

BURNERTIP

SUPPLY › SERVICE › SATISFACTION ›

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SEPTEMBER | 2009

VOLUME : 08 ISSUE : 9

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GAS FACTS IN BRIEF

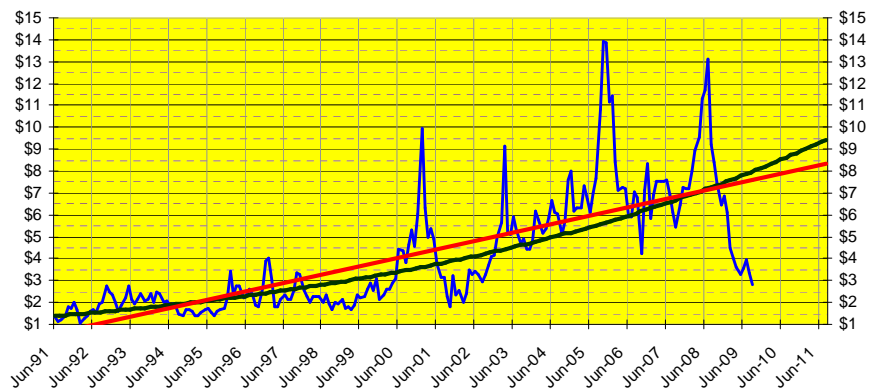
➤ Sep Settlement Price	\$2.843
➤ Current Oct Trading	\$2.863
➤ Summer Strip '10	\$5.391
➤ Winter Strip '09 - '10	\$4.762
➤ Winter Strip '10 - '11	\$6.602
➤ Gas Drilling Rig Count: UP 22 To 699 Rigs	
➤ Gas Storage Levels: Net Injection to 3,258 Bcf 87.9% Full (vs. 3,703 Bcf)	

THERE COMES A TIME WHEN AUTUMN ASKS, WHAT HAVE YOU BEEN DOING ALL SUMMER?

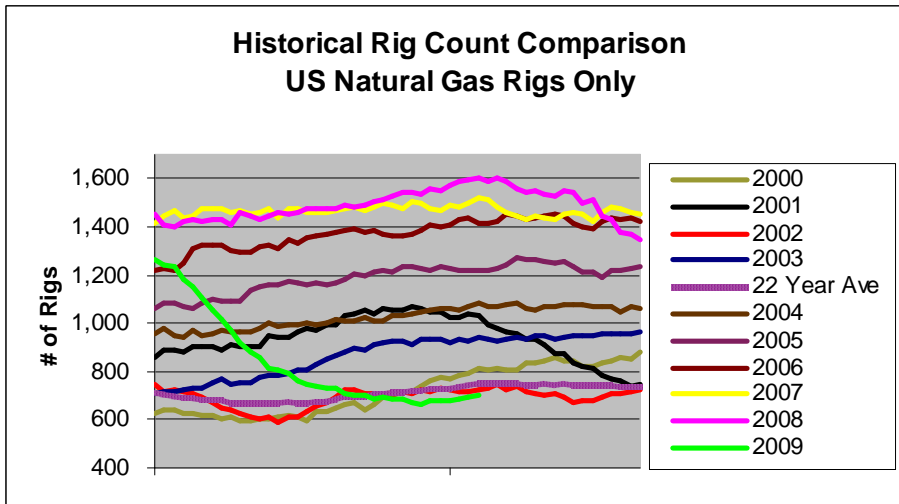
Autumn *is* asking, just what *have* you been doing all summer? Prices have continued to deflate, storage continues to move towards record levels and demand has yet to rebound. Short of a major hurricane or record early cold, there is little that autumn can do to cause prices to jump. The bigger question is not what have you been doing this summer, but rather, what do you intend to do this winter? An interesting pattern is emerging: as the front month expires, prices slowly drop. However, the next month and the winter continue to hold their value until each month becomes the front month. Currently, October is trading below \$3, an unprecedented level. At the same time, November is trading a full dollar higher, also an unprecedented spread. The winter is still nearly \$5. Will this pattern continue? Many market pundits believe that is highly likely, at least well into 2010. So, does the smart money float month to month and hope the trend continues, or does it lock in sub-\$5 winter and be done with it? I honestly can't answer that. I suspect that your individual outlook on risk management may dictate your own most prudent course. Take a look at Val's Page this month for a better analysis of your options and strategic insight on how you might want to proceed. As you consider your risk management strategy, remember that it doesn't work to leap a 20 foot chasm in two 10 foot jumps. Chart your strategy and then leap.

HISTORIC GAS PRICE CHART

RED TREND LINE—LINEAR GREEN TREND LINE - VOLATILITY WEIGHTED



BAKER HUGHES DRILLING RIG COUNT



Change	
Sep-09	699
Sep-08	1,606
Change	(907)
% C change	-56%

v.s. Last Month	
Sep-09	699
Aug-09	677
Change	22
% C change	3%

WIND POWER TERMS

Forty miles south of our Merrillville, IN corporate office, massive wind turbines are sprouting faster than the corn they are displacing. This month, a few definitions about this growing source of electricity.



