

# BURNERTIP

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## GAS FACTS IN BRIEF

- October Settlement Price \$3.73
- Current Nov Trading \$4.628
- Summer Strip '10 \$5.96
- Winter Strip '09 - '10 \$5.49
- Winter Strip '10 - '11 \$7.005
- Gas Drilling Rig Count:  
UP 11 To 710 Rigs
- Gas Storage Levels:  
Net Injection to 3, 589 Bcf  
97% Full (vs. 3,703 Bcf)

## DON'T CRY BECAUSE ITS OVER. SMILE BECAUSE IT HAPPENED. . . DR. SEUSS

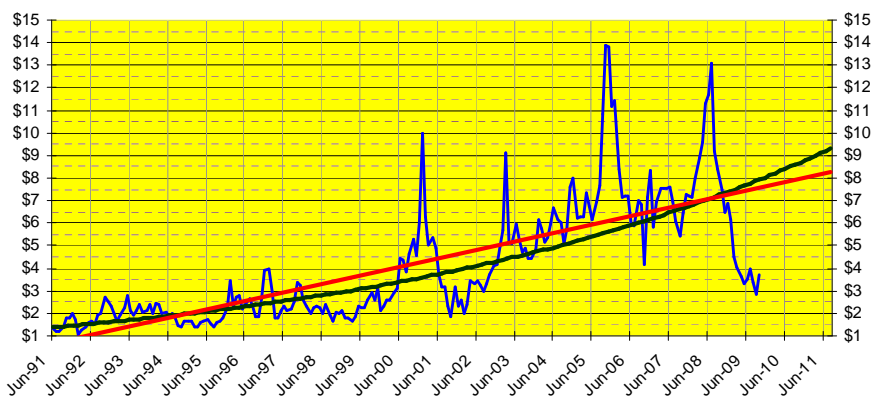
You might be wondering what this quote refers to. It might be referring to one of the nicest summers in recent memory. While cool weather hampered the need for much air conditioning, it also paved the way for a delightful summer of biking, hiking and all kinds of other 'ings' that we tend to put off when the temperatures get warmer. Of course, cool weather in the summer directly equates to reduced natural gas demand and we all know what happened to the market when people figured out that we were awash in gas. \$2 gas. No, really.

It might be referring to recent pricing. After falling and staying at or near seven year lows earlier, prices seem to be rebounding a bit. After September settled near \$2.85, October rallied to close at \$3.73, about \$.90 higher. Even odder is November now trading at \$4.63, almost a buck higher than October closed. Why? No hurricanes. Drilling activity is actually on the mend and has increased for two consecutive months. Storage is busting at the seams. Maybe, just maybe the market is beginning to move closer to the actual cost of production. Did you grab winter when it was \$4.75? If not, \$5.50 may not look too bad right now!

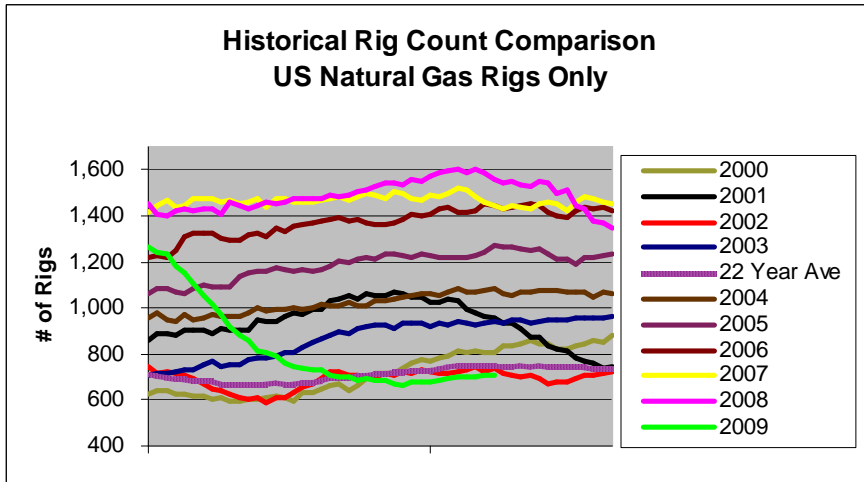
And, it might refer to something else. Happy trails to you, until we meet again!  
Dale Evans

