

EPC Self Help Natural Gas Program

Budget and Market Review by
EnergyUSA

11/04/08

Agenda

- 2007-2008 Budget Recap
- 2008-2009 Budget Review
 - Cost
 - Burnertip
 - Cost Allocation
 - Current Hedge Position
 - Current Status
- Market Update
 - How did we get here
 - Short term Outlook
 - Long term Outlook
 - Supply & Demand Equation
 - Where' the Bottom
- 5 Year Plan/Forecast
- Conclusion - Questions & Answers

2007 – 2008 Budget Recap

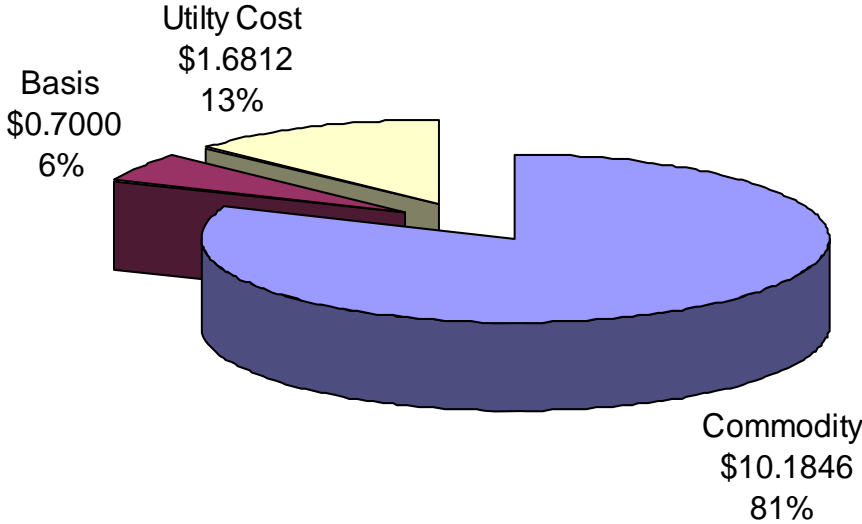
- COH (July – June)
 - Actual burnertip cost: \$1,551,327
 - Actual usage: 140,158 MMBtu
 - Actual unit cost: \$11.07/MMBtu
 - Actual budget: \$1,759,598
 - Final true up: \$208,271 credit due the schools
 - Savings generated: \$273,969
- Duke (October – June)
 - Actual burnertip cost: \$547,050
 - Actual usage: 49,446 MMBtu
 - Actual unit cost: \$11.06/MMBtu
 - Actual budget: \$575,043
 - Final true up: \$27,992 credit due the schools
 - Savings generated: \$25,157
- Vectren (October – June)
 - Actual burnertip cost: \$10,102,889
 - Actual usage: 924,604 MMBtu
 - Actual unit cost: \$10.93/MMBtu
 - Actual budget: \$9,549,250
 - Final true up: \$553,639 due EUSA
 - Savings generated: \$558,144

2008 – 2009 Budget Review

- COH (July – June)
 - Estimated usage: 140,966 MMBtu
 - Estimated cost: \$1,770,653.42 (14% Increase)
 - Estimated unit cost: (\$12.56/MMBtu-\$1.68 COH)
- Duke (July – June)
 - Estimated usage: 48,396 MMBtu
 - Estimated cost: \$628,229 (14.8% Increase)
 - Estimated unit cost: (\$12.98/MMBtu - \$2.28 Duke)
- VEDO (July - June)
 - Estimated usage: 927,557 MMBtu
 - Estimated cost: \$11,790,659 (16.7% Increase)
 - Estimated unit cost: (\$12.71/MMBtu - \$2.027 VEDO)
- Budgets were calculated using the NYMEX Settlement price on August 21 plus all fixed hedges and collars that were executed at the time the budgets were calculated.
- Weather normalized volumes based on last years usage.

