



Annual Energy Industry Review

2009 Year in Review

The past 12 months in the US natural gas industry were dominated by several factors:

- A global recession which significantly reduced industrial gas demand
- Plummeting drilling rig count as gas prices fell
- Increased gas use for electric generation, substituting for coal
- New pipeline infrastructure including completion of the REX pipeline
- A calm hurricane season with no impact on energy production
- Record natural gas storage levels, peaking at 3.84 Tcf

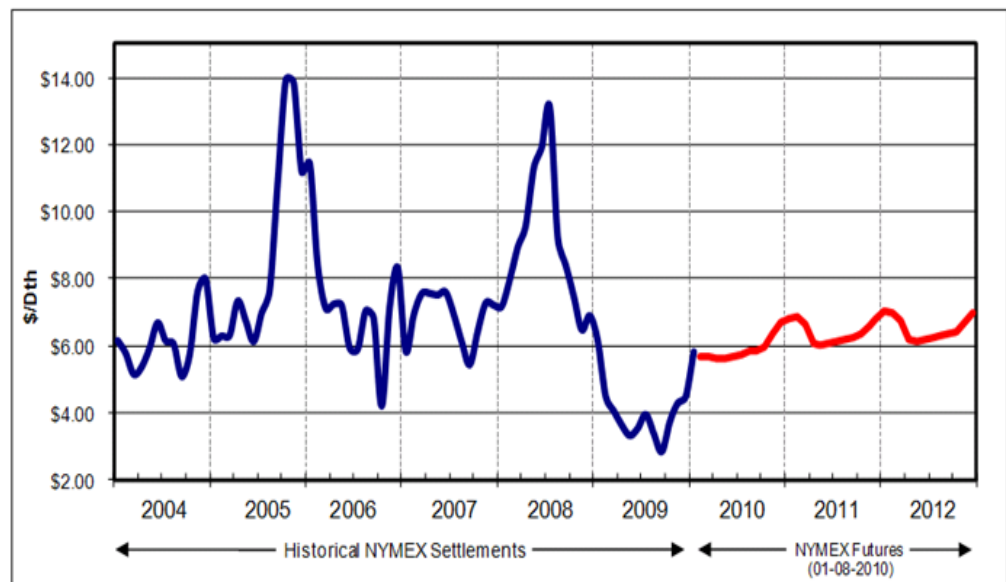


This publication is not to be construed as an offer to sell or a solicitation of an offer to buy any of the commodities or futures options referenced herein. Reliance upon information in this publication is at the sole risk of the reader.

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.

2009 Year in Review

NYMEX natural gas futures prices are the industry's benchmark for the balance between supply and demand. Looking at the graph below, 2009 lacked the volatile price spikes that dotted the landscape of recent years. Instead, both lingering supply and reduced demand produced downward pressure on natural gas prices. The average NYMEX settlement price for 2009 was \$4.12 per MMBtu versus \$9.03 for 2008. The 12 month forward NYMEX curve at the beginning of the year averaged \$6.18, well above the actual settlement prices.










The Story Behind the Prices

The year started off with industrial gas demand reeling from the entrenched global recession. As a result, storage inventories kept a healthy buffer above the 5-year average and prices continued on their descent. This price trend fueled a precipitous decline in the rotary rig count from its record high in 2008, but domestic production stayed aloft until February—and subsequent declines were far milder than anticipated.

With the approach of summer, concerns about oversupply further depressed prices. Prices may well have trended even lower if not for the fact that these low prices sparked competition with coal in electric generation, and soon natural gas demand in this sector had strengthened by as much as 4 Bcf/day due to coal displacement. Though the surge in demand thwarted a complete gas glut, it was not enough to offset the rapidly growing storage inventory. Before long, regional storage and transportation constraints were forcing some producers to shut in their wells.

A positive economic outlook and October temperatures 17% colder than normal gave a bullish start to the fourth quarter, but the run lost steam as one of the mildest Novembers on record brought about a rare net injection for the month and a record high storage level of 3,837 Bcf.

Finally, the approaching holiday season brought a late but loud start to the winter, nearly doubling demand from the residential sector and ushering in the New Year. The key fundamentals at play are highlighted below.