## HISTORIC GAS PRICE CHART

RED TREND LINE—LINEAR GREEN TREND LINE - VOLATILITY WEIGHTED



# BAKER HUGHES DRILLING RIG COUNT



Change	
Oct-09	710
Oct-08	1,559
Change	(849)
% Change	-54%

vs. Last Month	
Oct-09	710
Sep-09	699
Change	11
% Change	2%

## NATURAL GAS GEOLOGY

**Anticline**— an area of the earth's crust where folding has made a dome like shape in the once flat rock layers. Anticlines often provide an environment where natural gas can become trapped beneath the earth's surface, and extracted.

**Brine**— Brine is a kind of sedimentary rock found near shores. It is composed of the shells of many sea creatures that have formed a layer of sediment, which then formed a layer of rock.

**Carbonate Rock**— A rock consisting primarily of a carbonate mineral such as calcite or dolomite, the chief minerals in limestone and dolostone, respectively.

**Cutting**— A cutting is a piece of rock or dirt that is brought to the surface of a drilling site as debris from the bottom of well. Cuttings are often used to obtain data for logging.

**Dip**— A layer's dip refers to the angle at which it lies in relation to a flat line at the surface. Most layers of rock do not lie flat because they have been folded one or more times throughout their history. The dip of a rock layer can tell a geologist important information that could help locate possible petroleum traps.

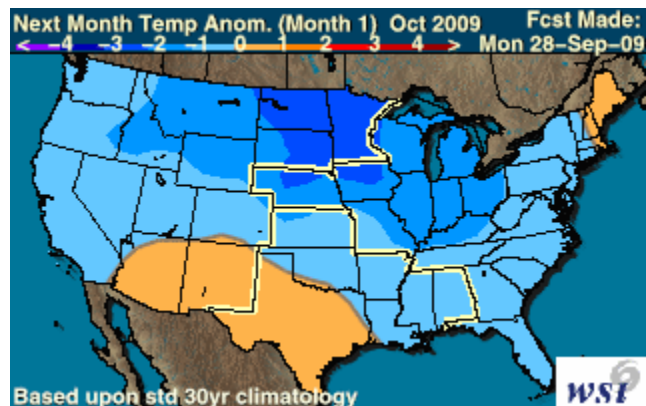
**Faults**— A fault occurs when a part of the earth's crust fractures due to forces exerted on it by movement of plates on the earth's crust. Faults often occur along with earthquakes that result from the rapid movement of the plates against one another. Faults can have movement that is horizontal or vertical, and they can be classified as normal or reverse. With regard to natural gas, faults are of interest because they often form traps.

**Fracturing**— A method used by producers to extract more natural gas from a well by opening up rock formations using hydraulic or explosive force. Advanced fracturing techniques are enhancing the ability to find natural gas.

## 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  
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FORECAST



**FEELING DEFLATED ABOUT GAS**

Asked recently when output from North America's prolific shale gas resources would peak, [Chesapeake Energy](#) Chief Executive Aubrey McClendon quipped: "With all due respect to you and to me, we'll both be dead." Barring sudden discovery of the elixir of life, he is surely correct. Navigant Consulting puts recoverable resources at 118 years of supply. Unfortunately, that's the only certainty that exists in the natural-gas sector today. With exquisite timing, America shifted from looming gas famine to feast just as recession hit.

In addition, a Senate version of a bill to cap greenhouse gas emissions is imminent. Any rational move to curb carbon should favor gas, which emits about half as much carbon dioxide as coal when burned. But the original Waxman-Markey bill, rushed through the House, largely overlooked gas. Instead, by lavishing free carbon allowances on the utility sector -- ostensibly for the transition to a low-carbon economy -- it threw a lifeline to coal-burning generators. That's important, because over the past decade, gas demand growth has come only from the power sector. Annual industrial demand fell by 1.46 trillion cubic feet, while household demand was virtually flat. Power sector demand grew by 1.84 TCF.

