



**September,  
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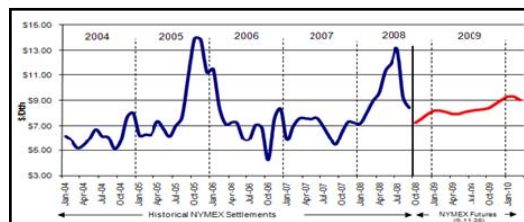
# ENERGY NEWS

## MARKET TRENDS

Natural Gas Historical/Futures Prices – July 8, 2008



Natural Gas Historical/Futures Prices – Sept 11, 2008



Two months ago, the lead article in *Energy News* showed a NYMEX natural gas historical/futures price graph with then-current prompt month prices near \$13/dth, and 2009 futures prices ranging between \$11-\$13/dth. The updated version of the same graph now shows a much different story. The updated graph shows the most recent monthly settlement (Sep08) near \$8.40/dth, and 2009 future NYMEX natural gas prices ranging from \$7.00 to \$9.00. If nothing else, this illustrates how truly volatile the market (prices) for natural gas can be. It also shows how difficult it can be for professional investors (let alone business managers) to guess the market direction – let alone the magnitude of price movements.

Several after the fact explanations have been offered for why natural gas prices can swing so wildly in just two months. Some of the factors that natural gas price movements have been tied to include: crude oil prices, natural gas storage levels versus previous years, natural gas production increases through shale plays, natural gas production decreases due to hurricane induced shut-ins, strength/weakness of the U.S. dollar, investments shifting between commodities and equities, mild summer weather, and forecasts for colder than normal winter weather. The point is that natural gas prices are influenced by many different factors, individually and in combination with each other. Accurately predicting tomorrow's price, let alone accurately predicting next month's/winter's/year's prices is extremely difficult.

Two questions we hear frequently are: "Is this a "good" price?" and "Is this a "good" time to lock in future prices?" The answer to both questions, of course, depends on your definition of good. At CenterPoint Energy Services we encourage all of our customers to define "good" based on the impact a specific price has on their business model and not based on whether they can accurately predict the future. So we advise our customers to think of a good price as one that helps meet an expense budget, or locks energy costs at or below what was spent last year, or gives stability to product costing, or fits within a corporate risk management strategy. Each business should develop, in advance, their own definition of what a good price is for their business. Doing so will help you recognize a "good" price when you see one and will help make the energy purchasing process less stressful.

So where will natural gas prices be in two more months? There is no way to know for sure. But that doesn't mean you cannot put together a price management strategy that works for your business regardless of where prices eventually end up. Your CenterPoint Energy Account Executive is available to work with you to develop a price management strategy that can help you manage the unique requirements of your facility. We invite you to take advantage of their expertise by calling them at the number on page 3.

At CenterPoint Energy Services, we see ourselves as partners with our customers in the effort to manage natural gas costs. Whether through innovative products, customized price risk management strategies, or simple good advice, we are here to help you. Please call us with any energy related question.

*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.*

## REGIONAL REPORTS

### ILLINOIS/INDIANA UPDATE

Once again the LDC (Local Distribution Company) Forum is being held in suburban Chicago. This annual gathering of local utility companies and large end users is in its 20<sup>th</sup> year. Gas buying personnel from gas and electric utilities, merchant power plants, and industrial end users will attend. In addition, producers, pipelines, marketers, storage operators, and brokers will all be represented.

Some of the agenda topics that will be discussed are:

- ◆ **Prices are up, the Dollar is down and the Credit Markets are Volatile**
- ◆ **Supplying Gas to the Mid-Continent**
- ◆ **Managing Risks That Can Be Managed**
- ◆ **Storage Developments to Serve the Mid-Continent**

Not only will numerous CenterPoint Energy representatives be in attendance, we will be leading discussions on a variety of topics. This is just another way that CenterPoint Energy stays involved and up to date regarding all the latest information in the energy markets.

**Illinois Electric Rates Going Up:** According to the Associated Press, the Illinois Commerce Commission has approved a delivery rate hike of 6% for ComEd to pass on to customers. Estimates show that this increase will equate to approximately \$4.50 to the average consumer's bill.

ComEd spokeswoman Alicia Zatkowski says the company requested the increase last October to reflect higher costs of materials used to maintain and upgrade ComEd's infrastructure, including power wires, and utility poles.

Citizens Utility Board (CUB) spokesman Jim Chilsen says the consumer advocacy group will appeal the ICC's decision. Chilsen contends ComEd is inflating its costs and doesn't deserve the rate hike. ComEd last raised rates by 2.5% in June to offset higher energy costs.

