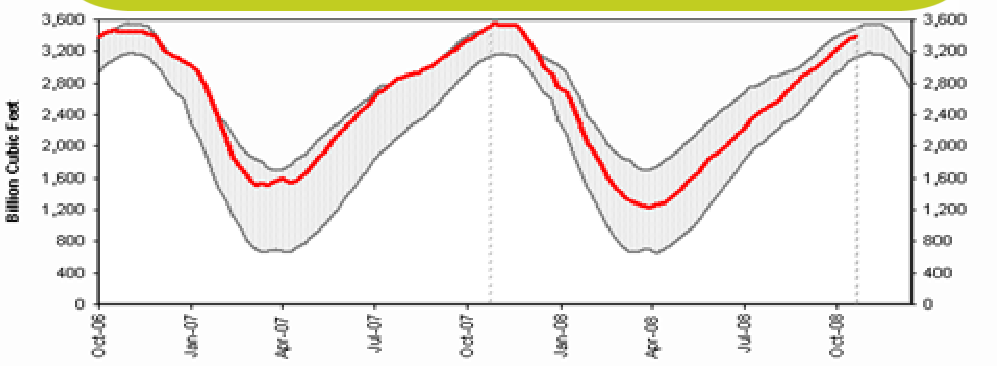
Engelder based his new estimate that up to 392 trillion cubic feet of the fuel could be captured over the next few decades on numbers from Chesapeake Energy Corp., one of the largest stakeholders in the Marcellus area.

"Geologists are still attempting to size this play. We don't know yet how much gas is there, and how much can be recovered," said Engelder, a professor of geologic science who has studied Appalachian shale formations for more than 30 years. He first gave his new numbers this week in Pittsburgh, at a conference on Appalachian gas sponsored by energy information firm Platts.

Pittsburgh Tribune-Review, Kim Leonard—November 1, 2008

GAS STORAGE LEVELS

Working gas in storage was 3,393 Bcf as of Friday, October 24, 2008, according to EIA estimates. This represents a net increase of 46 Bcf from the previous week. Stocks were 97 Bcf less than last year at this time and 97 Bcf above the 5-year average of 3,296 Bcf. At 3,393 Bcf, total working gas is within the 5-year historical range.



GAS SUPPLY FACTS

On October 23 Canada's National Energy Board predicts that conventional natural gas production is expected to decline by about 7 percent by 2010. However, development of shale and tight gas prospects in northeast Canada could offset the decline of natural gas conventional production. Natural gas prices in western Canada would need to be approximately between $6 and $7 (U.S. dollars) per MMBtu in order to maintain or advance current drilling levels.

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DAVE'S PAGE

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As I write this article on this beautiful Halloween morning, I'm wondering if the equity and energy markets will give us a trick or a treat. September/ October 2008 sure have been chaotic and terrifying months. We've witnessed the demise of Wall Street giants Lehman Brothers and Merrill Lynch, an $ 85 billion emergency federal bailout of AIG, 0.3% decline in GDP 3Q08 and gut-wrenching loss in the stock market. Gee, I'll be glad to turn the calendar to November !!!! As the old saying goes though: Where there is chaos, there is opportunity !!! Angst and fear regarding the possibility of a prolonged U.S. recession and bearish fundamentals (i.e, mild weather, weak crude oil prices, strong inventory levels, booming domestic supply growth) have pushed natural gas prices significantly lower. We haven't seen prices this low since 2004/2005.

There's no question that is an excellent longer-term buying opportunity for all but the most aggressive end-users. If you are currently un-hedged and waiting to try to catch the market bottom, you may want to seriously rethink that strategy. As we've mentioned here before, this type of buying strategy can be extremely risky and stressful. Markets always tend to overreact and exaggerate on the way up and on the way down. This certainly was the case earlier this year when natural gas prices peaked above $ 13.50 per MMBTU just prior to the 4th of July holiday.

