



Energy News

In this Issue:

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Obama's New Energy Plan 1-2

Regional Reports: 2-4

Gulf Coast

Midwest

North Central

Northeast

Customer Corner: 4

GMI Group

Regional Offices 5

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How will the Obama-Biden "New Energy for America" plan affect the natural gas industry?

The presidential race is over, the inaugural ceremonies have concluded and it is back to business - with all eyes on energy. The Obama-Biden administration has developed an energy plan that intends to tackle issues such as oil dependence, clean energy and the economic and environmental challenge of global climate change. But what will all these new policies mean to the natural gas industry and how may these changes impact gas prices?



While the New Energy Plan for America (NEA) is still a work in progress, below are some observations about a few of the plan's components, as we seek to better understand potential shifts in energy markets.

Crack Down on Excessive Energy Speculation

NEA: The new administration proposes to enact legislation in conjunction with the Commodity Futures Trading Commission to close loopholes and increase transparency within markets to avoid excessive speculation and market distortion.

Comment: Excess speculation is thought to be one of the factors contributing to the natural gas price run-up in mid 2008. With increased market transparency and more stringent trading regulations, there is less risk of market manipulation. This should absorb some of the surplus volatility encountered in the last couple of years. The market should become more efficient, and fluctuations should reflect fundamental factors such as supply/demand, weather and storage levels. Consumers will have a better sense of what drives the market.

Promote the Supply of Domestic Energy

NEA: From the “use it or lose it” approach of existing oil and gas land leases to elimination of federal permitting process delays, the new administration plans to advocate the utilization of American resources to reduce our dependence on foreign imports.

Comment: Domestic natural gas supply has increased as much as 3 BCF per day over the last two years. If the new plan succeeds in key areas such as prioritizing the construction of the Alaska Natural Gas Pipeline or subsidizing Enhanced Oil Recovery projects, domestic natural gas supplies could carry us for a long time to come. This would, in effect, put further downward pressure on already low gas prices for the next several years.

Tackle Climate Change

NEA: The Obama-Biden plan supports the implementation of a nationwide cap-and-trade system with the goal of reducing carbon emissions by 80 percent below 1990 levels by 2050. Pollution credits are to be auctioned and all industries will be required to pay for every ton of emissions released.

Comment: The combustion of natural gas emits almost 30 percent less carbon dioxide than oil and nearly half the emissions that coal emits. While we will likely see increases in investments for clean energy technologies such as wind and solar, it will be difficult to get away from existing central generation infrastructure. Therefore, we expect to see more natural gas fired electric generation and gas powered industrial applications turn up within the next several years, resulting in a greater demand for natural gas.

Summary

There are still a lot of details to be hashed out – and only time will tell. For now, the future looks bright for natural gas. At \$4.48 per Dth, the February NYMEX natural gas futures contract settled at the lowest level since October 2006. The 2009 and 2010 calendar year strip for NYMEX futures is currently trading in the low \$5.00 range and mid-to-high \$6.00 range, respectively. With a cutback on speculation, the promotion of domestic production and the push for cleaner fuels, natural gas markets should remain very active during the Obama administration.

Regional Reports

Gulf Coast Louisiana/Mississippi/Texas

This is the first month for the Gulf Coast in our Regional Reports. Our first topic addresses some potential results of the Rockies Express pipeline, which is in the process of being built from Colorado to Ohio.

Bentek Energy said Gulf Coast gas producers will lose the imminent battle with Rockies producers for premium Northeast markets once the Rockies Express Pipeline's East leg begins service. In November, REX-East is set to begin delivering up to 1.8 Bcf/d of Rockies gas to its terminus at Clarington, Ohio – a key hub with interconnections to major Northeast-bound legacy pipes such as Columbia Gas Transmission, Texas Eastern Transmission and Tennessee Gas Pipeline. Favorable price economics will drive Rockies gas to Clarington and displace gas heading to the Northeast from traditional supply basins, Bentek predicted. The supply glut at Clarington, combined with downstream constraints, will lower spot prices in Appalachia and pressure Gulf prices downward in response, according to Bentek's *Catch the Wave* report.

Midwest Iowa/Minnesota/South Dakota/Wisconsin

LDC's Serve Record Demand: The extreme cold of January 15th pushed natural gas usage to record levels for customers of Madison Gas & Electric (MG&E) and WE Energies. MG&E said its usage was 2% higher than the previous record set February 4, 2007. Wisconsin Power & Light came close to setting a record, but did not do so.

continued on page 3

Regional Reports (continued)

Midwest

Iowa/Minnesota/South Dakota/Wisconsin

On November 3, 2008, CenterPoint Energy filed an application with the Minnesota Public Utility Commission (MPUC) to change the company's natural gas distribution rates. If approved, the new rates will increase the average residential customer's bill by about 6 percent or \$5.50 per month.

