

Eye On ENERGY

A periodic publication of American Energy.[®]
Providing insight for making better energy decisions.

COMMODITIES UPDATE

By Mike Granstaff

January 2010 Natural Gas Report

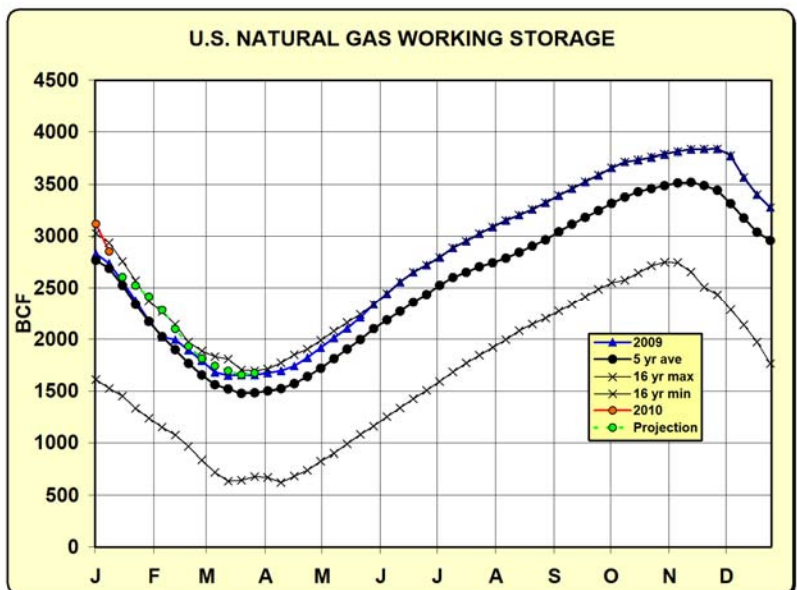
The natural gas market poked its head above \$6.00 very briefly during the first week of January 2010 in response to the arctic blast that blanketed the eastern 2/3rds of the nation for much of December. This is the first time a NYMEX spot month contract has traded above \$6.00 since early in January 2009. Prices have eased back down a bit as arctic air has retreated and warmer than normal temperatures now dominate and are expected to remain through the first week of February. Most forecasters are warning us not to put away the winter coats yet as they expect much more winter ahead. The huge blocking pattern that funneled the arctic air deep into the U.S. last month is showing signs of life again so February may be another bone-chiller.

December ended up being the 14th coolest December over the past 115 years for the contiguous U.S. according to NOAA. It was also the 11th wettest December on record. NOAA satellite observations showed the average snow extent for the contiguous U.S. was more than 4.1 million square kilometers - the largest for any December since the satellite record began in 1966.

For the entire year of 2009, it was the 35th warmest year on record for the contiguous U.S. and globally it was the 5th warmest year on record according to NOAA.

Working Storage

The EIA reported that 266 Bcf was withdrawn from working storage the week ending January 8th. This huge weekly withdrawal is the second largest on record. The week of January 28th, 2008 still holds that record when 274 Bcf was taken out of working storage. We would normally expect to see a withdrawal of 76 Bcf for this reporting period. Working storage is now 2,852 Bcf which is 121 Bcf greater than the 5 year average and 103 Bcf greater than last year. We have experienced an unprecedented 6 week withdrawal of 985 Bcf with another 200+ withdrawal expected in the next report. We would normally withdraw 2,050 Bcf for an entire 18-20 week winter season.



January 10 Natural Gas Report Cont.

Those that are bullish this market are talking a lot about how quickly we are approaching the 5 year average working storage level and...we are. But, keep in mind that the 5 year average is increasing every year. In fact, this year it is up more than 50 Bcf from last year. Also, each year we increase the U.S. storage capacity and the pipeline delivery infrastructure. And, as we have seen recently, shale gas production is very prolific and can apparently be ramped up rather quickly in response to demand as compared to conventional gas production. So, I would be cautious about getting all bulled-up on natural gas for the long term. If you haven't covered February and March you may want to protect against another cold shot but beyond that, I expect we will be on pace to refill working storage to capacity again next fall.

Bottom-line, the market has found a temporary comfort zone between \$5.50 and \$6.00. Another arctic blast like the one we experienced in December could provide enough reason to see some \$6.50 or even \$6.75 prints. Watch the 11-15 day weather forecast as that will be what traders take their cue from.

Technical Analysis

NYMEX March contract

Upside resistance is \$6.50, \$6.75, 8.05

Downside support is \$5.25, \$4.55, \$4.00

COMMODITIES UPDATE

By Sean Franke

Demand Response

In November, American Energy detailed the specifics of the demand response Standard Offer Program (SOP) in ERCOT for customers in the Centerpoint service territory. Open enrollment began in November and the program is currently full. This month American Energy is detailing the SOP for customers in the Oncor/TXU Delivery service territory. Open enrollment will begin in April 2010.

The SOP parameters for a commercial customer are listed below.

1. Load Requirements – Average demand of 750 kW individually or aggregated
2. Economic Incentive – Total of \$40 per kW curtailed
3. Contract Period – June through September
4. Awarding Contracts – Customers are allowed to sign up on a first come first serve basis
5. Duration – Total curtailable hours of 17
 - A. Test – A 1 hour test will be held to determine the amount of curtailable demand
 - B. Unscheduled – Up to 4 unscheduled events with a length of 4 hours each
6. Notification – 30 minute notice



American Energy is available to assist your company in the evaluation of the ERCOT SOP Demand Response Program. American Energy can assist in the following areas:

- Identify the company to administer the Demand Response Program.
- Assist in contract negotiations including the percentage share that goes to the Scheduling Entity for administering the program.
- Determine the amount of demand available for curtailment.



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