Barring a complete global economic meltdown in 2009, here are some reasons we feel natural gas prices are close to carving out a bottom:

- With winter weather knocking at the door, weekly storage reports will switch from injections to withdrawals very soon. The first arctic blast will cause natural gas prices to strengthen. .
- MDA EarthSat, a private weather forecasting firm based in Maryland we work with, is predicting that this winter will be the coldest in the continental U.S. in five years (Dec. '08 thru Feb. '09 being 1.5% colder than last year).
- Several large exploration and production companies have recently announced they are shutting in production and slashing their 2009 drilling budgets due to the precipitous drop in prices. Some analysts are forecasting a reduction in rig count of 200 to 400 (i.e, a drop of 12.5% to 25% from the current level of approx. 1525 active rigs).
- The credit crunch will make it more costly and difficult for smaller E & P companies to support aggressive drilling activities. Many of these companies have land lease and equipment rental expenses and their operating costs will be higher in the post-bailout environment.

Non-commercial traders (e.g. hedge funds and speculators) have established a near record short position in natural gas futures (i.e., a net short position of 172,132 contracts as of 10-21-08). Once these traders begin buying to cover their positions, we could see a significant price rally (i.e, short-covering rally).

Market bottoms almost always take longer to form than tops. At this point, the upside price risk is far greater than the downside risk. The best advice I can offer comes from billionaire Warren Buffet: "Be fearful when others are greedy and greedy only when others are fearful". In this case, being greedy simply means you should be a buyer in a sharply declining market permeated by fear, similar to the one we're currently in. In the casino of energy trading and hedging, we've hit the jackpot with all three bars aligned—fundamentally, technically and psychologically. Now is your chance to turn chaos into opportunity.

We hope all of you are able to relax with family and friends during the Thanksgiving holiday. Thank you for trusting us to serve your natural gas needs.

PROCESS HEATING TRAINING

YOU ARE INVITED . . .

EnergyUSA has teamed up with the Purdue Technical Assistance Program (TAP) and the U.S. Department of Energy to host a U.S. DOE Qualified Specialist training workshop in Indianapolis November 18th and 19th.

If your facility uses large amounts of natural gas or other fuel in its processes, you should consider this workshop. The Process Heating Assessment & Scoping Tool (PHAST) workshop and software tool will enable you to optimize the use of fuel in your ovens and furnaces. With guidance from our DOE Qualified Instructors, you will learn to use the PHAST software tool to model your system and identify opportunities to reduce energy costs.

Would reducing natural gas consumption by 1-5% help your bottom line? If the answer is "yes!", they you should definitely attend this workshop!

To register, call Stephanie at TAP—765-494-1882 or email her— stephb@purdue.edu

Process Heating System Specialist Qualification

industrial training workshop

Indiana Wesleyan University
West Building – Intech Park
6325 Digital Way
Indianapolis, IN 46278
Room 229

November 18-20, 2008

Overview

The U.S. Department of Energy (DOE) in cooperation with the Industrial Heating Equipment Association (IHEA), a DOE Allied Partner, has developed a Process Heating training program. This program includes introduction to the Process Heating Analysis and Survey Tool (PHAST) software and training in its use for industrial heating systems in all major industries. The PHAST tool is designed to survey and analyze energy use in industrial furnaces and investigate available options to increase thermal efficiency of these furnaces.

IHEA and the local sponsor of this workshop are supporting DOE efforts for a two and a half -day workshop and qualifying examination that seeks to recognize industry experts (suppliers, consultants, and expert users of process heating systems) as Qualified PHAST Specialists to ensure the best possible training for the use of PHAST. DOE recognizes Qualified PHAST Specialists for their ability to apply the PHAST tool with industrial users. Attendees who successfully complete the workshop and qualifying exam will become Qualified PHAST Specialists and are qualified to conduct processes heating energy saving assessments. The workshop is open to individuals with substantial knowledge of process heating systems and who are interested in taking a rigorous qualifying exam.

Instructors

Dr. Arvind Thekdi has over 30 years of experience in design and development of furnaces used by all major industries. His area of expertise includes design and application of combustion and heating systems, waste recovery systems, emission (NOx) reduction systems and use of combined heat and power systems for process heating applications.