2008 – 2009 Budget Review

2008-2009 BURNERTIP COST ALLOCATION COLUMBIA GAS OF OHIO

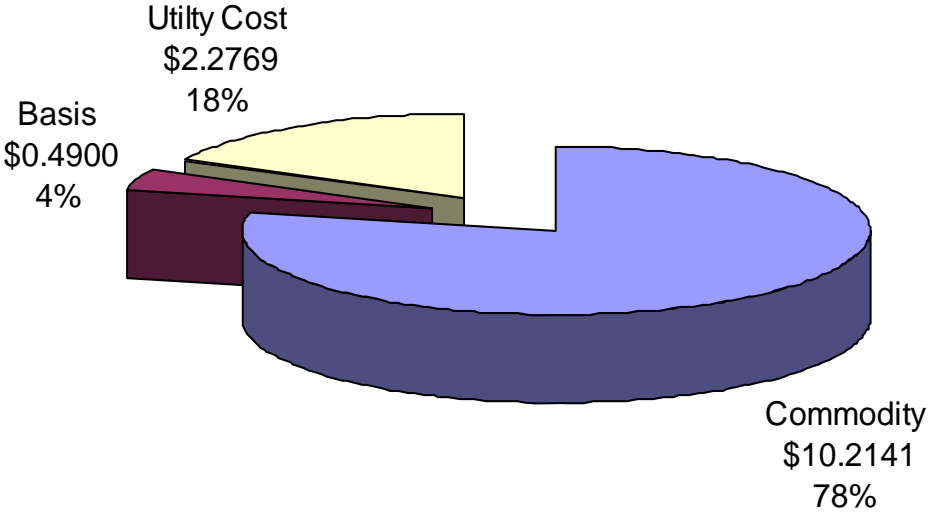


BT= \$12.5658

■ Commodity ■ Basis ■ Utility Cost

2008 – 2009 Budget Review

2008-2009 BURNERTIP COST ALLOCATION Duke Energy Ohio

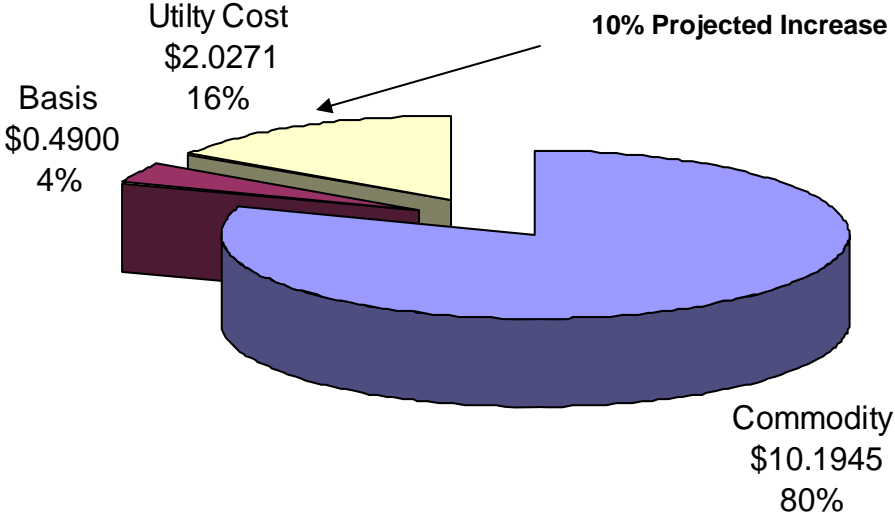


BT= \$12.981

■ Commodity ■ Basis ■ Utility Cost

2008 – 2009 Budget Review

2008-2009 BURNERTIP COST ALLOCATION Vectren Energy Delivery of Ohio



BT= \$12.7115

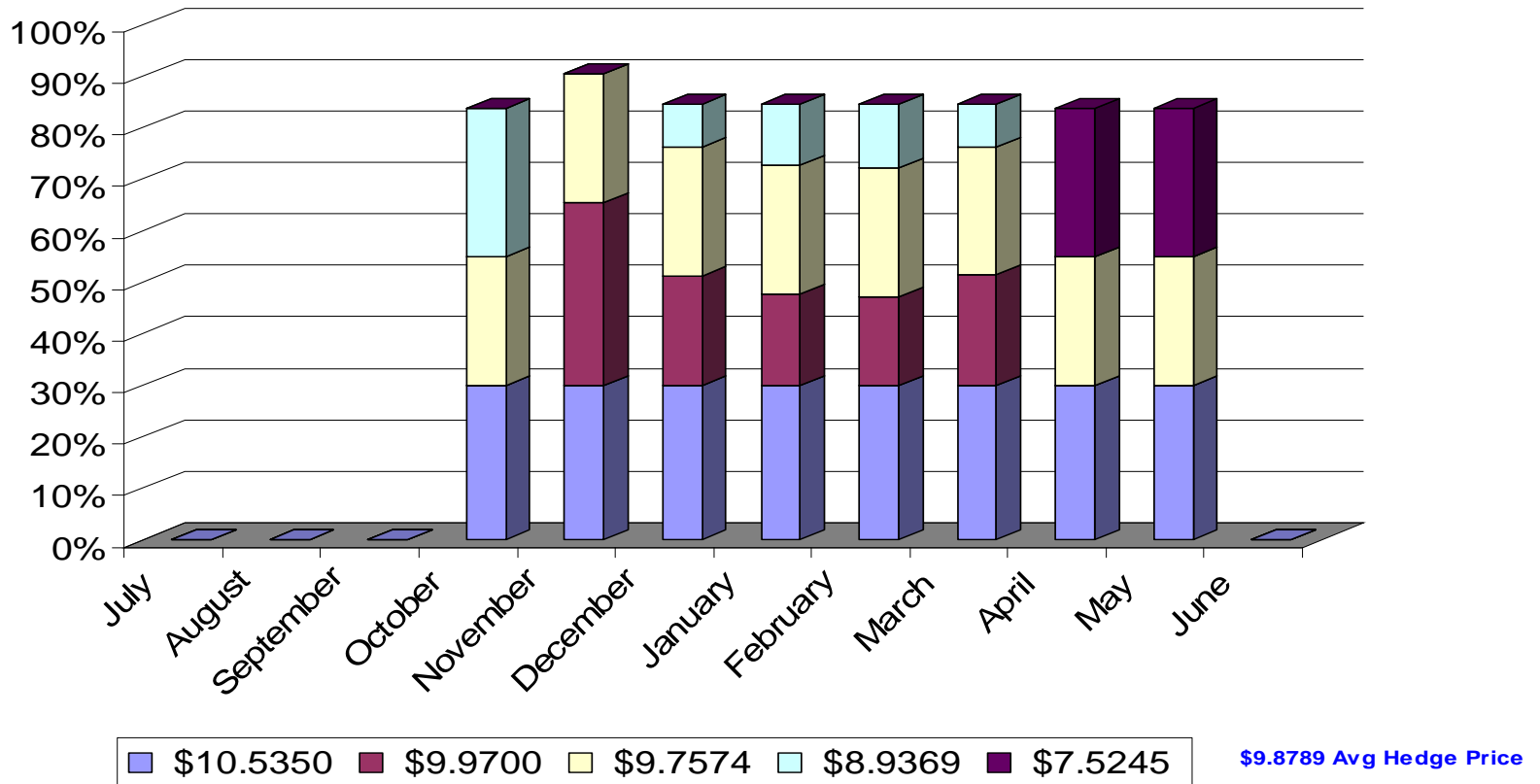
■ Commodity ■ Basis ■ Utility Cost

2008-2009 Hedge Position

- 80% Hedged for the year as of October 6, 2008
- 85% Hedge for the “core usage months” of October – May
- Moved 10% of 2009-2010, 2010-2011 and 2011-2012 forward to protect budgets
- Remaining 20% will default to the NYMEX settlement price

2008-2009 Hedge Position

Ohio School Consortium
July 08 - June 09 Hedges



Current Budget Status

- Market dropped after budgets were set.
 - \$8.9369 hedges done on 9/22/08
 - \$ 7.5245 hedges done on 10/06.08
- Projected citygate cost based on current market for remaining 20%
 - COH: \$10.1019 (-0.82%)
 - Duke: \$9.8932 (-3.2%)
 - VEDO: \$9.933 (-2.7%)



Market Update & Review

Starting Thoughts - How Did We Get Here?

Feb '08 – Early-July '08

- Long, steady-cold winter
- Hard draws on Storage led to 1,234 BCF in April
- Will storage get full by end of October? Need it!
- LNG & Canadian supply DOWN
- Domestic Production UP... enough?
- Oil, gasoline, diesel & all commodities WAY UP.
- Weak equities – commodities attracting money
- World-wide natural gas demand up
- Weak economy – Will US demand go down?
- Ethanol demand
- Fear of a hot summer – lots of gas demand
- Fear of Gulf hurricanes – Gulf gas production

The fear of the above SUPPLY, DEMAND & FINANCIAL issues took natural gas NYMEX from \$7.80/MMBtu to \$13+/MMBtu

Early July – Early Sept.

- Weather for July & August Mild
- Stronger Dollar – Weaker Commodity Prices
- Strong local production – overcome lack of LNG
- Hurricane Gustav – not dramatic damage.
- Storage should get to 3,500+ by 10/31... lacking add'l Gulf hurricane surprises.

