

BURNERTIP

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JUNE | 2009

VOLUME : 08 ISSUE : 6

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GAS FACTS IN BRIEF

➤ June Settlement Price	\$3.538
➤ Current July Trading	\$4.057
➤ Summer Strip '10	\$6.156
➤ Winter Strip '09 - '10	\$5.809
➤ Remaining Cal '09 Strip	\$4.626
➤ Gas Drilling Rig Count: DOWN 39 To 703 Rigs	
➤ Gas Storage Levels: Net Injection to 2,213 Bcf 59.8% Full (vs. 3,703 Bcf)	

AND WHAT IS SO RARE AS A DAY IN JUNE?

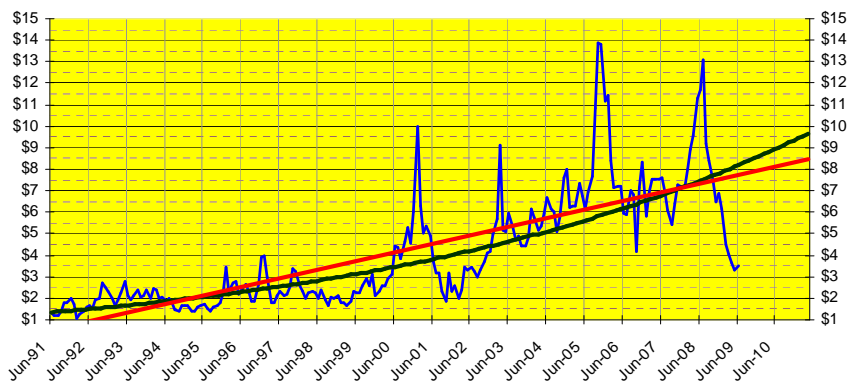
Then, if ever come perfect days. *James Russell Lowell*

Hopefully, June days will be closer to perfection than those that came before. There are good signs and bad still abundant. Many economists see the bottom of this downturn even as bankruptcies and layoffs continue to dominate the news. The energy industry also continues to send conflicting signals. We are seemingly awash in natural gas, causing a dramatic drop in drilling activity and producing record seasonal storage levels. However, many industry pundits are already calling for shortages as soon as this winter. And, we all know what happens when markets begin to sense a shortage. The June futures price exhibited these conflicts during the final month. The month started trading at \$3.40 and slowly ticked up and up and up, reaching a peak of \$4.575 on May 13. Weak economic news and strong storage injections failed to support a continued rally and prices began a gradual descent back to where they started. The month finally closed with a whimper at \$3.538, less than dime and a nickel from where the month began. In between—lots of drama and over a buck on the table.

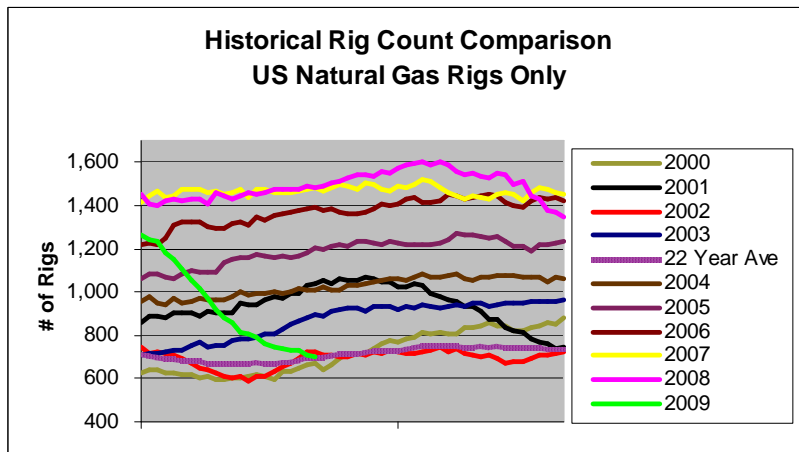
Please take a careful look at The “Page” this month as we try to make some sense of what the market is telling us. Remember, we are here to help.

HISTORIC GAS PRICE CHART

RED TREND LINE—LINEAR GREEN TREND LINE - VOLATILITY WEIGHTED



BAKER HUGHES DRILLING RIG COUNT



Change	
Jun-09	703
Jun-08	1,479
Change	(776)
% Change	-52%

vs. Last Month	
Jun-09	703
May-09	742
Change	(39)
% Change	-5%

PLACING A BUY ORDER?

