a publication of the commercial/industrial sales team

BURNERTIP

SUPPLY › SERVICE › SATISFACTION ›

www.EnergyUSA.com DECEMBER | 2008 VOLUME : 07 ISSUE : 12

INSIDE THIS ISSUE

Gas Facts in Brief

- December Settlement Price $6.888
- Current January Trading $6.424
- Winter Strip ‘08-’09 $6.447
- Summer Strip ’09 $6.719
- Cal ’09 Strip $6.789
- Gas Drilling Rig Count:

  DOWN 109 To 1,443 Rigs
- Gas Storage Levels:

  Net Withdrawal to 3,422Bcf

  92.4% Full (vs. 3,703 Bcf)

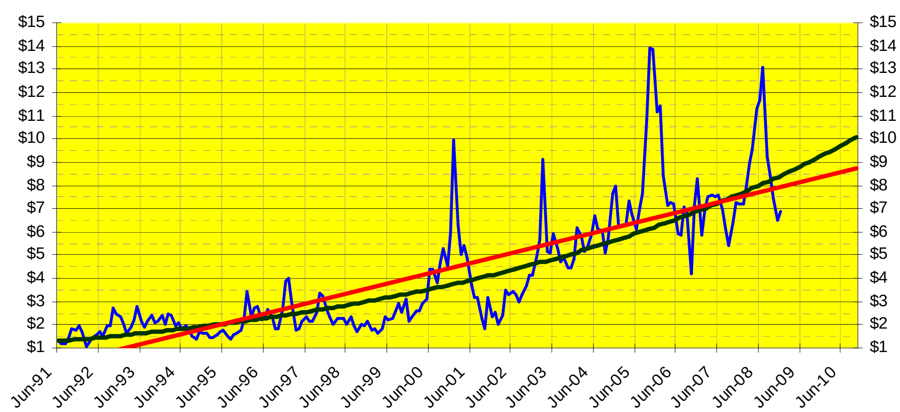
Merry Christmas

Compared to the last few months, November gas markets were actually rather calm. The month opened trading at $6.431, down a bit on weekly storage injections that were stronger than anticipated. Next summer traded at $6.998 while the remaining winter strip traded at $6.678. All very attractive considering where the market has been in 2008. Throughout the month, the fronts and the strips all moved within a relatively narrow band—trading as low as the mid $6’s and as high as the low $7’s. When the dust finally cleared and the month settled on November 24, prices finished towards the top of that trading range. November closed at $6.88, surging $.40 on cold weather forecasts. Next summer finished at $7.005 and the remaining winter strip closed at 6.843. The out years, year 3, 4 and 5, all closed in the $7.70 range.

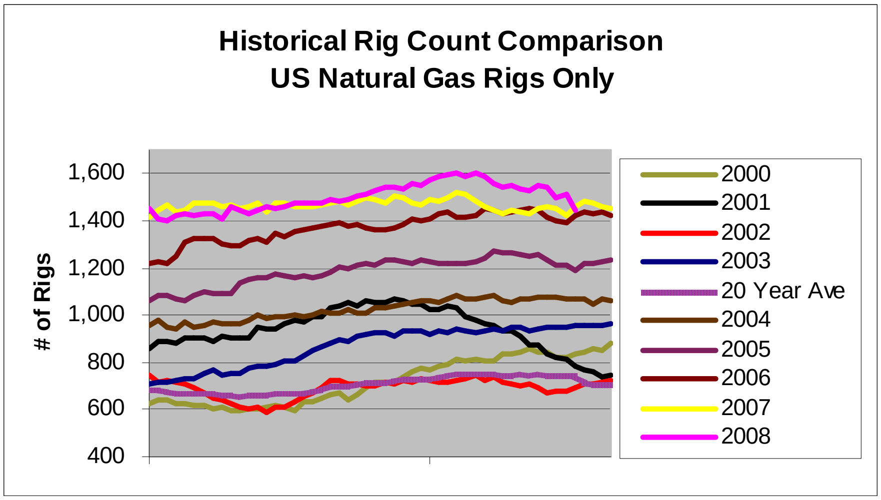
Please accept our sincere wishes for a happy, safe and productive holiday season. Continuing economic turmoil places an extra burden on all of us this year. Remember that EnergyUSA is always here to help you weather the storm. We have a vested interest in your success and have many resources available to help you enhance your energy efficiency and minimize your energy cost. We truly consider ourselves your energy partner and when you hurt, we hurt too! Give us a call anytime.

HISTORIC GAS PRICE CHART

RED TREND LINE—LINEAR GREEN TREND LINE - VOLATILITY WEIGHTED



BAKER HUGHES DRILLING RIG COUNT



Change	
Dec-08	1,443
Dec-07	1,463
Change	(20)
% Change	-1%

vs. Last Month	
Dec-08	1,443
Nov-08	1,552
Change	(109)
% Change	-7%

INDUSTRY TERMS—ETHANOL

Ethanol: A clean-burning, high octane, renewable fuel additive made from grain or other biomass sources.