The above factors drove prices to retrace 100% of its upward move, and move from \$13+ to the low \$7

Market Update & Review

- NYMEX Futures
 - Front Month December 08 \$6.828
 - 1 Year \$7.229
 - Winter 08-09 \$7.022
 - Summer 09 \$7.257
 - Winter 09-10 \$8.374
- Short term – Bearish
 - Market retraced 100% of its upward move since Feb 2008
 - Storage full
 - Escaped the hurricane season unharmed
 - Mild start to winter

Market Update & Review

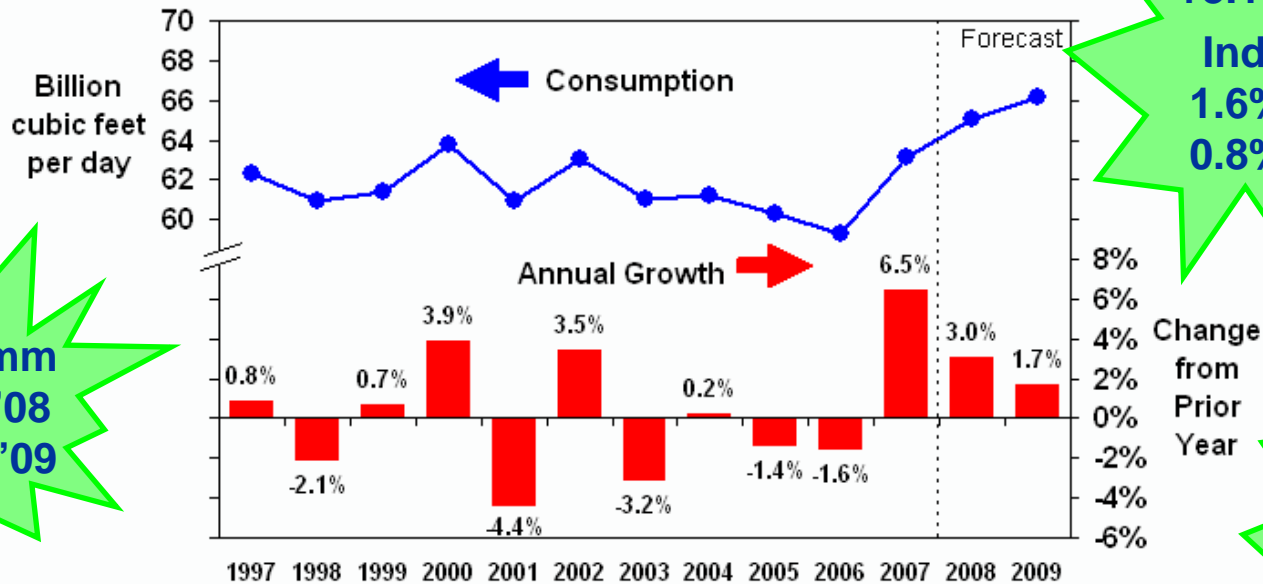
- Long term – Bullish
 - Electricity and Industrial demand up
 - Supply & Demand still on Knifes Edge
 - R&D cost rising

Market Update & Review

Supply / Demand

Short-Term EIA Consumption Forecast

U.S. Total Natural Gas Consumption



Electricity
+3.4% in '08
+3.1% in '09

Industrial
1.6% in '08
0.8% in '09

Res/Comm
-2.0% in '08
-2.2% in '09

Demand
BCF/Day
'08 - 64.6
'09 - 65.7

Short-Term Energy Outlook, August 2008



Market Update & Review

- Supply / Demand
Short-Term EIA Production Forecast

	U.S. Natural Gas Supply				
Supply (Billion cubic feet per day)	2005	2006	2007	2008	2009
Total Marketed Production	51.86	53.1	55.21	59.61	61.83
Alaska	1.34	1.22	1.22	1.16	1.16
Federal GOM ^a	8.58	7.95	7.59	7.59	7.86
Lower 48 States (excl GOM)	41.94	43.93	46.4	50.86	52.81
Total Dry Gas Production	49.45	50.62	52.82	57.01	59.11
Gross Imports	11.89	11.47	12.61	11.14	10.57
Pipeline	10.16	9.87	10.5	10.07	9.26
LNG	1.73	1.6	2.11	1.07	1.32
Gross Exports	2	1.98	2.25	2.68	2.57
Net Imports	9.9	9.49	10.36	8.46	8
Supplemental Gaseous Fuels	0.17	0.18	0.17	0.15	0.15
Net Inventory Withdrawals	0.14	-1.2	0.48	0.12	-0.2
Total Supply	59.67	59.09	63.82	65.74	67.05
Balancing Item ^b	0.64	0.23	-0.66	-0.65	-0.87
Total Primary Supply	60.3	59.32	63.17	65.12	66.18



Market Update & Review

Supply / Demand
The Short-Term "Knife-Edge"



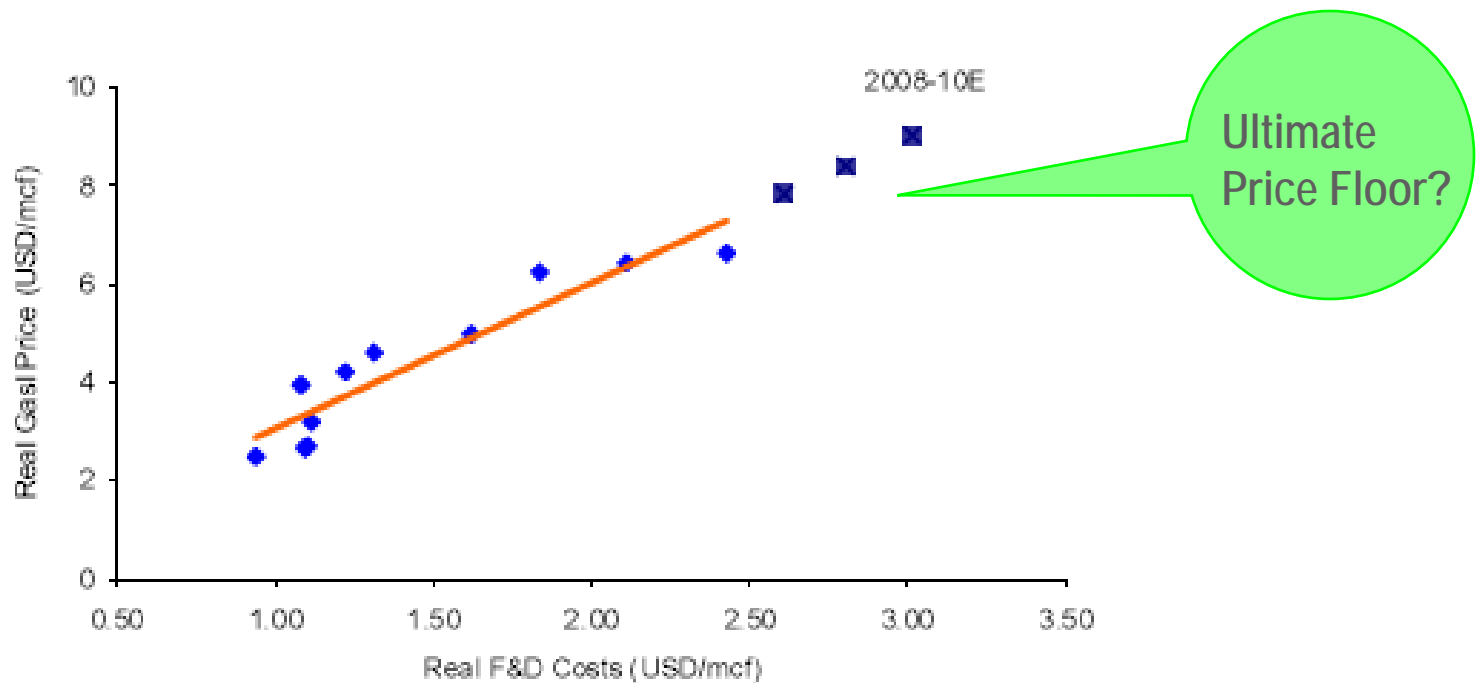
	Supply	Demand	Knife-Edge
2008	65.12	64.60	.52
2009	66.18	65.70	.48