When you get ready to buy natural gas, you have several options. Two of the more common order types are a "limit order" or a "market if touched order."

Market Order— A buyer places an order to purchase gas at the current "market" price that gas is trading for at that time.

Market If Touched Order— A buyer places an order to purchase gas if prices "touch" a specified price level. Once the market touches that point, the gas is purchased "at the market." This is a more relaxed type of order and allows for the volatility that exists in price movement. The actual "fill" price may be higher or lower than the specified price level. Volatility in the trading arena can quickly move the price before an order can be executed. Usually, the fill price will be within a couple of cents of the specified price level and significant price movements will warrant a call from the traders confirming the desire to proceed with the trade.

Limit Order—A buyer places an order to purchase gas at "no higher than" a specific price. For example, a limit order placed at \$4 will be filled at a price no higher than \$4 provided that the market trades at or below \$4 for sufficient time and quantities to allow execution of the order.

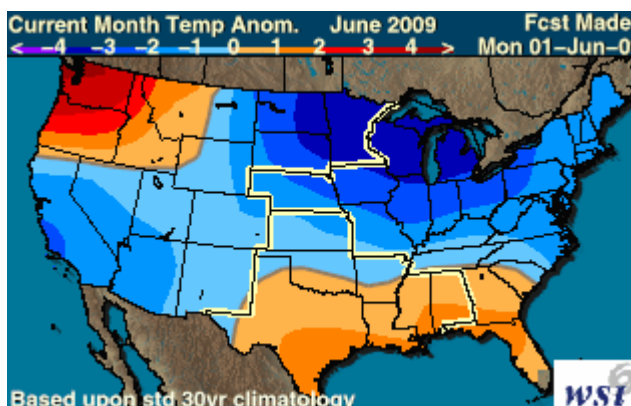
Stop Order—A buyer places an order to purchase gas at a point higher than the market. If the market rise to that point, the order is "stopped out" and the gas is purchased at market price as near the stop point as possible. Stops provide a great strategic hedge against a runaway market while allowing the potential to participate in a falling market.

Also, remember, all specified price orders are always best efforts.

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
JUNE 2009
FORECAST



Melting Arctic Likely Holds 160 Billion Barrels of Oil

June 1 (Daily Tech) - According to a study by the U.S. Geological Survey, earlier estimates which placed untapped Arctic oil reserves at as much as 90 billion barrels actually fell short -- the Arctic may in fact hold as many as 160 billion barrels of oil. The new discovery amounts to over 35 years in US foreign oil imports or 5 years' worth of global oil consumption. Canada, Greenland/Denmark, Norway, Russia and the United States, all of which border the Arctic Circle are racing to compete for the untapped resource.

The oil reserves could fetch a price of \$10.6 trillion dollars at current oil prices. Most of the reserves are in shallow waters -- less than 500 meters (about 1/3rd of a mile) -- making extraction relatively easy. Geologist Donald Gautier comments, "It would not mean that there would be any kind of a significant shift in global oil balance. But this is especially significant for the Arctic nations."

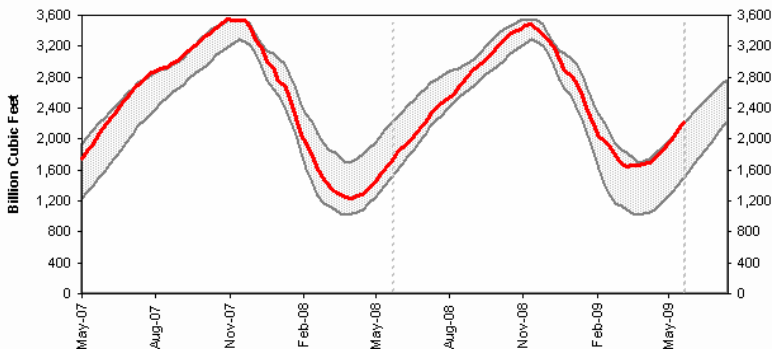
Oil companies are already racing to pinpoint deposits and begin to tap this bountiful resource. Exxon Mobil and several others have staked claims and began drilling in the Mackenzie Delta, the Barents Sea, the Sverdrup Basin, and offshore Alaska. According to Alan Jeffers, a spokesperson for Exxon Mobil, "It makes sense to diversify sources of oil and gas, given that the U.S. is one of the biggest consumers of oil and gas."