Airfoil--The cross section profile of the leeward (away from the wind) side of a wind generator blade. Designed to give low drag and good lift.

Betz Coefficient--59.3 percent. This is the theoretical maximum efficiency at which a wind generator can operate, by slowing the wind down. If the wind generator slows the wind down too much, air piles up in front of the blades and is not used for extracting energy.

Blade--The part of a wind generator rotor that catches the wind.

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

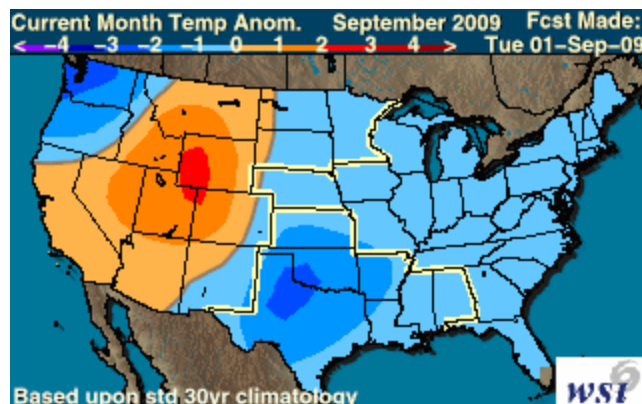
Horizontal Axis Wind Turbine--A "normal" wind turbine design, in which the shaft is parallel to the ground, and the blades are perpendicular to the ground.

Rated Power Output--Used by wind generator manufacturers to provide a baseline for measuring performance. Rated output may vary by manufacturer. For example, one manufacturer's 1500 watt turbine may produce that amount of power at a 30 mph wind speed, while another brand of 1500 watt turbine may not make 1500 Watts until it gets a 40 mph wind speed! So read manufacturer's ratings statements very carefully.

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
SEPTEMBER 2009
FORECAST



Typically traded in tandem, oil climbs as natural gas sinks

Historically, oil and natural gas prices have traded in tandem. But that isn't happening this year. Oil prices have recovered while natural gas prices have dropped to seven-year lows.

You've probably noticed your electricity rates falling and your gasoline prices going up. Or, depending on your perspective, maybe you've noticed the returns on your oil hedge fund rising while natural gas royalties slide.

Global oil prices are following stock markets and the U.S. dollar higher. That's because many investors use oil as a hedge against inflation, and most people buy oil with dollars. So even though demand has suffered because of the recession, the price has risen.

The natural gas market, on the other hand, is responding to a decline in demand and a boom in supply. Thanks to new well completion technology the U.S. is producing more natural gas than ever.

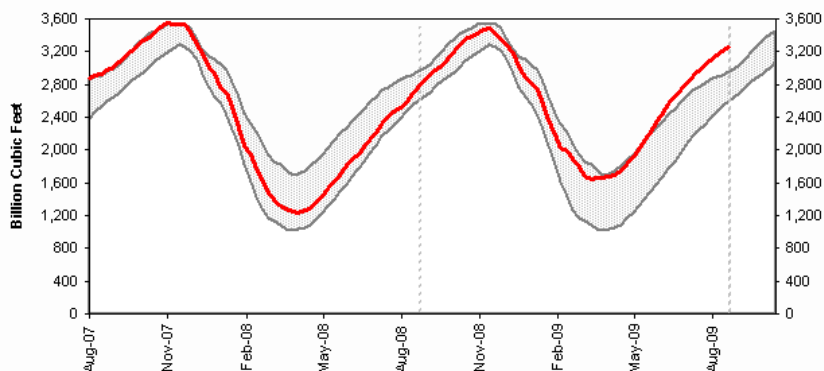
But people are conserving electricity, and factories have cut back on production and, thus, electricity use. Don't count on the commodities returning to tandem trading, said Peyton Feltus, president of Randolph Risk Management in Dallas. "There really isn't anything to force them back together because they're not substitutable," he said.

Until T. Boone Pickens has his way and more people abandon gasoline for natural gas vehicles, oil and natural gas will probably trade in separate worlds.

Dallas Morning News, August 31, 2009

GAS STORAGE LEVELS

Working gas in storage was 3,258 Bcf as of Friday, August 21, 2009, according to EIA estimates. This represents a net increase of 54 Bcf from the previous week. Stocks were 516 Bcf higher than last year at this time and 500 Bcf above the 5-year average of 2,758 Bcf. At 3,258 Bcf, total working gas is above the 5-year historical range.



RIGHT ON THE
MONEY

**We have another new
Gas Guru in Town.**

Congratulations to:

**Glenn Gilbert
Goshen College**

Glenn is the winner of the Right on the Money contest. He predicted that the September NY-MEX would settle at \$3.10, only \$.257 above the actual settlement of \$2.843. Interestingly, no one guessed below \$3.

