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DECEMBER | 2009

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GAS FACTS IN BRIEF

➤ Dec Settlement Price	\$4.486
➤ Current Jan '10 Trading	\$4.696
➤ Summer Strip '10	\$5.145
➤ Q1 2010	\$4.774
➤ Winter Strip '10 - '11	\$6.395
➤ Gas Drilling Rig Count:	
UP 24 To 748 Rigs	
➤ Gas Storage Levels:	
Net Injection to 3,835Bcf	
103.6% Full (vs. 3,703 Bcf)	

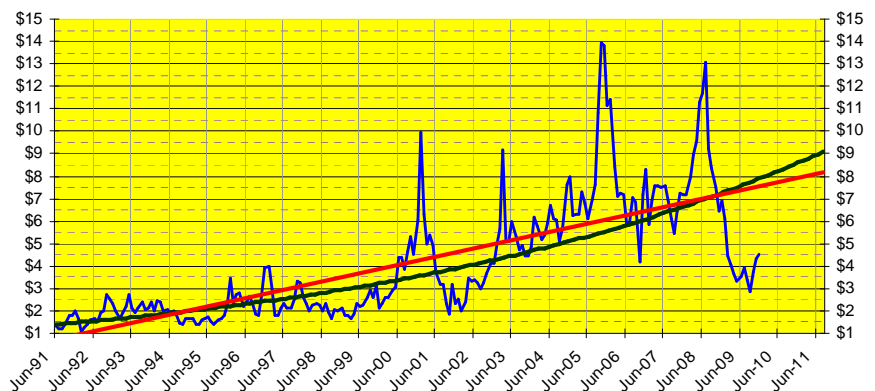
"I WILL HONOR CHRISTMAS IN MY HEART, AND TRY TO KEEP IT ALL YEAR." EBENEZER SCROOGE

OK, I admit it. I'm a bit of a softie when it comes to Christmas time. As soon as the Thanksgiving dishes were cleared, did I play cards with the rest of the family? Did I tune in the big game? Nope. I looked for a broadcast of *A Christmas Carol*. And, with satellite TV, I had several versions to pick from. This year, old Ebenezer's words struck me particularly hard. This has been a tough year. For you, for me, for all of us. The economy continues to struggle across many sectors, there are still quite a few of us without work this holiday and business in general is still somewhat subdued.

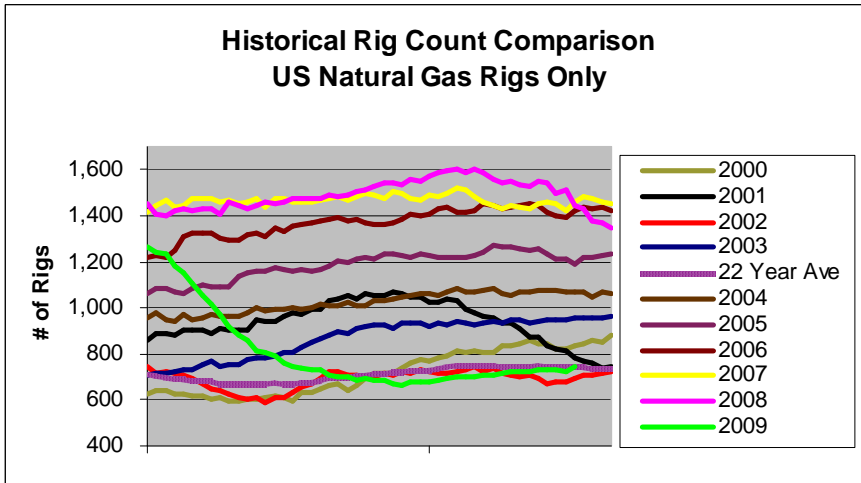
Still, things are looking up. And, I think that is the message that I want to share this month. Many economic indicators are pointing in a positive direction, Black Friday retail sales were a bit higher than last year, and even car sales seem to be rebounding a bit. Energy prices are doing their part. With plenty of natural gas available and full storage, front month winter prices continue to trade below \$5. So, this holiday season, join with me and rejoice for what we have, what is good in our lives and what we have to look forward to. I do truly believe that "the sun'll come out tomorrow." In fact, I think it's peaking through right now! On behalf of the EnergyUSA team, my holiday wish for you is joy, peace and prosperity.

HISTORIC GAS PRICE CHART

RED TREND LINE—LINEAR GREEN TREND LINE - VOLATILITY WEIGHTED



BAKER HUGHES DRILLING RIG COUNT



Change	
Dec-09	748
Dec-08	1,443
Change	(695)
% Change	-48%

vs. Last Month	
Dec-09	748
Nov-09	724
Change	24
% Change	3%

ALTERNATIVE VEHICLE FUELS

Alternative Fuel — As defined by the National Energy Policy Act (EPA) the fuels are **methanol, denatured alcohol and other alcohols**, separately or in mixtures of 85 percent by volume or more (or other percentage not less than 70 percent as determined by U.S. Department of Energy rule) with gasoline or other fuels; **Compressed Natural Gas (CNG)**; **Liquefied Natural Gas (LNG)**; **Liquefied Petroleum Gas (LPG)**; hydrogen; "coal-derived liquid fuels; " fuels "other than alcohols" derived from "biological materials; " electricity, or any other fuel determined to be "substantially not petroleum" and yielding "substantial energy security benefits and substantial environment benefits."