Dry Mill: An ethanol production process in which the entire corn kernel is first ground into flour before processing. Dry mills also produce dried distillers grains with solubles (DDGS), which is fed to livestock, and carbon dioxide which is used in food processing and bottling. Most new ethanol plants are dry mill facilities.

Wet Mill: An ethanol production facility in which the corn is first soaked or “steeped” in water before processing. Wet mills also have the ability to produce co-products such as industrial starch, food starch, high fructose corn syrup, gluten feed, and corn oils.

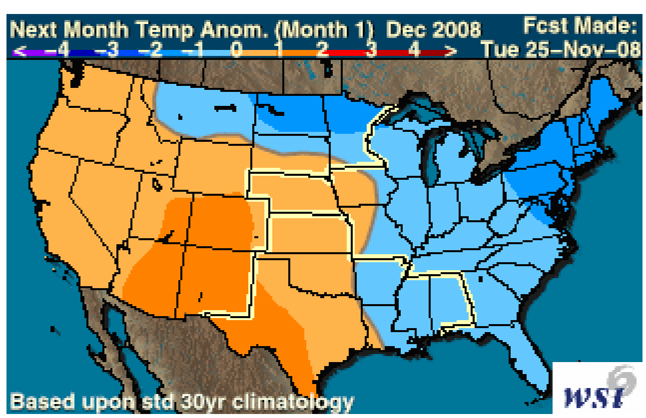
Oxygenated Fuels: A fuel such as ethanol-blended gasoline that contains high oxygen content is called "oxygenated." Ethanol is an oxygenate, meaning that it adds oxygen to the fuel mixture. More oxygen helps the fuel burn more completely, thereby reducing the amount of harmful emissions from the tailpipe.

Net Energy Balance: The difference between the energy produced and the energy it takes to produce it. Ethanol backers claim that the fuel has a net energy balance of 1.67 to 1, meaning that for every 100 BTUs of energy used to make ethanol, 167 BTUs of ethanol are produced. The USDA claims a 1.24 to 1 balance while studies from MIT, Berkeley and others actually show a net negative balance.

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 DECEMBER 2008 FORECAST



EnergyUSA®
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ENERGY NEWS

COMPANIES KEEP DRILLING FOR NATURAL GAS IN THE EAST

Illuminated drilling rigs glow for miles from atop flattened hills when night falls in this rolling farm and coal country in southwestern Pennsylvania. Tanker trucks back up traffic on two-lane roads, and Texans wearing heavy coats and muddy boots fill Shelley's Pike Diner at lunch as land owners hope royalty checks will make them rich. The deteriorating economy and a drop in natural gas prices has slowed a rush to snap up mineral rights to the thick, black rock called Marcellus shale, which stretches deep underground from West Virginia to New York state and could become the nation's most prolific natural gas reservoir.

But drilling goes on as exploration companies seek to make their investments pay off, changing places like Houston, an old iron and steel town near Pittsburgh which has become the epicenter of the exploration boom. Even amid the nation's economic troubles, the companies have a powerful incentive to keep going. Natural gas produced and sold in the East commands a higher dollar than the gas now extracted and transported from fields in Texas, Louisiana and other mid-continent states.

"It's in the middle of the best place in the world to sell gas," said John Pinkerton, chairman and chief executive of Range Resources Inc. of Fort Worth, Texas. Range Resources and several other major players say they even plan to increase their drilling in 2009, helping the Marcellus shale region avoid the bigger pullbacks happening in other, more established gas fields in places such as Texas and the Rocky Mountains.

So far, no more than several dozen wells have been hooked up to pipelines that carry the gas to customers, said Penn State University geoscientist Terry Engelder. But that number could climb into the hundreds within a year, as companies extend pipelines and hook up the more than 400 wells that officials in West Virginia and Pennsylvania say are completed or almost complete.

Range Resources and Pittsburgh-based Atlas Energy Resources LLC have drilled nearly all of their 200-plus Marcellus shale wells in southwestern Pennsylvania, and many more are in the works. The massive gas formation is trapped 5,000 to 8,000 feet underground in an area covering more than 50,000 square miles - about the size of Greece - and stretching across New York, Pennsylvania, Ohio and West Virginia. The industry has long known about the gas in the Marcellus shale but it wasn't until gas prices rose and a new shale-drilling technology was proven in Texas over the past decade that companies decided it was profitable to pursue.

