



Economic Downturn: When Will the Low Occur in Energy Prices?

RISK MANAGEMENT INC.

OVERVIEW

This is RMI's third special economic update since last October and each letter has spelled out and expanded on the premise that the deteriorating global economic conditions are rapidly overwhelming and dominating the price direction in the energy markets. All of RMI's comments have also stated that the marketplace has NEVER seen such extreme economic conditions, and even the best financial minds in the world are unsure of the outcome.

The economic conditions in which the energy markets operate have caused, and continue to cause, an unprecedented and steep drop in energy demand. In response, energy prices have been falling at an extraordinary pace. The market is attempting to reach a level that is low enough to choke off supplies while trying to stabilize demand. The process is working to achieve a supply-demand equilibrium as exploration and production levels are falling rapidly. However, the current level of supply is still too high as the economy, and hence energy demand, continues to fall. The "simple" question that needs to be answered: How long will it take?

FACTORS THAT NEED TO CHANGE FOR HIGHER NATURAL GAS PRICES...

Industrial/Commercial Demand Needs to Stabilize

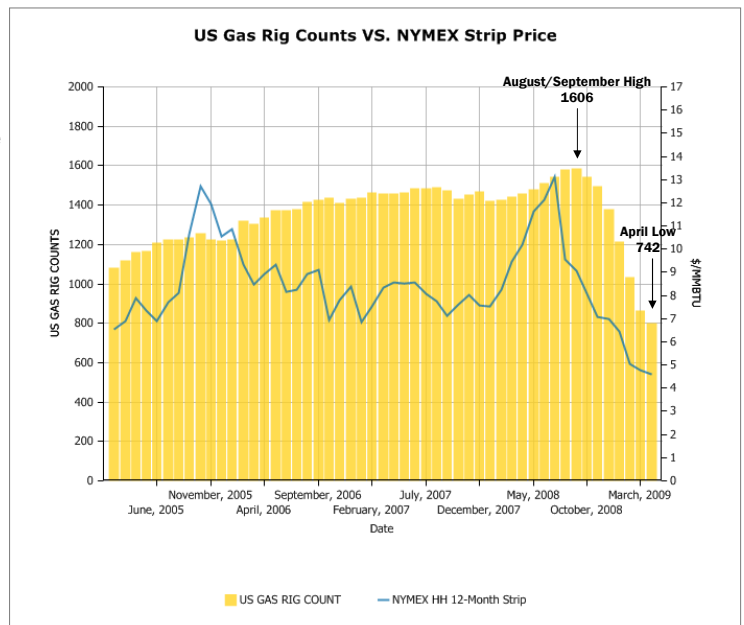
As we have feared, the driver in this price collapse has been the sudden and unexpected collapse of the economy. The bad news is that the continued plant closings and reduced run times in energy intensive businesses such as auto manufacturing, steel and ethanol have not yet stopped. The International Council of Shopping Centers predicts 150,000 retail stores to close in 2009, adding to the 150,000 that closed in 2008 and 135,000 in 2007. By 2011, it is predicted that as much as 15% of the existing retail base may be gone.

Even Further Production Cuts May Be Needed in Natural Gas

Rig counts are plummeting, but it isn't yet enough to counter the drop in demand.

Gas shale production increases have been surprising in the last year, but the current prices and the lack of credit will severely limit further production increases in all areas of the country. Some analysts say rig counts need to drop below 500 before supplies begin to tighten.

On a bullish note, the depletion rate of US production is still estimated to be 30% annually. That is, we need to replace over 30% of annual production with new production to remain even!

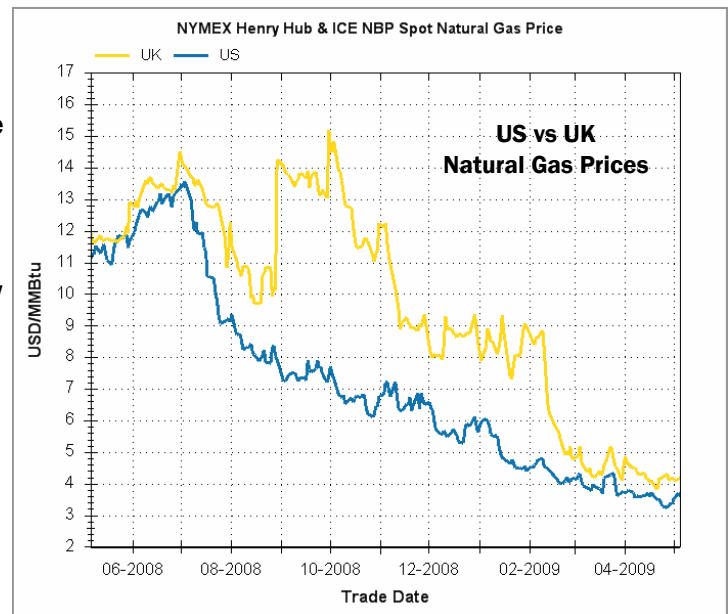




Near Term Supply Needs to Be Absorbed

When it rains it pours. Despite an extreme winter, natural gas in storage began the injection season higher than both last year and the five year average. This is more problematic this year as the dismal industrial/commercial demand base for gas and electric will not support natural gas prices during the next few months.

Additional and unexpectedly larger supplies from LNG overseas could move toward the US this summer due to slowing world economies and a lack of world demand. These imports need to be monitored carefully as we approach the 3rd quarter of 2009.