"CenterPoint Energy Minnesota revenues are not keeping pace with increasing costs," said David Baker, CenterPoint Energy's vice president of gas operations in Minnesota. "We recognize the importance of keeping our rates as reasonable as possible; however, the ability to earn a reasonable return on investment is critical to our ability to continue providing safe and reliable service to our customers in Minnesota."

This filing seeks approval to change the distribution charge on a customer's natural gas bill, which makes up about 20 percent of the total bill and covers the cost of distributing natural gas. The filing does not apply to the cost of natural gas, which is the wholesale price the company pays for natural gas, and makes up about 80 percent of the bill. The wholesale price of natural gas changes monthly depending on market prices and is passed on directly to customers with no mark-up.

The principal reasons CenterPoint Energy is proposing to change base rates are:

- Increased operating costs including higher uncollectible customer account expenses and the related collection and customer service costs, along with inflationary increases on other expenses,
- Increased expenses related to conservation improvement programs,
- Decreased average customer use because of energy efficiency and building construction improvements, and
- Increased capital structure costs.

Additionally, CenterPoint Energy has proposed a pilot rate adjustment mechanism that separates the company's revenue from the volume of natural gas sold. By better aligning the interests of the company and its customers, these rate designs support the promotion of conservation and energy efficiency.

Customers saw the first change on bills beginning January 2, when interim rates took effect. Interim rates will stay in place until a decision is made by the MPUC and the company implements final approved rates. In 2009, public hearings will be held to provide customers and other interested parties the opportunity to comment on the rate request, followed by formal hearings at the MPUC. CenterPoint Energy expects a final decision from the MPUC and the new rates to be implemented in late 2009. If approved, the new rates would generate approximately \$59.8 million or 3.9 percent in additional revenue on an annual basis. The effect on individual monthly bills will vary depending on natural gas use and customer class.

If final approved rates are lower than interim rates, CenterPoint Energy will refund the difference to customers with interest. If the final rates are higher than the interim rates, customers will not be required to make up the difference.

Customers with questions about the proposed change to natural gas distribution rates can visit the company's Web site at CenterPointEnergy.com/ratecase.

Pipeline Builder Fined: Enbridge Energy Partners, owners of the 321-mile oil pipeline traversing Wisconsin, will pay \$1.1 million to settle state allegations that the company broke numerous environmental laws during 2007-08 construction.

The DNR said Enbridge workers illegally cleared and disrupted wooded wetlands and used practices that degraded land and streams. Many of the problems were discovered by third-party monitor, Merjent Inc., of Minneapolis. Enbridge did not admit liability in its settlement, according to a stipulation signed in Dane County Circuit Court. They do state there are 80 remaining problems which will be repaired when weather improves this spring.

Regional Reports (continued)

North Central Illinois/Indiana

As the current winter continues to take its toll on the Midwest, CenterPoint Energy Services customers in the North Central region have enjoyed uninterrupted service. Weather statistics so far have shown that October 2008 was 6% colder than normal for the IL/IN area. November was 10% colder, December was 15%, and as we go to press January looks to be 20% colder than normal. Over this period, many local utility companies considered calling or did call "critical days".

Critical days are those days when the extreme cold weather forces gas consumers to increase their level of usage so dramatically that it threatens the integrity of the utility's delivery system. Needless to say, when this occurs your gas supplier has to be on high alert. CenterPoint once again performed flawlessly during this precarious period.

Gas delivery for most of us is a given. We assume it will be there when we need it. We don't notice it unless it's not there. Making sure it IS there is what we do. We value your business and want you to know that we will continue our diligent efforts to maintain this level of service.

Northeast Pennsylvania

As gas production from the Marcellus Shale ramps up, new rules are being developed for controlling wastewater pollution from drilling operations as well as methods to treat the wastewater. The Department of Environmental Protection and the natural gas industry representatives will be working together to develop treatments that will allow the gas industry and Pennsylvania's economy to grow while protecting its rivers and streams. This task force, which met for the first time in January, also seeks to reduce the well-permit processing time from 150 days to 30-45 days. The intent is to keep Pennsylvania competitive with other states in attracting drilling activity. Any regulatory changes are subject to state Environmental Quality Board approval.

Customer Corner

The GMI Group, located in Plymouth, Ind., is a broad based packaging company operating multiple converting and laminating facilities across the country. GMI divisions produce corrugated, single face, lids and clamshell packaging for direct food contact at its certified facilities. GMI Group also produces specialty film, foil and holographic laminations in roll and sheet form for outside conversion. A comprehensive product offering,



high quality graphics capabilities, superior technical expertise, customer service, and decades of experience make GMI Group an excellent choice for food packaging and specialty lamination needs.

GMI Group has been a CenterPoint Energy customer since October 2006 and is served by Michelle Crepeau. For more information please visit www.gmigroup.com.

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CenterPoint Energy is one of America's leading energy delivery companies. Our focus is helping customers achieve their business objectives by providing effective energy solutions.

CenterPoint Energy Services is our non-regulated energy marketing group delivering competitive options to commercial, industrial, and wholesale customers.



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