Alcohols — Organic compounds that are distinguished from hydrocarbons by the inclusion of a hydroxyl group. The two simplest alcohols are methanol and ethanol.

Biodiesel — A biodegradable transportation fuel for use in diesel engines that is produced through the transesterification of organically derived oils or fats. It may be used either as a replacement for or as a component of diesel fuel.

Compressed Natural Gas (CNG) — Natural gas that has been condensed under high pressures, typically between 2,000 and 3,600 pounds per square inch, held in a container. The gas expands when released for use as a fuel.

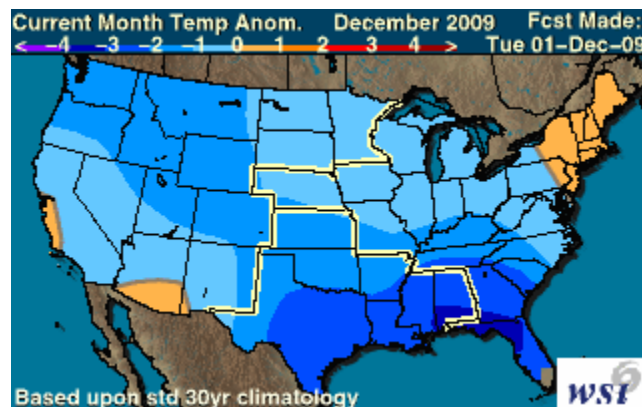
Liquefied Natural Gas (LNG) — Natural gas (primarily methane) that has been condensed to a liquid by reducing its temperature to -260 degrees Fahrenheit at atmospheric pressure.

Liquefied Petroleum Gas (LPG) — A mixture of hydrocarbons found in natural gas and produced from crude oil, used principally as a feedstock for the chemical industry, home heating fuel, and motor vehicle fuel.

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 2009
FORECAST



Blame Technology for Gas Glut

Don't focus too much on what the seasonal trends in natural gas demand are telling you. The technology trends are trumping them - and they're changing the entire nature of the North American gas market, contends Patricia Mohr.

"New 'game-changing technology' - improvements in horizontal drilling and multi-fracturing of unconventional gas - has dramatically changed the dynamics of the North American natural gas market in the past year and a half," the Bank of Nova Scotia economist and commodities specialist said in a report yesterday. She noted that horizontal rigs made up 46 per cent of active drilling rigs in North America last month - almost double their share of drilling activity in January, 2008.

The rapid adoption of horizontal-drilling advancements has triggered an explosion of new unconventional shale-based gas output that features lower production costs and improved well productivity. So, production volumes have remained strong in the past year, despite slumping prices.

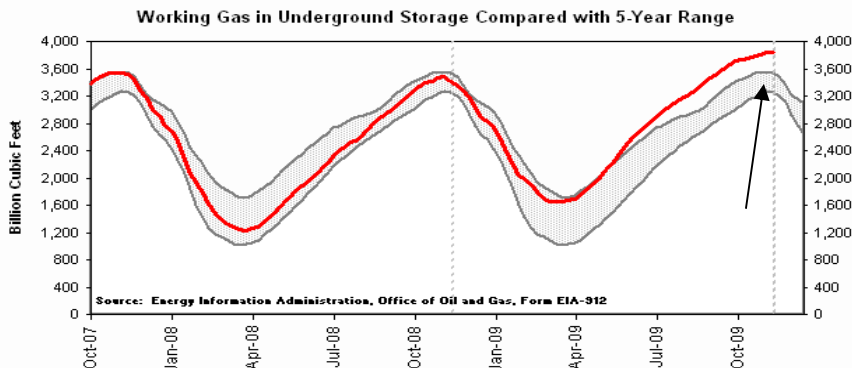
"While U.S. gas-targeted drilling activity plunged by 42 per cent from January through July, 2009, [energy research firm] IHS Herold estimates only a 1.5-per cent [quarter-over-quarter] decline in U.S. natural gas production in [the third quarter]," Ms. Mohr wrote. "The apparent disconnect between drilling activity and production reflects much greater individual well productivity with horizontal, multi-fractured drilling, and considerably greater initial flow rates from shale developments than conventional vertical wells," she said. "While active drilling rigs have plunged and higher-cost gas wells have been shut in this year, producers continue to drill higher-quality shale prospects with high initial flow rates."

The quantum shift in North American gas production techniques goes a long way to explaining the ballooning gas supply levels that sent gas prices to seven-year lows this summer - and have continued even as seasonal expectations for rising demand have turned prices upward in recent weeks. Illustrative of how acute the glut of natural gas has become - in North America and globally - Bloomberg News reported yesterday that liquefied natural gas from overseas is afloat in tankers in the world's oceans, with no ports' buyers prepared to accept them.