All Figures in BCF/Day

Market Update & Review

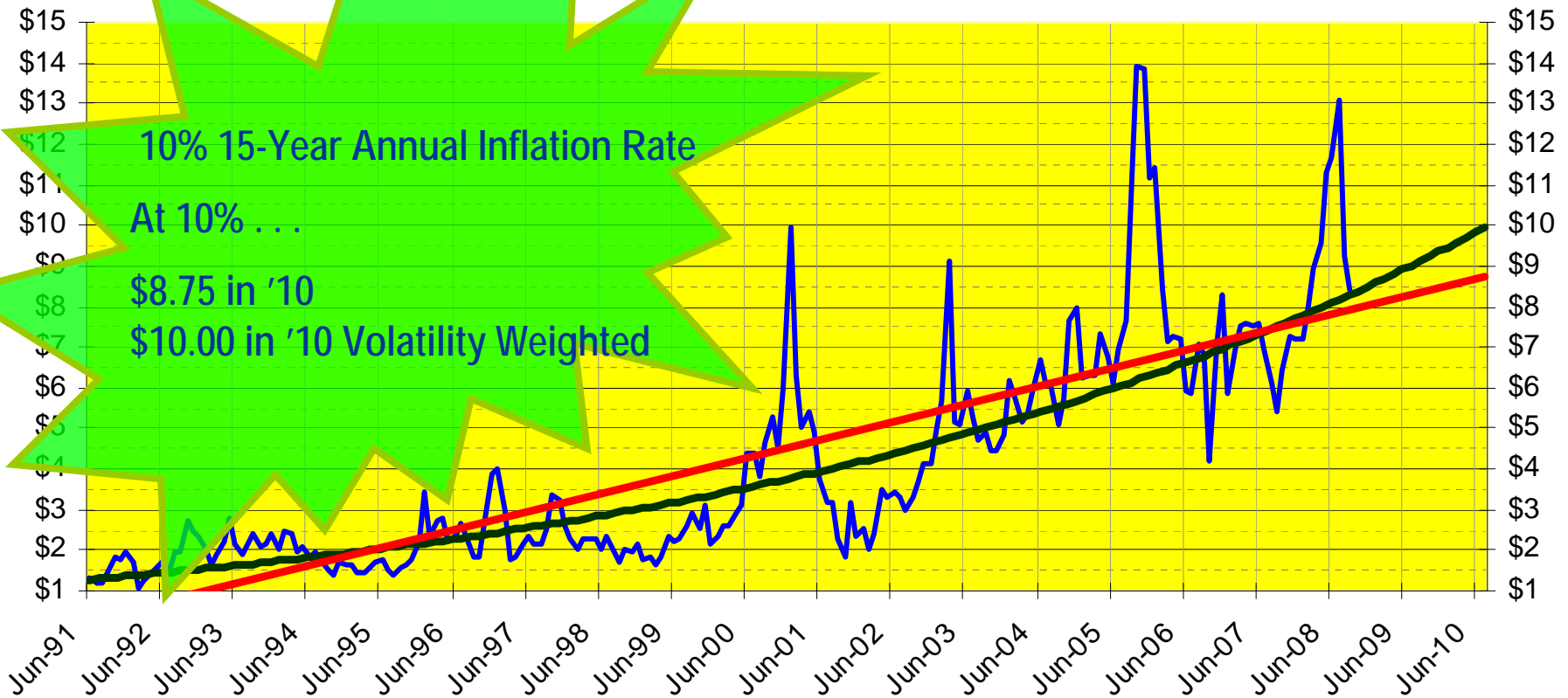
Supply / Demand

Finding and Development Costs



5 Year Plan/Forecast

Monthly NYMEX settles since '91

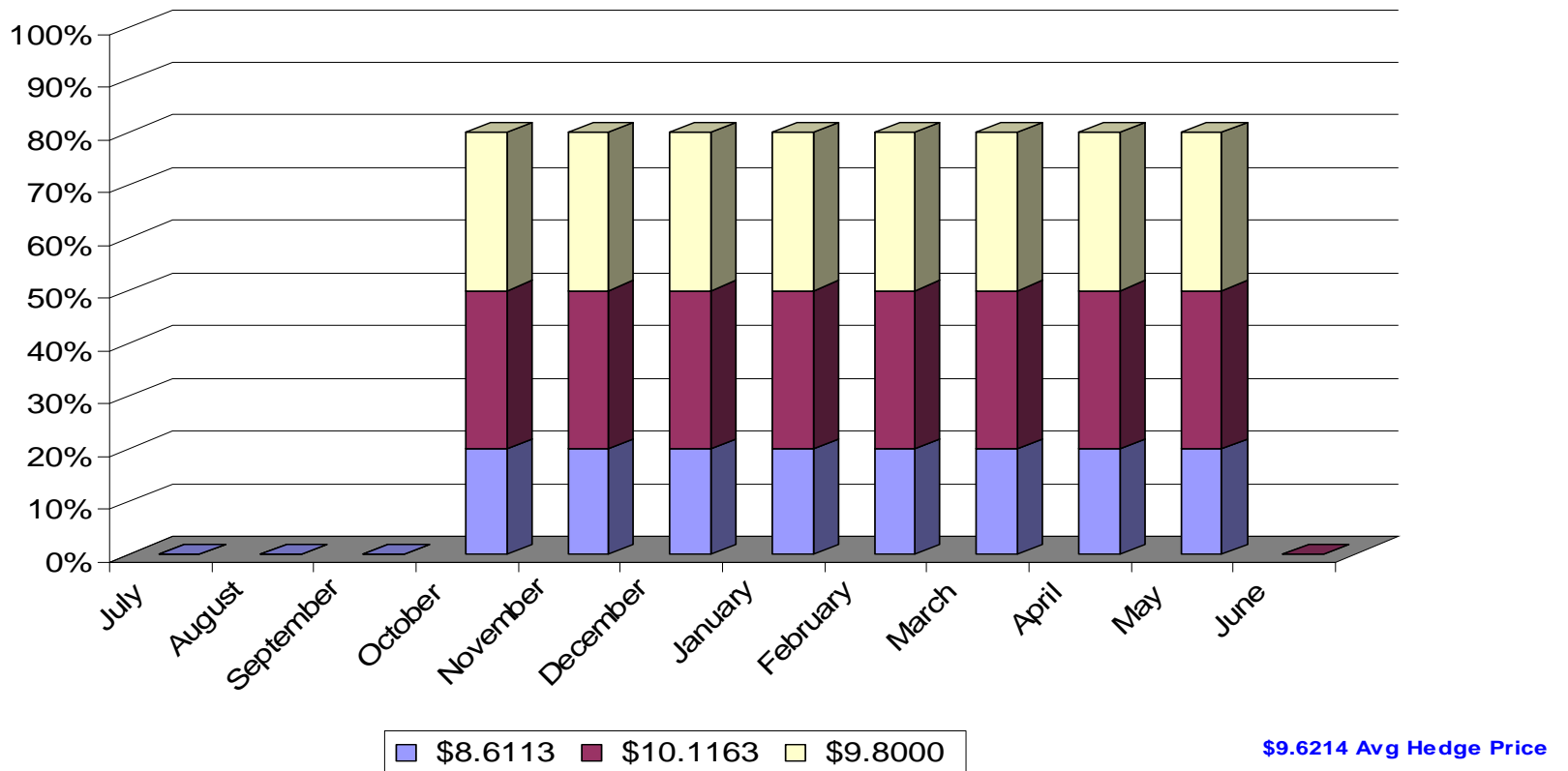


5 Year Plan/Forecast

- 80% hedged through 2014 at or below current cost
- Minimize annual inflation increase
- Protect budgets from price spikes
 - Hurricanes
 - Weather
 - Geopolitical Events
- Put a plan in place to hedge 50% of summer months to protect against summer price spikes
- Level budgets for the next 5 years