Dick Bennett is President of Janus Technology Group Inc., consultants specializing in technical assistance and education in the industrial process heating field. He has been in the industrial combustion industry since 1965. He has long been active as an industry spokesperson and trainer. His column, "Energy Notes" is a regular feature in Process Heating Magazine. Dick holds a B.S. in Metallurgical Engineering from Rensselaer Polytechnic Institute. He's a member of ASM International, the Air and Waste Management Association, SME and NFPA. He is a Qualified Instructor in the U. S. Department of Energy's BestPractices PHAST Program.

Agenda

Tuesday, November 18

7:30 am Continental Breakfast and Registration

8:00 -11:30 am Morning Session
- Introduction and Purpose
- DOE and IHEA Presentations
- Review of Processes and Equipment Used in the Industry
- Process Heating Basics

11:30 am - 12:30 pm Lunch

12:30 - 5:00 pm Afternoon Session
- Efficiency Improvements for Industrial Process Heating Equipment
- PHAST Overview
- PHAST (Installation and Orientation)
- Question and Answer Session, Feedback, and Begin Homework Assignment

Wednesday, November 19
7:30 am Continental Breakfast

8:00 -11:30 am Morning Session
- Plant Visit and Data Collection by the attendees on Industrial Process Heating Equipment

11:30 am - 12:30 pm Lunch

12:30 - 5:00 pm Afternoon Session
- What is Behind PHAST?
- PHAST Data Collection Equipment
- Furnace Measurements
- Individual work on Homework Assignment

Thursday, November 20

8:00 am - 12:00 pm Morning Session
- PHAST Working Session
- Question and Answer Session and Feedback
- Qualifying Examination (1.75 hours)
  1) Process Heating Technical Knowledge
  2) PHAST: Selected Industry Survey Simulation
- Feedback, Discussion, and Evaluation

12:00 pm - Optional Lunch

Course Requirements

- Prior Knowledge of commonly used terms for heating system terminology and familiarity with industrial heating equipment (furnaces, ovens, heaters, melters, etc.).
- Laptop computer with Windows 2000 or XP operating system installed. In some cases it may be necessary to contact your company IT personnel to allow downloading of PHAST and associated data base (MS Access Files).
- Microsoft Office with MS Access 2000 (or higher) Software installed on the computer to allow use of PHAST data base and file transfers.
- Please download software from: www1.eere.energy.gov/industry/bestpractices/software.html
- You will be asked to register before you can proceed to the software download; both registration and software are free of charge.

Co-sponsored by:

citizens energy group

PURDUE UNIVERSITY TECHNICAL ASSISTANCE PROGRAM

EnergyUSA

Accommodations

A block of rooms has been reserved at the Wingate hotel for the rate of $75.00 per night plus tax. Please ask for the PURDUE MEP block of rooms. Reservations can be booked at the reduced rate until October 20, 2008.

To reserve a room visit: http://www.wingatehotels.com/Wingate/control/Booking/property_info?propertyId=12931&brandInfo=WG

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.

Go Zero with EnergyUSA
Reduce Your Carbon Footprint

Through this highly popular program, EnergyUSA customers can choose to offset the carbon dioxide (C02) 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 C02 emissions and then offset those emissions by planting trees.

WELCOME TO THE TEAM—MATT TUPTA

Please welcome Matt to the EnergyUSA team. Matt joins us to manage customer accounts in Illinois and Ohio. His experience includes a variety of energy related positions beginning in 2004. Matt and his family relocated to Indiana from Wisconsin. Matt is an avid runner and recently completed the Chicago Marathon, finishing 133rd out of 31,343 runners in the time of 2:43:53. Amazing considering that there are times when you can't drive 26.2 miles in Chicago in under 3 hours! Matt can be reached at 219-853-5288 or emailing mtupta@nisource.com.

TRADESHOW UPDATE

Upcoming EnergyUSA Tradeshow Events

If attending any of these events, stop by our exhibit.

November 5—Midwest Healthcare—Indianapolis, IN
November 9—OSBA—Columbus, OH
February 24/25, 2009—Ohio Energy Conference—Columbus, OH
March 4, 2009—EUSA Spring Energy Conference—South Bend, IN