



Annual Energy Industry Review

2008 Year in Review

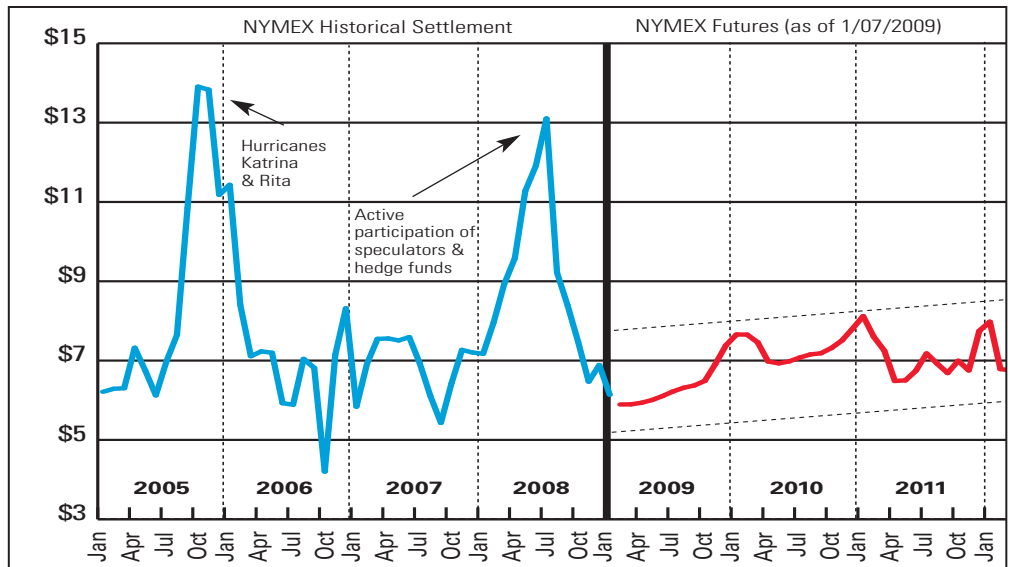
2008 was a highly volatile period for the energy industry, with commodity prices rising and falling in record-setting trends. Crude oil prices ranged from \$42 to \$147 a barrel and wholesale natural gas prices at Henry Hub were as low as \$5.29 and as high as \$13.58 per Dth (MMBtu). Price changes during the course of the year reflect a rapidly changing market environment. Currently, a deep global recession on the heels of the credit crisis will further exacerbate the difficulties businesses face in their energy procurement strategies. Now, more than ever, we at CenterPoint Energy believe in the importance of discussing these issues with our customers. By working together to understand the fundamentals that shift markets, our customers can make more confident purchasing decisions. We are hopeful that our annual industry review will be another useful tool as you consider your energy needs.

This annual market review from CenterPoint Energy Services (CES) provides our customers with the most current information on the fundamental factors affecting energy prices.

This report, as well as our company profile, may be found at CenterPointEnergy.com/ces.

2008 volatile year for energy industry













NYMEX natural gas futures, based on prices at Henry Hub, La. determine the largest portion of your delivered natural gas price. While prices were relatively stable in 2007, as seen in the graph below, several factors contributed to the dramatic fluctuations encountered the last 12 months.



The year began as a nail-biter: storage inventory levels were well below the previous year, meteorologists forecasted a busy summer hurricane season and sky-rocketing oil prices had speculators in a futures feeding frenzy. Indeed, the 2008 Atlantic hurricane season tied as the fourth-most active since 1944 with 16 named storms and five major hurricanes. Hurricanes Gustav and Ike destroyed 60 Gulf of Mexico oil and gas platforms this past summer. More than 400 BCF of natural gas production was lost. Prices kept rising through the summer in anticipation of a repeat of 2005 Katrina/Rita effects. Instead, success in the development of unconventional supplies and shale gas plays kept U.S. supply abundant and growing at an unprecedented rate, therefore, hurricane interruptions had little effect on prices in the second half of 2008. From July to August, futures dropped almost \$4, indicating the speculation bubble had burst. The weak global economy brought about reductions in industrial and electric generation demand, which added further pressure to already low NYMEX natural gas prices. Even abnormal weather failed to provoke noticeable changes in the market. Storage inventory levels caught up to and eventually exceeded the five-year average. 2008 ended with the NYMEX settling at its lowest point of the year, with the prompt month of January closing at \$6.14 on December 29th.