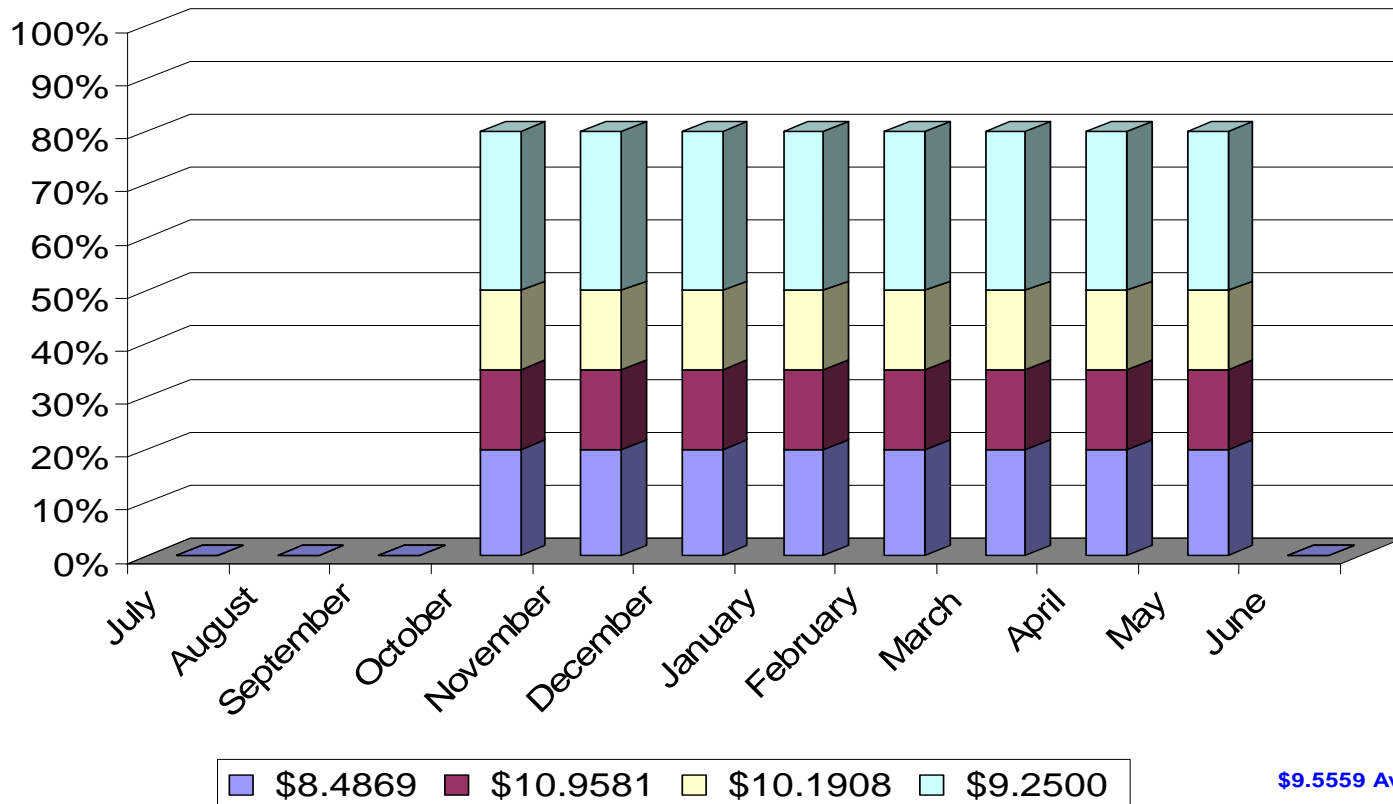
5 Year Plan/Forecast

**Ohio School Consortium
July 09 - June 10 Hedges**



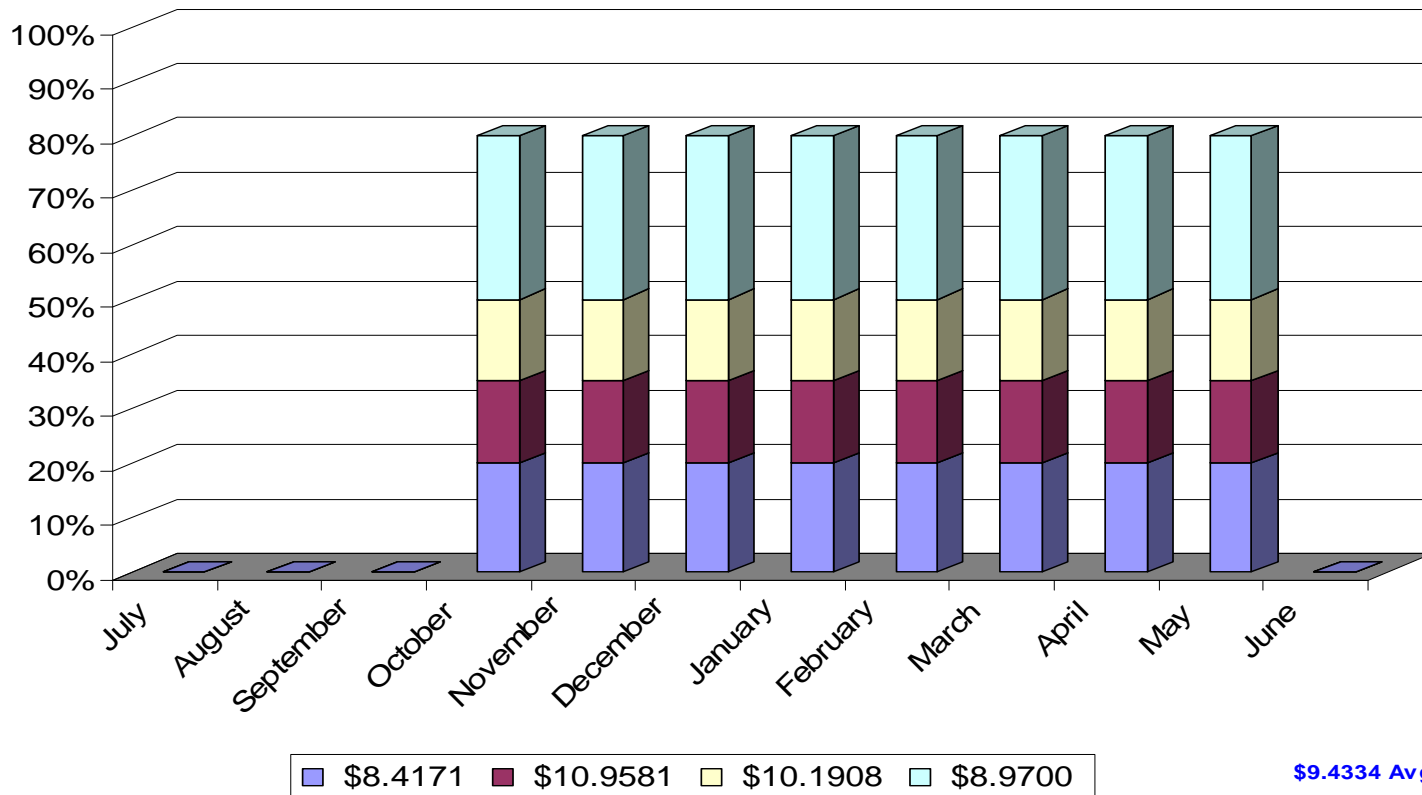
5 Year Plan/Forecast

Ohio School Consortium
July 10 - June 11 Hedges