David Parkinson, The Globe and Mail News—December 1, 2009

GAS STORAGE LEVELS

Working gas in storage was 3,835 Bcf as of Friday, November 20, 2009, according to EIA estimates. This represents a net increase of 2 Bcf from the previous week. Stocks were 404 Bcf higher than last year at this time and 442 Bcf above the 5-year average of 3,393 Bcf. At 3,835 Bcf, total working gas is above the 5-year historical range.



RIGHT ON THE MONEY

We have a new Gas Guru this month.

Congratulations to:

Mike Colwell of Smurfit-Stone

Mike predicted that the December NYMEX would settle at \$4.521, only \$0.035 below the actual settlement of \$4.486.

For his effort, Mike 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

IEA Projects Plentiful Natural Gas Supplies, Growing Demand. The International Energy Agency (IEA) published its World Energy Outlook on Nov. 12, which projects natural gas will play an essential role in meeting the world's sustainable energy needs through 2030. The report states that unconventional gas resources, in particular shale gas in North America, have transformed the market outlook for natural gas. The industry now stands ready to meet growing demand for the next several decades, according to the report. The forecast projects world natural gas will rise from about 106 Tcf in 2007 to about 152 Tcf in 2030, or 41 percent. IEA notes that the share of unconventional gas in total U.S. natural gas output jumped from 44 percent in 2005 to around 50 percent in 2008. In its forecast, IEA projects an increase in this share of output to about 60 percent by 2030. **IEA notes that a supply surplus is possible in the short-term as a result of North American unconventional gas production and the recession's impact on demand.**

VAL'S PAGE

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After a colder than normal October drove natural gas prices steadily higher, the natural gas market in November reacted as you might expect – a mild November led to falling prices. The milder than normal temperatures allowed for continued storage injections throughout the month, so that storage levels achieved the record quantity of 3.835 TCF by the final report issued in the month. A storage ‘build’ in November was the first such November since 2001, due to the mild temperatures. That is a lot of gas to deal with through this winter, and this will likely keep a lid on prices unless abnormally cold weather develops for the majority of the winter. A normal winter would likely lead to storage levels near 2 TCF by the end of March.

The weather forecasts for this winter have varied quite a bit, with some calling for milder than normal temperatures and some calling for colder than normal temperatures. The key question seems to hover around whether the strengthening El Nino will develop into a strong event or not. A strong El Nino event (greater than 2 degrees warmer than normal equatorial Pacific water temperatures) has a strong correlation for warmer than normal temperatures in winter months for the Midwest and the Northeast,

whereas a weak El Nino event will lead to a colder than normal winter for the Midwest and the Northeast. We have seen some forecasters change their winter forecasts for December through February a couple times in the last few weeks, with the latest forecasts calling for a colder than normal Midwest for this period. A cold forecast for the beginning of December led to ~\$.40/MMBtu rally in January futures on the day before Thanksgiving – traders didn’t want to go into the long holiday weekend ‘short’. However, upon returning to work on Monday, November 30th, the weather forecasts for the start of December had moderated enough to ease traders’ fears, and the market erased almost all the gains that occurred on Thanksgiving-eve.

Supply is weaker now than it was a year ago, by about 2 BCF/day, but demand has not increased to make this reduced supply situation a great concern. We have seen some increased industrial demand this summer and this fall, but the upward trend is not necessarily clear and consistent, and thus, together with the extremely strong storage position, it is not enough to warrant high prices for this winter. In a strange way, this more bearish winter pricing scenario continues to lead to a more bullish projection for gas pricing for next summer and beyond. This is because lower prices lead to less drilling, and shut-ins (though shut-ins are harder to capture), which leads to lower supply. This concern is a factor in why NYMEX gas prices are still higher in summer ’10 and winter ’10/’11. One can’t leave this poten-

tial threat of lower supply without mentioning that LNG from overseas could help fill any voids in the short-term if prices are elevated. – we are even seeing some ‘pick-up’ in LNG cargoes at current price levels. In addition, shale gas promises to be a longer-term provider of supply to help keep prices in check.

So, based on the current situation, what should an exposed buyer do for the rest of this winter and beyond? An aggressive buyer could make the argument that the strong El Nino is likely to continue given that November turned out the way that it did, which will lead to lower prices for this winter, and thus a month to month buying strategy until a lower price signal provides the opportunity to lock in some gas for next summer and next winter. A conservative buyer would be concerned that October’s colder than normal temperatures would return and spoil the party – this concern, together with the rest of the winter below \$5, would lead to the decision to fix some more gas for this winter to protect from another October-like bounce.

I hope these thoughts are helpful. This remains a good time to get your thoughts together regarding a winter strategy. We are always happy to help you, so please don’t hesitate to contact us.

Please accept our best wishes for a Happy and Productive Holiday Season!

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

It is time to start planning for the 2010 EnergyUSA Spring Conference. Mark your calendars for March 3, 2010. Once again, we expect to present a variety of cutting-edge energy topics from a host of industry experts. While last year's conference was rated the best yet, we have every intention of topping that in 2010. Plan on spending the day in Notre Dame, Indiana. See you in March!

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
May 20, 2010	IL Assoc. of School Bus. Officials—St. Charles, IL

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