As rich as the Arctic may be in oil, it may hold even more natural gas. While the geologists estimate 13 percent of the world's undiscovered oil lies in the region, they also estimate that the region holds 30 percent of the planet's undiscovered natural gas reserves. Natural gas harvested in the region could be used for a variety of purposes including home heating and power generation.

The discoveries are part of an ongoing USGS study CARA -- Circum-Arctic Resource Appraisal. The study is the first of its kind as researchers are using advanced geological analysis and probability modeling to estimate the reserves held in the Arctic shelves. While probabilistic models come with a degree of uncertainty, this multidiscipline approach is yielding exciting results and has already led to the discovery of several major deposits.

GAS STORAGE LEVELS

Working gas in storage was 2,213 Bcf as of Friday, May 22, 2009, according to EIA estimates. This represents a net increase of 106 Bcf from the previous week. Stocks were 524 Bcf higher than last year at this time and 393 Bcf above the 5-year average of 1,820 Bcf. At 2,213 Bcf, total working gas is above the 5-year historical range.



Congratulations to:

**Patrick Sackrider
Consumers Energy**

Patrick is the winner of the Right on the Money contest. He predicted that the June NYMEX would settle at \$3.492, only \$.046 below the actual settlement.

For his efforts, he wins a Right on the Money mug, a gift card and other fabulous prizes.

Are you playing? Visit:

www.energyusa.com

ID/PSWD: EUSA (all caps)



GAS SUPPLY FACTS

The EIA released the International Energy Outlook 2009, which provides EIA's outlook for international energy markets through 2030. According to the newly released report, world marketed energy consumption is projected to increase by 44 percent between 2006 and 2030, as a result of strong long-term economic growth in the developing nations of the world. According to the report, fossil fuels are expected to continue supplying much of the energy used all over the world. In the reference case, natural gas consumption increases from 104 trillion cubic feet (Tcf) in 2006 to 153 Tcf in 2030. Currently, the global economic downturn will dampen world energy demand in the near term, as manufacturing and consumer demand for goods and services slows. However, with economic recovery anticipated to begin within the next 12 to 24 months, most nations are expected to see energy consumption growth at rates anticipated prior to the recession. As the world's economies recover, higher world oil prices are assumed to return and persist through 2030.

BILL'S PAGE

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I attended a conference last week. One of the presenters, Tom Saal, a respected industry analyst with Hencorp Futures, asked the ~ 200 attendees a question - how many forecasted the NYMEX front month (the Aug 09 contract) to trade **below \$4.00** in early July. Approximately 40% slowly raised their hands. He then asked how many forecasted the front month to trade **above \$4.00** in early July. Approximately 60% slowly raised their hands. This was "telling" of the industry... not a lot of confidence or consensus.

A combination of current prices and the above paragraph **screams** to most end users: **Diversify**. I know... it's difficult to take a position. Confidence has been shaken in the past few months. Remember, even the darling of hedging, Southwest Airlines, recently posted their *first quarterly loss in 17 years*. The loss was *not* due to negative operating income, but to *out-of-the-money hedges*. They are no different than the rest of us. They managed risk... hedged perceived value... and did not see the huge price fall coming.

I'll offer some strategic thoughts later in these comments, but first I will provide some fundamental and technical information, as well as, some industry analysts' thoughts.

1. Short-term fundamentals are very bearish. Demand is weak (economy) and supply is strong (shale gas). From 2000 thru 2008, we were *slightly undersupplied* (by .62 Bcf/day), however, in 2009 we are *oversupplied* (by ~ 1.24 Bcf/day). PIRA Energy forecasts we will again be *undersupplied* in 2010. Other analysts forecast a supply and demand re-balance in late-2009, others in early-2010, and others in 2011. Time will tell. An interesting statistic is the rig count... down to 703... **52% below** last year's 1,479.