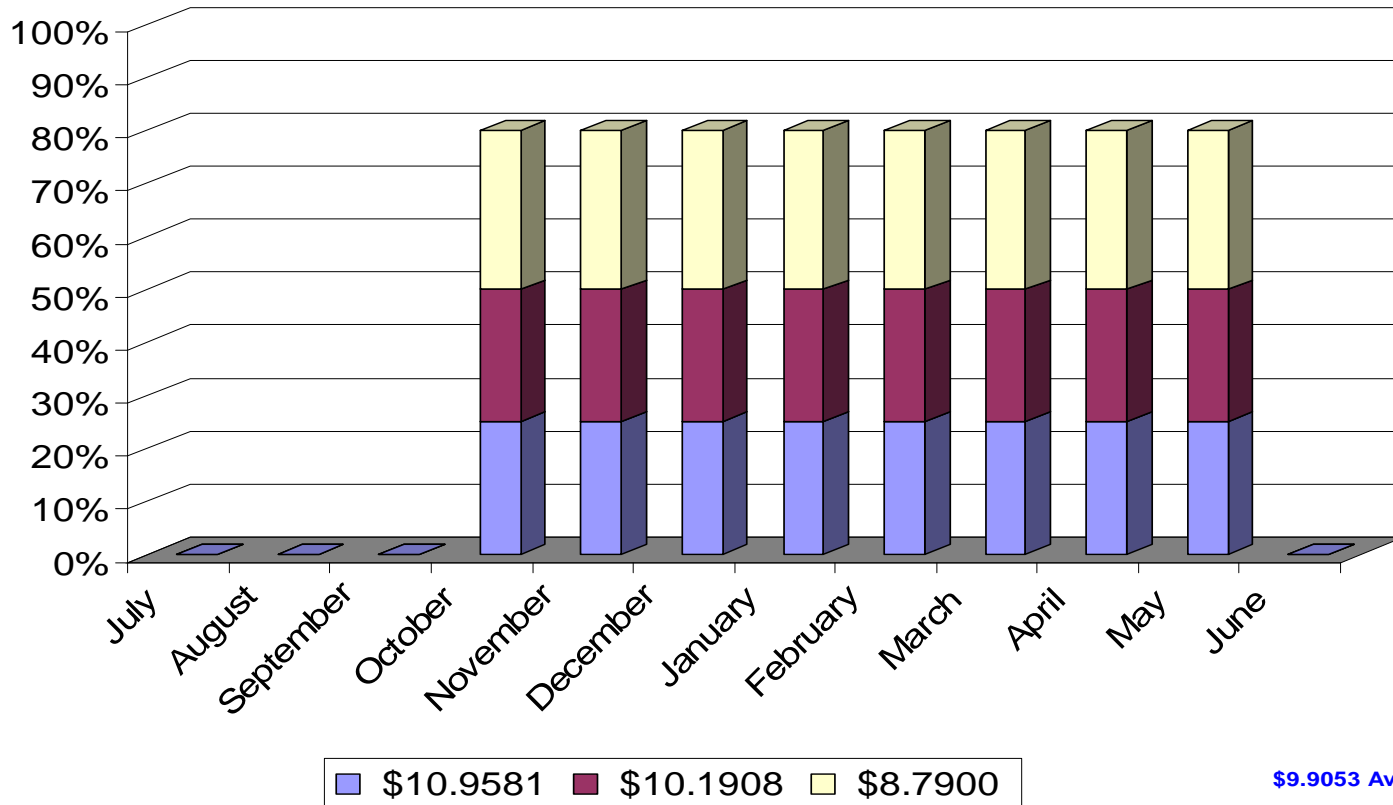
5 Year Plan/Forecast

Ohio School Consortium
July 11 - June 12 Hedges



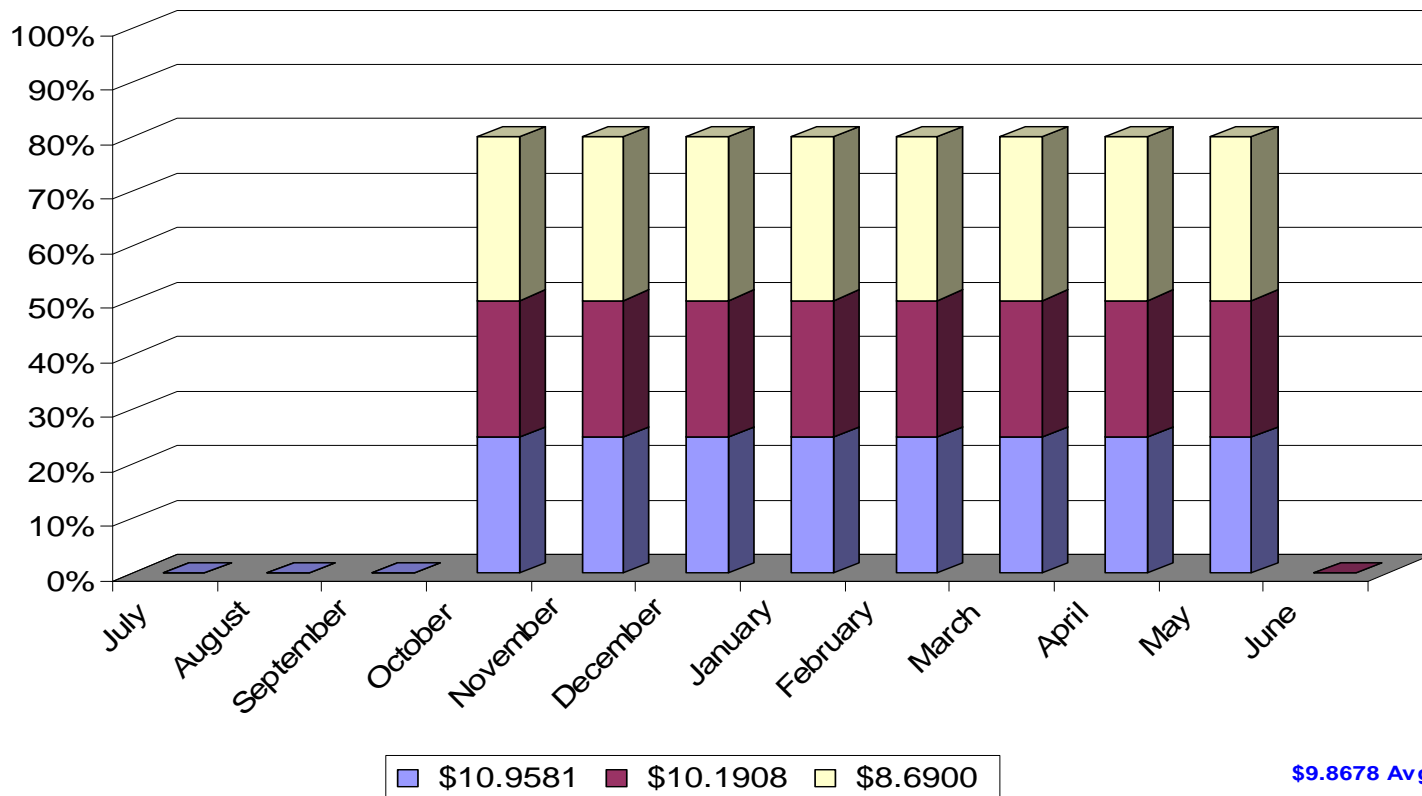
5 Year Plan/Forecast

Ohio School Consortium
July 12 - June 13 Hedges

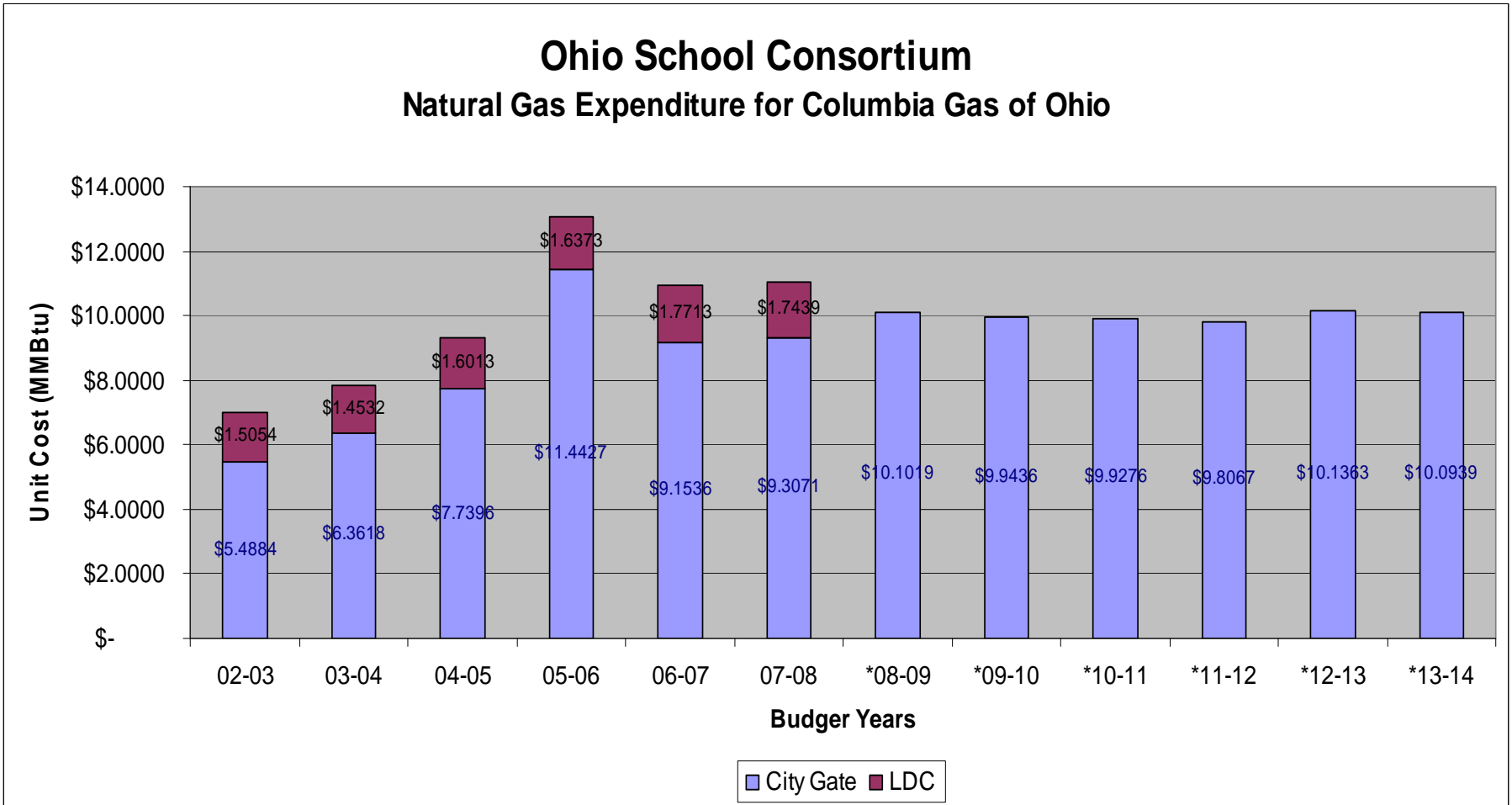