For his efforts, Glenn 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 its latest Short-Term Energy Outlook on August 11. The spot price of natural gas at the Henry Hub is expected to stay below \$4/Mcf until late in the year, as natural gas inventories are expected to set a new record high at the end of this year's injection season. The Henry Hub spot price is expected to increase from \$3.92/Mcf in 2009 to \$5.48/Mcf in 2010. Total natural gas consumption is expected to decline by 2.6 percent in 2009 as a result of the economic downturn, but increase slightly (0.5 percent) in 2010. A 2-percent increase in electric power consumption in 2009 is anticipated. Total U.S. production is expected to remain at the same level in 2009, but decline by 2.8 percent in 2010 because of a significant reduction in drilling activities.

VAL'S PAGE

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As we get into the fall of the year, with 3.25 TCF of gas in the ground, we are looking at record high storage levels by the end of October, the traditional end to the storage injection season. The estimate is that we might approach 3.9 TCF, compared to last year's 3.4 TCF storage level. A big jump, and a big reason that we are at or below \$3/MMBtu in the front-month of NYMEX trading. Of course, with oil at \$70/barrel, fuel oil and natural gas have totally 'uncoupled', with fuel oil at extremely high prices. So, anybody that can switch from fuel oil to natural gas, has done so. At these price levels, we have even seen coal buyers switching to natural gas for economic (including coal handling labor, electric cost for coal handling, and fuel cost per Btu) and environmental (including reduced carbon footprint, and coal ash handling) reasons.

As always, with November at ~\$4/MMBtu and the winter at ~\$4.85/MMBtu or below, buyers want to know if the winter months are also going to get down to the \$3ish level. The answer depends on the weather. This was an extremely mild summer in the Midwest and in the Northeast, and this lack of summer 'heat', together with the weak economy led to reduced natural gas demand. The lack of demand together with ample

supply (do I need to expound on the shale gas, the LNG?) and storage bumping up against the new "full" level is why we have front-month gas below \$3/MMBtu. This in spite of the dramatically reduced rig count, down 907 rigs since this time last year. Can we count on a mild winter? The Farmers Almanac is calling for colder than normal winter in the Midwest and the core of the USA. NOAA is calling for a mild winter based on some El Nino activity. As always, you shouldn't plan on anything other than normal weather, which is, I feel, built into the prices that we are seeing for the winter at present. But, given the low prices that exist at present, it is a good price level to lock in some good percentage of your budget... after all that is what risk management is all about.

If you want to wait for potentially lower prices...If we start off with a mild October and November, I would expect the winter to come down further. By the end of September, when November becomes the front-month, there will have to be a convergence of the October price and the November price. The other interesting phenomenon is that the summer of 2010 is trading higher than the winter of '09/'10. In fact, all the months starting with April '10 are 'well supported'. The current market bias is bearish, BUT given that the prices are so low at present, as a smart trader once said...we continue to be in the camp that when everyone is buying, you should be selling and vice versa. Right now, everyone is selling.....

If you want to have the opportunity to get some lower priced gas, but are afraid of the market going

higher, you can always explore buying Call & Put Options for the winter. At current gas price levels, the following Options prices are available and worth considering if you, like a number of folks, are having some difficulty locking in a fixed price for the winter for fear of 'missing lower prices':

For November 2009 through March 2010, you can buy Ceiling/Call Options, and sell Floor/Put Options at the following levels:

<u>NYMEX Price</u>	<u>Option Cost</u>
\$5.00/MMBtu	\$0.55
\$6.00	\$0.35
\$7.00	\$0.19
\$8.00	\$0.10
\$4.50	-\$0.40
\$4.00	-\$0.20
\$3.50	-\$0.10
\$3.00	-\$0.04

So, using the above Options costs, for flat-monthly quantities for each month, you can establish a Costless Collar at \$7.00 at the high-end, and at \$4.00 at the low-end. If you want the opportunity to explore prices lower than \$4.00, and you don't want to pay more than \$6.00, you may want to consider a \$6.00 Ceiling and a \$3.50 Floor - this low-cost Collar Option combination would cost you \$0.25/MMBtu.

Let us know if we can help you reach a risk management pricing decision for this winter or if you just want to review your strategic plan.

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.



ENERGYUSA UPCOMING EVENTS

September 28	ISBA Annual Conference—Indianapolis, IN
September 30	Southwest OH EPC Vendor Show—Dayton, OH
October 2	Duke Energy 3E Summit—Cincinnati, OH
October 28	UPC Vendor Show—Sharonville, OH
November 5	Midwest Healthcare Show—Indianapolis, OH
November 9-10	OSBA School Show—Columbus, OH
February 23-24, 2010	OH Energy Management Conference—Columbus, OH
March 3, 2010	EnergyUSA Spring Conference—Notre Dame, IN
March 17-18, 2010	OOGA Winter Meeting—Columbus, OH
April 21-22, 2010	Indiana Facilities Show—Indianapolis, IN

If you are attending any of these conferences or shows, stop by the EnergyUSA booth and say hi. For more information, visit our website—www.energyusa.com