But U.S. energy officials expect electricity demand growth to average 0.8% a year to 2020, down from 1.3% over the past decade. Crowding into this is an expected 267 gigawatts of renewable capacity like wind turbines which, Barclays Capital points out, might obviate the need for any growth in gas-fired electricity output. Energy efficiency initiatives, which McKinsey reckons could cut projected 2020 electricity consumption by about a quarter, represent another game-changing threat.

In reality, intermittent renewable electricity generation requires backup fossil-fuel capacity, for which flexible gas-fired plants are well suited. Vehicles represent another opportunity, although more likely via creating more demand for electricity than a mass conversion to natural gas-powered cars. Still, energy consultancy GSW Strategy Group reckons even if a fifth of vehicles were plug-ins by 2020, this would add only a few percentage points of demand to the grid.

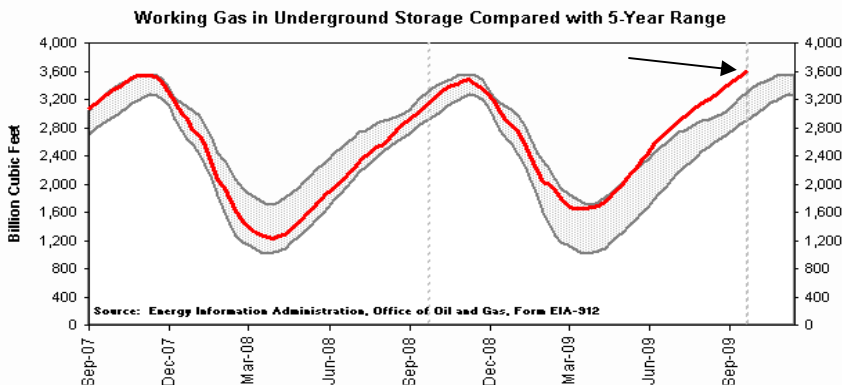
Gas producers have belatedly formed a lobbying group, and there's even a new video extolling gas's virtues posted on YouTube. Probably more constructive are noises from the likes of Chesapeake about signing long-term supply contracts with customers. That would address concerns about natural gas's notorious price volatility and possibly tempt back some industrial users.

Investors can't rely on the Senate, however, to underpin natural-gas demand and prices in the medium-term. Indeed, the coal lobby already scored a victory in the House this summer. The risk is that a combination of huge shale gas resources and low demand growth will weigh on prices for years to come.

*Liam Denning, Wall Street Journal—September 29, 2009*

**GAS STORAGE LEVELS**

Working gas in storage was 3,589 Bcf as of Friday, September 25, 2009, according to EIA estimates. This represents a net increase of 64 Bcf from the previous week. Stocks were 491 Bcf higher than last year at this time and 481 Bcf above the 5-year average of 3,108 Bcf. At 3,589 Bcf, total working gas is above the 5-year historical range.



**RIGHT ON THE MONEY**

**We have two new Gas Gurus this month.**

**Congratulations to:**

**John Troyer of Square D  
Ron White of Parker Hannifin**

**John predicted that the October NYMEX would settle at \$3.709, only \$.021 below the actual settlement of \$3.73. Ron's prediction was \$3.75, only \$.02 above the settlement. Since this is Val's money anyway, we won't quibble over a tenth of a penny!**

**For their efforts, John and Ron win Right on the Money mugs, gift cards and other fabulous prizes.**

**Are you playing? Visit:  
[www.energyusa.com](http://www.energyusa.com)**

**ID/PSWD: EUSA (all caps)**

**GAS SUPPLY FACTS**

**EPA Issues Final Mandatory Reporting of Greenhouse Gases Rule** The U.S. EPA will require large emitters of heat-trapping greenhouse gases (GHG) to submit data under a new reporting system. The first annual reports will be submitted to the EPA in 2011 and cover calendar year 2010. The agency announced the final rule on September 22 and reported that the program will apply to about 10,000 emitters and will cover 85 percent of GHG emissions. The new reporting system will provide a better understanding of the sources of GHGs and guide the development of emission-reduction policies and programs. Additionally, the EPA noted that tracking their own emissions will enable businesses to compare their emissions to those of similar facilities and assist in reducing emissions. The new regulations will affect fossil fuel and industrial GHG suppliers, motor vehicle and engine manufacturers, and facilities emitting 25,000 or more metric tons of carbon dioxide equivalent per year.