5 Year Plan/Forecast

Ohio School Consortium
July 13 - June 14 Hedges

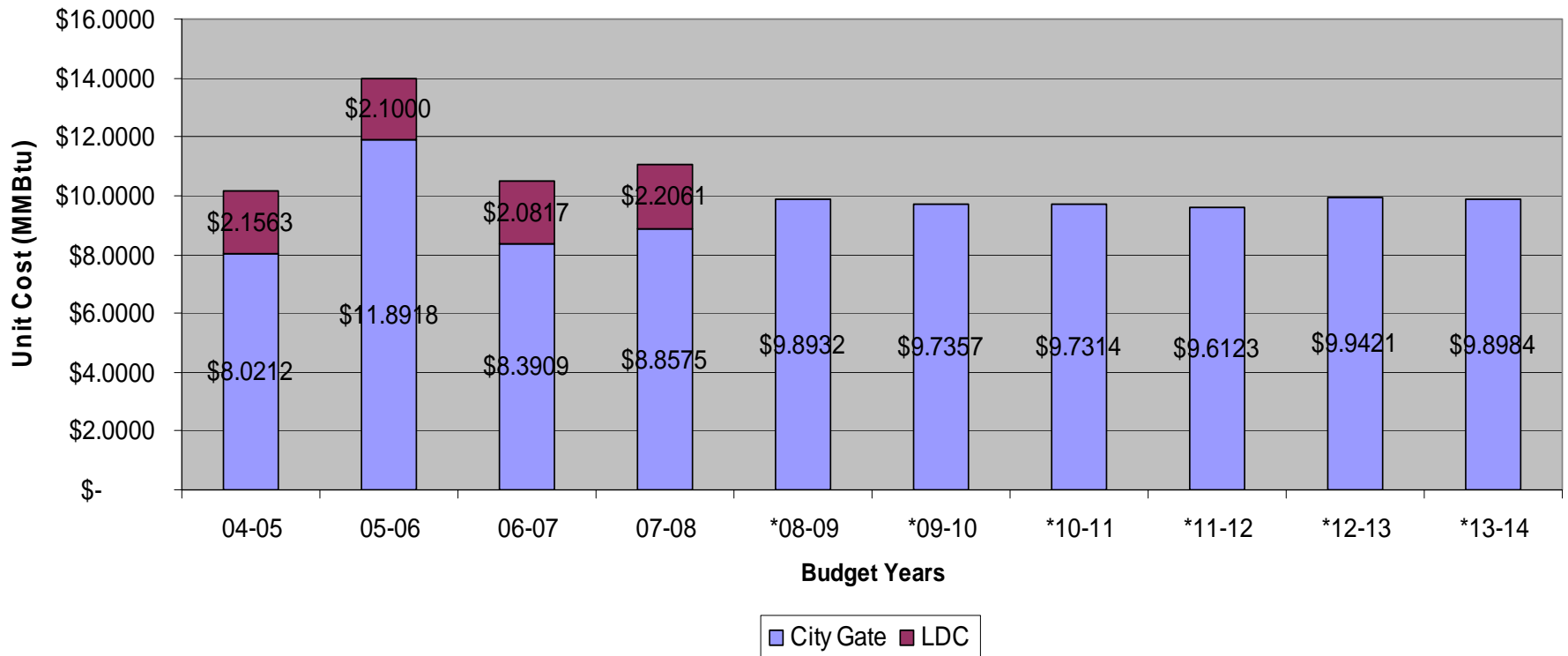


5 Year Plan/Forecast



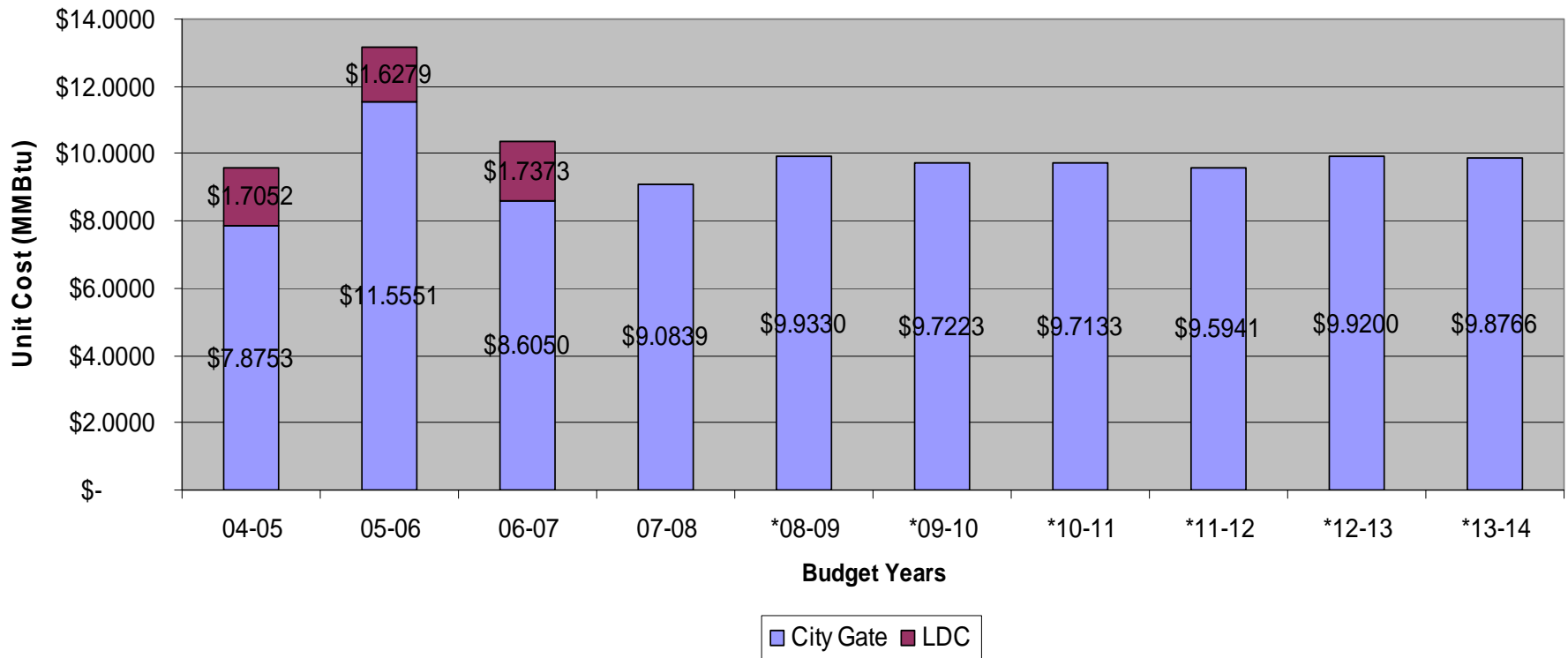
5 Year Plan/Forecast

Southwest EPC Schools Natural Gas Expenditure for Duke Ohio



5 Year Plan/Forecast

Southwest EPC Schools
Natural Gas Expenditure for Vectren Energy Delivery of Ohio



Conclusion

- Define goals
- Act on goals
- Stay true to your philosophy and don't look back