2. Short-term technicals are bullish according to both Dr. James Duncan with ConocoPhillips and Mr. Tom Saal. Dr. Duncan sees the current "hammer bottom" as bullish, while Mr. Saal sees the market's "oversold" condition as bullish. Note: Since 1994, six similar oversold conditions turned out to be "buy" signals... as prices strengthened from those points forward. Will that occur this time? Time will tell. According to Mr. Saal, \$4.60 represents a *huge* technical level (making a stop just above \$4.60 a consideration).

3. Misc: We remain in "unchartered waters" (economy-wise, energy-wise). Volatility will return at some point. Prices were irrationally high a year ago, may be irrationally low now. Fundamentals have driven prices lately, but 2-3 years prior to this meltdown, technicals / speculation / emotion were the drivers. Historically, the market has been a "buy the rumor, sell the fact" one. Prices could move up before fundamentals turn bullish. *There is concern over the weakening dollar, and, investment dollars are looking for a ROI home.*

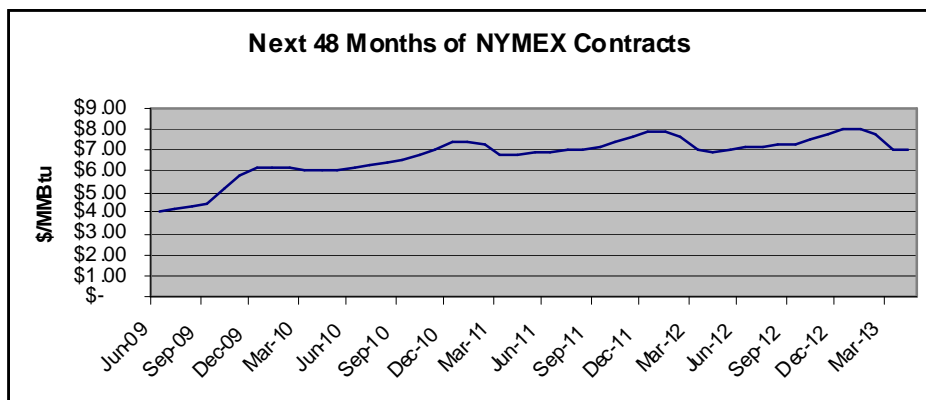
So, let's think about things for a minute, and then try to decide what to do. Current prices are very low (2002 levels)... but could move even lower. The cheapest prices are in the front months (at least the next 12 or so), as the market is in contango (the further out the contracts trade, the more expensive they become... see the graph, below). As stated above, the lack of industry confidence and consensus "screams" diversify. Don't try to win the game of guessing the bottom of the market for 100% of your needs. Please.

The average/moderate natural gas risk manager may want to consider the following:

1. Forecast monthly usages based upon conservation and/or production changes.
2. Hedge 100% of your next 24 month's basis now. Historically-speaking, it appears to represent a good value (appears to reflect various pipeline projects).
3. Hedge 50 to 66% of months 1-12 NYMEX now (or, utilize a stop order).
4. Hedge 25 to 33% of months 13-24 NYMEX now (or, again, utilize a stop order).

The above simple/starter strategy will protect ~ 35 to 50% of the next 2 years... taking the greater advantage of the less expensive front months, and, giving you more protection in the front months ("buying you time") in case an unexpected rally should occur. This strategy would also leave ~ 50 to 65% of the next 2 years exposed to the market... allowing you the opportunity to take advantage of any further price weakening. As always, we encourage you to contact us for help with forecasting usages, as well as, for help with your company or institution's specific price/budget/risk tolerance needs.

One more thing... credit has become a huge issue everywhere. We in the natural gas industry are no exception to this. It is imperative that we know our customers in a financial sense (in as sensitive, private, and lenient a manner as is possible). **If you are contemplating hedging, please give us adequate notice so that we can make sure that credit-wise, we are good-to-go when you decide to "pull the trigger".**



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 Outreach Events

If attending any of these events, stop by our exhibit and say hello!

**September 9-30—EUSA Fall Road Show Coming to a City Near YOU!
Stay Tuned for More Details.**

September 30—SW OH EPC Vendor Show, Dayton

November 4-6—Midwest Healthcare Show, Indianapolis

March 3, 2010—EUSA Spring Energy Conference, South Bend @ Notre Dame

WE'VE MOVED!

We are in our new home in Merrillville, Indiana, We are very excited about our new state of the art facility and invite our customers and partners to stop by anytime for a visit.