Exploration of Marcellus shale is in the early stages as companies work to identify the best drilling prospects. It could be five or 10 years until production is fully engaged because there is a relative dearth of gas pipelines, rigs and trained workers in Appalachia to support the deeper, horizontal wells needed to extract gas from shale.

Perhaps the biggest bet is being made by Range Resources. The company has invested $700 million in the formation already, including a processing station just outside Houston that it brought online in October. "Spending $700 million on one R&D project is a fairly risky thing to do, so we need to start making a return on investment," Pinkerton said. "It's time to put up or shut up." Range Resources is reporting about 30 million cubic feet flowing from its Marcellus shale wells compared with the more than 50 billion cubic feet flowing from U.S. wells each day.

The Associated Press—November 28, 2008

SHELL WARNS ON GAS SUPPLIES TO NIGERIAN LNG

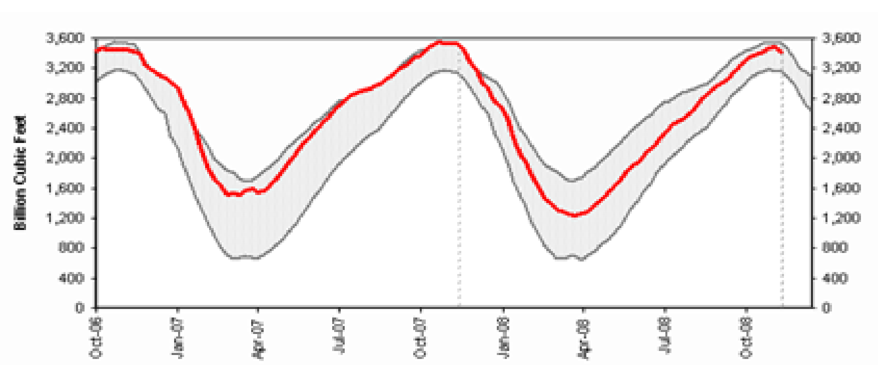
Royal Dutch Shell declared force majeure on gas supplies to Nigeria Liquefied Natural Gas Ltd on Thursday after it shut down its Soku gas plant to repair pipelines damaged by thieves.

"In recent months the number of illegal connections on pipelines has increased significantly and they are encroaching on the Soku plant itself, increasing safety risks to an unacceptable level," Shell's Nigerian subsidiary SPDC said in a statement.

Reuters—November 27, 2008

GAS STORAGE LEVELS

Working gas in storage was 3,422 Bcf as of Friday, November 21, 2008, according to EIA estimates. This represents a net decline of 66 Bcf from the previous week. Stocks were 109 Bcf less than last year at this time and 88 Bcf above the 5-year average of 3,334 Bcf. At 3,422 Bcf, total working gas is within the 5-year historical range.



GAS SUPPLY FACTS

A new USGS assessment estimates that there are 85.4 trillion cubic feet (Tcf) of undiscovered, technically recoverable gas from natural gas hydrates on the Alaskan North Slope. The USGS assessment is the first-ever resource estimate of technically recoverable natural gas hydrates, which are naturally occurring, ice-like solids in which water molecules trap natural gas molecules in a cage-like structure known as a clathrate. Of the estimated 85.4 Tcf of gas within hydrates on the North Slope, 56 percent occurs on federally managed lands, 39 percent on lands and offshore waters managed by the State of Alaska, and 4 percent on Native Alaskan lands. Conventional undiscovered, technically recoverable gas resources on the North Slope of Alaska are estimated at 119.15 Tcf.

BILL'S PAGE

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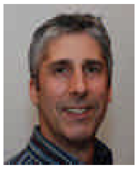

I drove by a gas station this morning… $1.63 unleaded. It's hard to believe… in May, Chrysler was enticing new car buyers with $2.99 unleaded for 3 years. Autoblog even wrote, "This is one (heck) of a deal, if it doesn't drive Chrysler into bankruptcy, which is a distinct possibility. Because there is no way of knowing what fuel costs will be over the next three years, Chrysler can't estimate the cost." Agreed. Most of us feared much higher unleaded prices and saw this promotion as an opportunity for new car buyers to lock in a good price; avoid risk; protect the family budget.

So, did new car buyers that took advantage of Chrysler's offer make an imprudent, ill-advised decision? No. Sure, $2.99 is high relative to today's anomaly low price, but it was a prudent, defensible risk management decision at the time. Why? 1) A fixed sub-$3.00 price was a great price (and may be again by the end of the term), and, 2) It served to protect family budgets from catastrophic unleaded prices. As I've said before, buying homeowner's insurance wasn't imprudent because the house didn't burn down. Most families just couldn't have accepted the risk of being uninsured.

