



Annual Energy Industry Review

2010 Year in Review

The past 12 months in the U.S. natural gas industry were dominated by several factors:

Demand:

- Moderate economic recovery
- Cold winter weather
- Record summer heat

Supply:

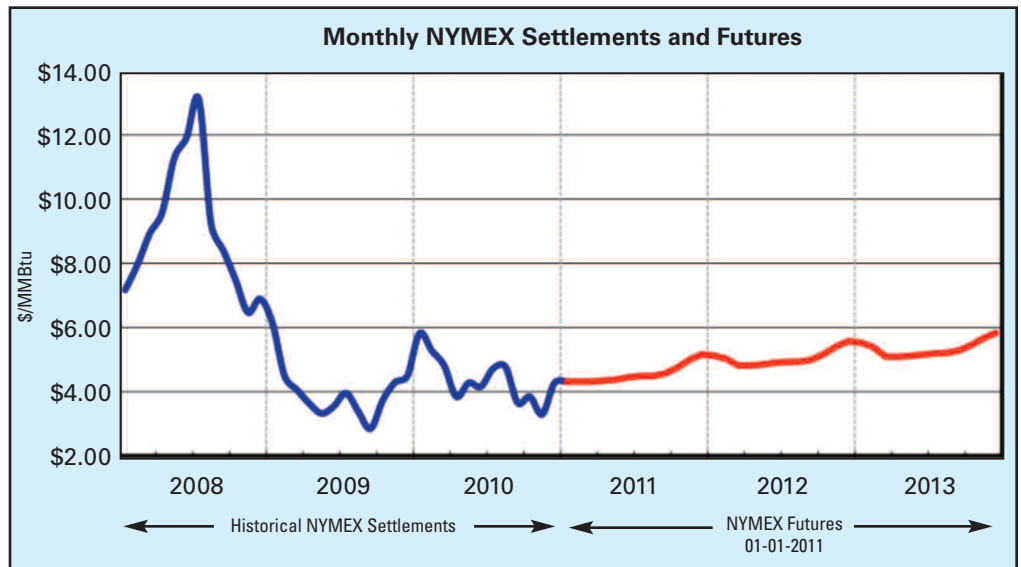
- Growing domestic production
- New pipeline infrastructure
- Brimming natural gas storage inventories
- Active, yet inconsequential hurricane season

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.

2010 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, the 2010 price range was narrower than 2009. Ample gas supply and weather-driven demand provided for a good balance such that prices never breached last year's highs or lows. The NYMEX settlement price in 2010 averaged \$4.483/MMBtu - slightly higher than the 2009 average of \$4.216/MMBtu.



Through 2010, the natural gas market's response to major events was subdued. Despite important developments, prices did not exhibit historical levels of volatility and remained within a \$3 range.

The year began with colder-than-normal temperatures across most of the country. Yet the combination of growing domestic production, Liquefied Natural Gas (LNG) imports, an abundance of available pipeline capacity and robust underground storage inventories kept a firm ceiling on prices.

An unusually warm March brought an early end to winter. The trend established in March continued through the entire summer, with the June through August period 25 percent warmer than normal. The summer of 2010 was the fourth warmest summer on record in the U.S., with nine states along the East Coast posting the hottest summers on record.








Summer was also a busy time for hurricane activity – with 19 named storms, 12 hurricanes, and five major storms. This was only the fifth season since 1851 with 19 or more named storms in the Atlantic. Despite the many threats, none of the storms made U.S. landfall, and Gulf of Mexico production experienced minimal impact.

The BP Macondo oil well blow-out in the Gulf of Mexico and Pacific Gas & Electric’s pipeline explosion in San Bruno, Calif., renewed the industry’s emphasis on safety and oversight in energy production and transportation. Furthermore, pending legislation on both derivatives and hydraulic fracturing will increase regulatory oversight. The costs associated with new regulations tend to be incorporated into a commodity’s price and passed on to the end-user.

The return of winter weather in November was not enough to prevent natural gas storage levels from hitting a record high. Inventories briefly jumped above 2009 levels in November, reaching a peak of 3,840 billion cubic feet (Bcf). As the year drew to a close, inventories remained at near record high levels, indicating ample supply for 2011.

A brief look at 2011

Recent developments have set the stage for 2011. Industry analysts believe natural gas rig counts have peaked and stricter regulation of deepwater drilling permits, hydraulic fracturing fluids, pipeline integrity standards and/or financial derivatives legislation will likely lead to production declines in the second half of the year. Lower natural gas prices have reduced exploration and production drilling activity, with the focus now shifting toward oil. These factors could cause an upward momentum in 2011 prices. An aggressive monetary policy from the Federal Reserve Board and tax cut and unemployment benefit extensions by Congress should boost economic growth and bolster demand for industrial products and electricity. And to add to this bullish outlook for 2011, meteorological models are again predicting a very active hurricane season.

Major themes for 2011		
Gas Production		<ul style="list-style-type: none"> • Producer activity shifting to oil and liquids-rich natural gas plays • Natural gas rig count gradually trending down • Horizontal wells are increasing drilling efficiencies, keeping shale production a focus • Backlog of drilled wells awaiting completion • Experts forecasting monthly production decline in second half of 2011
Storage		<ul style="list-style-type: none"> • Inventories are expected to end the winter withdrawal season at record high levels • Bloated inventories going into the summer will put downward pressure on prices
Industrial Gas Demand		<ul style="list-style-type: none"> • Monthly manufacturing indices continue to show improvements over the previous year • With inventories growing, slowdown in industrial production may be around the corner • Economy, jobs and the housing market recovery are integral to industrial sector rebound
Residential and Commercial Demand		<ul style="list-style-type: none"> • Driven by winter weather which, to date, is 10 percent colder than last year • Historically, population growth has been offset by efficiency gains • Forecast for a “30-year normal” winter should keep demand strong
Electric Generation Demand		<ul style="list-style-type: none"> • Natural gas is continuing to grow its share of the total electric generation market • Regulations over hazardous air pollutants may accelerate coal plant retirements
Competing Fuels		<ul style="list-style-type: none"> • Oil expected to maintain price premium over natural gas • Coal-to-gas substitution remains prevalent in low gas price environment • Global demand and stricter domestic mining regulations keeping a floor under coal prices
Liquefied Natural Gas		<ul style="list-style-type: none"> • LNG imports have repeatedly been less than forecasts • With global prices well above the NYMEX, some market participants are now considering exporting LNG <i>from</i> the U.S.

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 2010 and look forward to serving you with continued success in 2011 and beyond. Please feel free to contact your account executive if you have any questions or need additional information.

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