The company provides electricity for 3.8 million customers across northern Illinois.

### PENNSYLVANIA UPDATE

**Gas Drilling Might Affect Susquehanna Basin:** The quest for new energy sources has drilling companies descending on Pennsylvania's northern tier, where geologists believe there is a virtual sea of natural gas waiting to be tapped. The gas reserve has

been estimated at 50 trillion cubic meters, enough to supply the nation's demand for more than two years. That potential has fueled a miniature gold rush of sorts. It also has regulators responsible for protecting the Susquehanna River basin struggling to ensure drillers don't disrupt the region's water supply.

The Susquehanna River Basin Commission, the multistate agency that determines who may draw water from the basin, has been besieged with applications from oil and gas companies interested in drilling in Pennsylvania's Marcellus region. The Marcellus deposits underlie much of Pennsylvania, New York, Ohio, and West Virginia, according to Geology.com. The commission is involved because the process used to test for and extract the gas requires millions of gallons of water, most of which must be drawn from small creeks and rivers and is never returned.

The number of permit applications submitted to the agency increased to 121 in the 2007-08 fiscal year, which ended June 30. That's up from 29 in the previous year. The agency is on track to see more than 230 permit applications in the 2008-09 fiscal year. "Right now, the natural gas industry is in exploratory mode. We can only imagine what it will be like when it gets to the actual development phase," said Susan Obleski, a spokeswoman for the commission. Without adequate controls, the spike in water demands could dry out small waterways, affecting drinking-water supplies in rural communities, downstream industries such as power plants, and aquatic life, officials said.

As a precaution, commission executive director Paul Swartz took a rare step. He required all natural gas companies to apply for permits regardless of how much water they plan to use. Normally, the commission only permits uses that meet certain thresholds -- 1 million gallons a day for withdrawals and 20,000 gallons a day for consumption, meaning the water is not returned.

The state Department of Environmental Protection is also affected by the rise in gas exploration. The DEP has 32 field inspectors who cover drilling and water quality. The agency plans to hire four more, said Tom Rathbun, a DEP spokesman. "Inspections are frequent, routine, and unannounced," he said.

Two things have sparked the so-called gas boom in Pennsylvania: high prices for natural gas at the wholesale level and new technology that makes gas retrieval economically feasible, said Stephen Rhoads of the Pennsylvania Oil and Gas Association. If it pans out, Pennsylvania natural gas could significantly augment the amount of fuel available to heat homes and generate electricity in the Northeast, where demand is highest, he said. The typical test

well costs \$400,000 to \$800,000, but in Marcellus, where drillers can go in horizontally, costs can approach \$3 million, Rhoads said. Though the industry pledged to work with the river basin commission, Rhoads said he wondered why the agency was adding to its regulatory burden by increasing the number of permit applications it will have to process.

Obleski said the agency was simplifying the process by allowing gas companies to buy water from public water companies that have a surplus. Those supplies have been approved by the commission and would require less review than a new withdrawal, Obleski said. The agency is also considering allowing gas drillers to use other pre-approved water sources, including treated wastewater from municipal treatment plants, she said.

The Chesapeake Bay Foundation, the non-profit group that advocates for water cleanup in the Susquehanna basin, said the impact of gas exploration on water quality could be significant if it's not managed properly. Foundation research suggests that it takes 2 to 9 million gallons of water a day to break through the rock and shale to open a pathway for the gas, said Harry Campbell, a staff scientist. "That's a huge amount of water leaving the Susquehanna River basin," he said.

### WISCONSIN UPDATE

**REX Pipeline:** The eastern leg of REX (Rockies Express Pipeline) has received FERC approval to begin construction. The pipeline begins in Colorado and Wyoming and currently is operating into Missouri. The REX- East will go from Missouri through Illinois and Indiana and end with an inter-connection in Ohio with three other pipelines, covering 1,678 miles in all.

**Caverns Used to Store Winds Energy?** Energy Storage and Power LLC, a joint venture between PSEG Energy and Michael Nakhmkin, the primary developer, says that they have a solution to an issue clouding the future of wind power: How do you use the electricity when the wind is not blowing? Their technology is purported to pull off excess power from the grid to run compressors that pump air into sealed underground caverns that once held oil, natural gas or salt. When the power is needed the air is released and heated to run air expansion turbines. Some natural gas is used in the heating process but the companies indicate there is a reduction in emissions and an energy savings. They feel this could be a solution that could make wind power more feasible.

## Customer Corner

**Would you like to see your company featured in our monthly Customer Corner?? Please contact your account representative and let them know. We'd love to showcase your company in a future newsletter.**



Always There.®

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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.



Website:

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