## DAVE'S PAGE

Dave Gring  
(248) 427-1422  
(248)765-2492 cell  
dgring@nisource.com



Fall is my favorite time of the year in Michigan. The month of October will be filled with multi-trips to the apple orchard for fresh cider and donuts, neighborhood bonfires, watching the trees burst into brilliant colors, chilly Friday night high school football games and cheering the Tigers on in the American League pennant race (magic # is 2 – bring on the Yankees !!). The only downside to fall is knowing that bone-chilling temperatures and snow are just around the corner (no offense to my snow skier/snowmobiler friends).

As the natural gas market shifts focus from summer to winter, let's take a closer look at what the fundamental and technical indicators are showing.

**Near-term prices:** Despite extremely bearish fundamentals (e.g. record high storage levels), natural gas futures prices are beginning to firm up. From September 4, 2009 to September 28, 2009, the October '09 futures price increased ~ 55 %, from an intra-day low of \$2.409 on 09-04-09 to \$3.73 per MMBTU. We may have seen the market bottom in early September '09 in the range of \$2.40 to \$2.50. This won't be the last time fundamentals are completely ignored and

the market moves in a counter-intuitive fashion.

**U.S. Production:** With the U.S. natural gas rig count falling from a peak of 1,606 in Sept. '08 to current levels just above 700, declining production output is being reflected in lower storage injections the past several weeks. Since Aug. '09, U.S. dry production appears to have dropped from ~ 54 BCF/day to ~ 52 BCF/day. One thing is certain, the market will eventually rebalance as supply drops and demand begins to increase.

**Macroeconomic indicators:** The U.S. economy continues to show gradual improvement, with growth also seen across the world. According to the Institute of Supply Management ("ISM") manufacturing appears to be rebounding according to their leading indices. ISM's New Orders index registered 65 in Aug. 09, its highest level since Dec. '04. Although industrial natural gas demand isn't expected to reach pre-recession levels until 3Q11, any positive economic signs will be supportive of higher prices and year-on-year growth is expected in early 2010.

**Storage Update:** no major change here. Although weekly injections have been on the decline, current working gas inventories are at 3,525 BCF and with today's expected EIA report of + 60 BCF, storage levels will eclipse the all-time record of 3,545 established 11-02-07, with five full weeks remaining in the traditional injection season. End of season stocks are still projected to be in the range of

3,850 to 3,900 BCF (near 100% full).

**Longer-term price outlook:** With storage caverns bursting at the seams, it's difficult to envision natural gas prices skyrocketing. Most price forecasts we've seen for 2010 fall into the range of \$5.50 to \$6.50. The 2010 calendar year NYMEX strip is trading just below \$6.20 this morning. Depending on November and December '09 temperatures, winter '09/'10 prices have room to fall, but don't be surprised if we see a short-term technical rally in the next 60 days.

Conservative and moderate risk buyers that still have large open positions this winter and next summer need to take action soon. If you've been waiting to catch the absolute bottom of the NYMEX futures market, that ship may have already sailed (i.e., \$2.409 on 09-04-09). If you're reluctant to hedge winter '09/'10 prices at the current level of ~ \$5.60 and feel prices will move significantly lower, I still like using stop-loss orders to cap upside price risk (e.g., set a winter '09/'10 stop at \$6.25 in the event prices start running higher).

Enjoy all that the fall season offers and stay warm and safe as winter draws near. Please contact your Territory Manager if you have questions regarding your natural gas supply portfolio or want to discuss longer-term purchasing strategies.

## 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.



Through this highly popular program, EnergyUSA customers can choose to offset the carbon dioxide (CO<sub>2</sub>) 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 CO<sub>2</sub> emissions and then offset those emissions by planting trees.



## ENERGYUSA UPCOMING EVENTS

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

**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](http://www.energyusa.com)**