2010 Outlook		
Domestic Gas Production		The latest report from the Department of Energy shows production as much as 5 Bcf/day or 10% above the levels forecasted when the rotary rig count was plummeting in the spring of 2009. Forecasting production levels has become more complex as utilization of horizontal drilling and hydraulic fracturing on shale formations has increased drilling productivity from historical levels. Going into 2010, these changes will determine the rate of production decline and the rate of production response to higher gas prices.
Underground Storage		Last November's record storage level of 3,837 Bcf suggested that sizable storage levels would persist throughout the winter and weigh on prices during 2010. However, cold weather and a rebounding industrial sector have quickly altered this outlook, with some forecasters expecting storage inventories to dip below the 5-yr average this summer.
Liquefied Natural Gas Imports (LNG)		A global wave of new liquefaction capacity made 2009 seem like the year of LNG, but a combination of maintenance, outages, and geo-political factors kept U.S. imports modest. As maintenance and start-up issues are resolved, liquefaction capacity will increase. If global demand growth does not accelerate, excess cargoes will be forced to unload in any market that can absorb them—including the U.S.
Industrial Gas Demand		Industrial gas demand felt the full impact of the recession with year-over-year declines as high as 15% last spring. Now, leading indicators are pointing to a strong rebound in manufacturing. On top of that, an increase in average gas consumption per unit of industrial production seems to be reversing a decade long decline in industrial gas demand.
Residential & Commercial Demand		During the winter, residential space heating accounts for 90% of R/C gas demand. Expectations of a colder than normal winter (Jan-Mar) translate to robust demand from this sector for the 1 st quarter.
Electric Generation Demand		Last year, natural gas fired electric generation managed to grow market share in the face of declining power demand by displacing coal power plants. This year, higher gas prices and brimming coal inventories should force a 10-15% year-over-year reduction in EG gas burn, returning to normal levels.
Competing Fuels		Crude exhibited a strong rebound in 2009, and recent high prices have been attributed to cold weather, global manufacturing activity and a weak dollar. Continued economic growth in developing nations and geopolitical tensions in producing regions should keep a strong floor under crude prices.

2010 Market Outlook

At close to \$6, the current one year NYMEX futures strip isn't too different from where it was this time last year. But with what appears to be the trough of the recession behind us, the outlook for 2010 is considerably more bullish. Furthermore, the natural gas market has gotten off to a robust start driven by heating degree days that are 24% greater than normal.

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 2009 and look forward to serving you with continued success in 2010 and beyond. Please feel free to contact your account representative if you have any questions or need additional information.

Regional Offices

Minneapolis

800 LaSalle Avenue, #1725
Minneapolis, MN 55402
Phone: 612-321-5099
Toll Free: 800-495-9880
Fax: 612-321-5081

Madison

2810 Crossroads Drive, #2400
Madison, WI 53718
Phone: 608-240-2020
Toll Free: 800-893-8460
Fax: 608-240-2025

Hershey

2981 Elizabethtown Road, #200
Hershey, PA 17033
Phone: 717-520-3670
Fax: 717-520-3674

Dallas

14785 Preston Road, #550
Dallas, TX 75254
Phone: 972-789-5560
Fax: 972-789-5561

Houston

1111 Louisiana Street – 20th Fl
Houston, TX 77002
Phone: 713-207-3547
Fax: 713-207-0668

St. Louis

470 N. Kirkwood Road, #200
St. Louis, MO 63122
Phone: 314-991-7346
Fax: 314-991-7501

Shreveport

525 Milam, #242
Shreveport, LA 71101
Phone: 318-429-2577
Fax: 318-429-2600

Louisiana (New Iberia)

2500 LA Highway 14
New Iberia, LA 70560
Phone: 337-373-5241
Fax: 337-373-5220

Chicago

3010 Highland Parkway, #525
Downers Grove, IL 60515
Phone: 630-241-1010
Toll Free: 800-423-2080
Fax: 630-241-1110

Merrillville

8585 Broadway, #851
Merrillville, IN 46410
Phone: 219-793-1000
Toll Free: 800-423-2080
Fax: 219-793-1001

Little Rock

401 W. Capitol Ave., #102
Little Rock, AR 72201
Phone: 501-377-4874



Always There.®