2009 Market Outlook

Looking ahead, the current one year forward NYMEX natural gas futures strip is trading in the mid \$5 range and the two year forward strip is trading in the low \$6 range, almost \$3 less than the same time last year. The current price consensus among industry analysts is generally bearish, with forward values ranging between \$5 and \$7. However, it is important to keep in mind that many of these same analysts did not forecast the run-up to \$13 in July and also did not foresee the recent drop to the \$5-\$6 level. Nevertheless, the following scorecard provides insight into the factors we see influencing energy prices in 2009.

Factor	2009 Outlook	Commentary
U.S. Lower 48 Gas Production		Even though analysts expect a 15 percent cutback in new drilling projects this year, lower 48 production will still be able to satisfy the weakened demand of this recessionary environment.
Storage Levels		The unexpected draws at the end of November increased the year-over-year storage deficit to 107 BCF. Cooler weather may continue to defy expectations and drive up prices, but we're anticipating a year-over-year storage surplus by the end of the month and for levels to be at 1.7TCF at the end of First quarter 2009.
Economy		Deflationary CPI, reduced industrial demand, plummeting consumer spending, growing unemployment and negative GDP growth all support the bearish economic forecasts. Tight credit markets and weak output both indicate this recession will continue through the first half of 2009, making it the longest downturn since the 1930s.
Weather		Current expectations place this winter slightly colder than the 10-year average. Early forecasts for the summer indicate warmer than normal temperatures, primarily in the Southwest U.S. – calling for higher electric generation demands.
Oil		Falling demand continues to pull prices down; U.S. consumption has fallen 10 percent year-over-year. The \$50/bbl barrier was broken late November and prices are now bumping the \$30 level. Due to rapidly falling crude, gas prices are closest to reaching Btu parity with crude since November 2006.
Electric Generation		The recession, conservation, and the tightening ratio of fuel oil to gas will reduce demand for natural gas in this sector. Because a 1 percent change in GDP is directly correlated to a 0.66 percent change in demand for electricity, gas demand for electric generation is projected to fall 1.2 BCF/day year-over-year in early 2009.
Residential Heating		Cold weather raised residential heating demand almost 14 BCF/day in the closing months of 2008. Similarly, realized and forecasted heating degree days in January are placing anticipated heating demand at 46 BCF/day – a 5 BCF/day increase over January 2008. Residential heating is the only sector forecasted to experience year-over-year growth.
Industrial Sector		Early autumn industrial production gains due to favorable exchange rates are being increasingly offset by the deepening global recession and the lengthy recovery of industrial demand along the Gulf Coast. Industrial consumption, which accounts for 30 percent of total U.S. gas demand, tends to fall during economic downturns. Ethanol production, projected to grow by 24 percent in 2009, is a solitary exception.
Political Environment		Don't expect cap-and-trade legislation any time soon as concerns about economic growth overtake environmental liability. The incoming administration's focus on energy efficiency and global warming will have a positive effect on NG demand. New energy policies would have an immediate impact on energy producers, specifically those operating in the Barnett and Bakken shale plays.
Canada/Mexico		Canadian rig count is down by 14 percent since mid-October. The new royalty program in Canada, introduced on January 1st, has led analysts to project a 3 percent drop in output in 2008. Cold weather is also causing analysts to reduce forecasted Canadian storage levels, offsetting exports into the U.S. In Mexico, falling demand and increased production will limit imports.
LNG Imports		While slowing Asian economies and growing LNG output is increasing the likelihood that LNG producers will offload supplies in the U.S. this summer, the recent dispute between Russian and Ukraine will motivate European consumers to contract from more LNG and diversify their supply.
Pipeline Infrastructure		Though projects were expected to continue on course, benefiting from lower commodity and labor prices, the protracted economic downturn has prompted an onslaught of reductions in capital expenditures. Furthermore, new, large scale projects will be constrained by lagging demand and tight credit markets.

Moving forward

At CenterPoint Energy Services, our business is helping our customers effectively manage their natural gas purchases in terms of cost, reliability and predictability. It is our hope that our customers take advantage of the experience and expertise of their CenterPoint Energy Services account executive to develop and implement an energy management strategy that performs successfully, regardless of fluctuations in market conditions.

We thank you for your business in 2008 and look forward to serving you with continued success in 2009 and beyond. Please feel free to contact your account representative if you have any questions or need additional information.

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