With that said, there has been an astounding volume of NG hedged in the U.S. since late-July. It is frustrating for hedgers to watch prices continue to fall… sort of like getting a great deal on a new car, only to see it offered for even less shortly thereafter. Does that make the hedge (or the purchase of the new car, for that matter) imprudent/ill-advised? No. In the case of the hedge, it was made for 1 of 3 reasons: 1) To lock a price that represented good value; 2) To assure a budget was set, met, beat; 3) To reduce/eliminate the risk of a budget-busting price rally. Remember why you did what you did.

So, where are prices at this time? The remaining Win 08/09 is $6.65; Sum 09 $6.90; Win 09/10 $7.90; Sum 10 $7.55; 3 to 5 years strips… all in the mid-$7's. But, where are prices heading? Opinions vary, with smart people in both bullish and bearish "camps". Please allow me to summarize some of their thoughts:

~ Jim Duncan of ConocoPhillips: In the short-term supply, the U.S. dollar, global equities, U.S. equities, and technicals are bearish. However demand, weather, inventories, and sentiment are bullish… making the overall short-term market view bullish… with a high risk/reward in his opinion.

~ PIRA Energy Group: In the medium-term, Canadian gas and speculation are bullish. However, U.S. production, storage levels, the economy, electric generation, industrial demand, and R/C heating are bearish… for a bearish Cal 09 price forecast. They call for prices in the low-$5's to low-$6's.

~ Strategic Energy and Economic Research: According to Ron Denhardt on November 25th, "Unless there is extremely cold weather worldwide, U.S. gas prices are likely to average well below $7/MMBtu during (Cal 09)." He predicted a range of around $5/MMBtu to $8/MMBtu.

~ Energy Solutions: "Though ongoing economic distress will put substantial downward pressure on commodity prices, natural gas could nevertheless experience increased demand starting as early as next year." For now, the price range should be $6 - $8/MMBtu, with periodic short-lived dips below $6.

~ Wood Mackenzie: "U.S. natural gas is in for "a prolonged period of significant weakness" and will trade in a range of $5-6/MMBtu for the next five years…" "We are now in a position of significant potential oversupply brought about by the huge success experienced in the development of shale gas plays."

~ BNP Paribus: "This market is very difficult to predict…" They feel prices are range bound between $6.00 and $7.00 at this point in time.

If, in fact, the consensus is bearish (due primarily to the global economy and domestic shale gas), there are several wildcards that warrant attention/consideration: 1) Drilling- Tight credit and low prices are pulling the rig count down. Barclay's Capital feels sustained sub-$7 prices will pull the rig count below the level necessary to keep supply flat with demand, while Chesapeake Energy feels the rig count will fall 300-500; 2) Dec Weather- Some forecasters are calling for temperatures 20-30 degrees below normal… similar to '89. Remember, 6 cold weeks last winter wrecked havoc on storage, and ultimately contributed to runaway NG prices; 3) Electric Demand- Duke Energy's 3Q08 Midwest sales were down 5.9%... Duke Energy's 3Q08 Carolina sales were down 4.3%... AEP's 3Q08 sales were down 3.3%; 4) The Obama Administration- Their stance on off-shore drilling, Alaska drilling, coal and nuclear electric generation, carbon emissions, etc. are generally felt by the industry to be bullish for NG prices.

Where to go from here?

~ Conservative risk managers have likely hedged 100% of their medium to long-term NG needs. If so, they have the safety/security of knowing what they will pay, and of knowing their budgets are protected for awhile (likely at good pricing levels). They can now concentrate on other pressing, non-NG matters. However, it may behoove them to consider extending their current term by 1-2 years.

~ Moderate risk managers have likely hedged most or all of Win 08/09, some - most of Cal 09/Cal 10. It would behoove them to review their position and determine whether or not to enhance that position with current prices (which likely represent levels they have been waiting/hoping for). It may also behoove them to consider extending their term by 1-2 years with a partial hedge (25-33%).

~ Aggressive risk managers have likely hedged some of Win 08/09 and Cal 09. As stated above, it would behoove them to review their position and determine whether or not to enhance/extend that position with current prices. However, given the bearish consensus, aggressive risk managers may want to lean toward waiting/watching at this point in time (but continue to pay close attention).

Remember, end-users are naturally short in the market. So, doing nothing is shorting the market… essentially taking the position the market will fall further. I believe current low prices, continued volatility, and a number of wild cards "screams" continue to diversify.

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.

TRADESHOW UPDATE

Upcoming EnergyUSA Tradeshow Events

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

February 24/25, 2009—Ohio Energy Conference—Columbus, OH
March 4, 2009—EUSA Spring Energy Conference—South Bend, IN

WE'RE MOVING!

During the first quarter of 2009, EnergyUSA will be moving into new office space. We are relocating to Merrillville, Indiana, adjacent to our NiSource corporate parent's corporate offices. As the details are finalized later this month, we will share our new address and contact information with you.

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