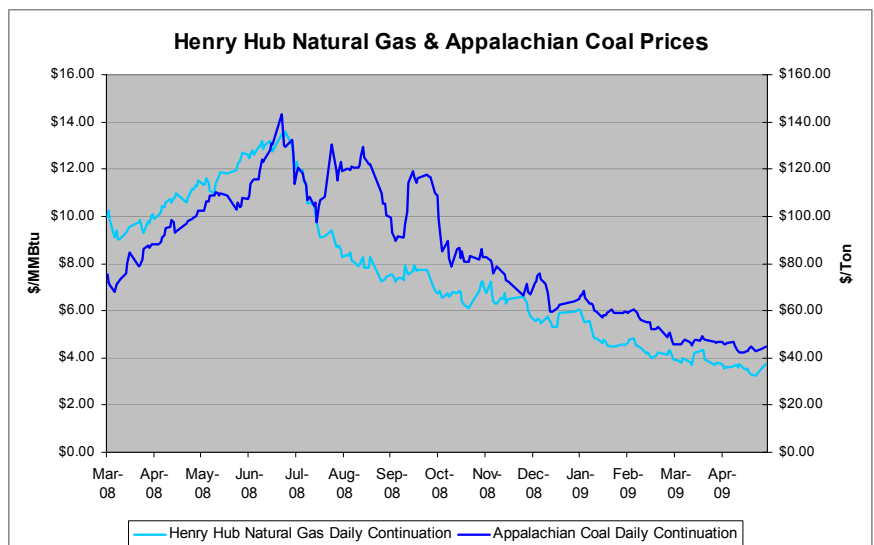
YET, THERE ARE BULLISH FACTORS...

Lower Prices Will Cause Production Decreases Eventually

The market will need to ration the near term glut of both gas and crude oil. However, simple economics tell us that the lower prices will cause production decreases that will eventually catch up and surpass the reductions in demand that we are now experiencing. This isn't a question of "if" but "when" this happens.

Lower Prices Will Allow Natural Gas to Displace Coal

There is no question that gas for electric generation should suffer from the economic impact on industrial and commercial electric usage. However, price relationships point to many older, less efficient eastern coal plants to be idled in favor of combined cycle natural gas plants. This additional demand could help offset the expected lower industrial and commercial power usage this summer and provide a floor for gas prices. We plan to begin publishing a natural gas/coal chart to monitor this relationship. It could be a key to establishing a floor in gas over the next 6 months.

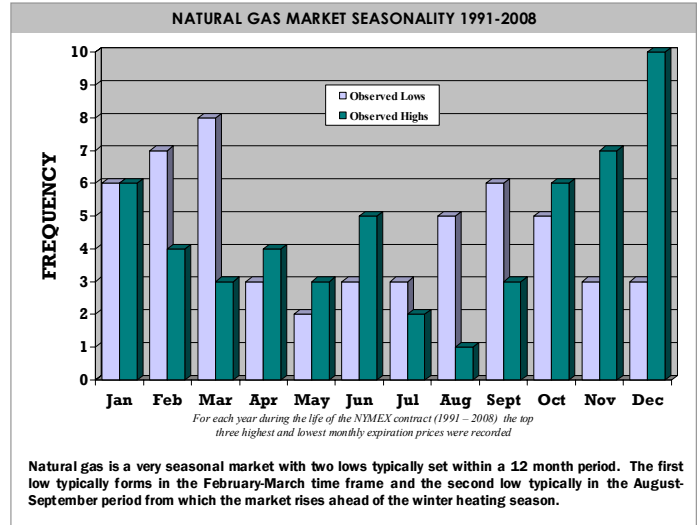




Natural Gas Has a Bullish Seasonal Tendency

Natural gas has a very strong seasonal tendency to set a yearly or at least a temporary low in the February/March time period. The extreme economic conditions may trump or at least mute this impact, but markets are still volatile and long overdue for at least a mild correction. RMI will issue a special report in the next two weeks that quantifies this seasonal trend.

Longer term, all market activity is incited by the low prices to reverse the current price downtrend and the current market price has discounted much of the already known bearish news. Buyers of energy must always weigh and consider two major variables in procurement. The first one is the price direction of natural gas, and we focus much of our time on this variable. However, the second is the timing issue on when market supply-demand cycles will turn. There is no question that the economic turmoil has altered the time horizon for energy products, but markets simply can not go down forever! Normal market activity will call for some consolidations at a minimum, and an early summer price bounce would seem reasonable.



ACTION ITEMS AND TOOLS TO HELP...

The last year has been difficult for everyone and RMI wants to be proactive in producing ideas that might help guide our clients' hedging needs and concerns. In October we promised to deliver three new RMI tools to help clients deal with the extraordinary economic conditions that have dramatically impacted energy prices. RMI immediately developed an eight year pricing matrix. More recently, RMI released a comprehensive survey on hedging tendencies and changes that are being considered by our substantial client base. Lastly, this letter is an introduction of RMI's new options pricing table. This table is intended to allow clients to more readily work through strategies with approximate option strip prices several years into the future.

Options Strip Pricing and Use of Options

Given current low prices, volatile history of natural gas, and simple big unknown of when prices may move higher, RMI has seen an increase in the use of options to protect against higher prices in future purchases. As a result, RMI has added option strip pricing to the RMI Daily Energy Update Report and RMI WebTools to guide options purchases. These prices are intended to provide an approximate representation of value. Customers should contact RMI for more precise market based bid and offers when executing strategies.

| April 17, 2009 | | DAILY FORWARD OPTION ENERGY PRICES | | | | | | | |
|----------------|-------------|------------------------------------|-------------|------------------|-------------|------------------|-------------|------------------|--------|
| STRIP PERIOD | SUMMER 2009 | WINTER 2009/2010 | SUMMER 2010 | WINTER 2010/2011 | SUMMER 2011 | WINTER 2011/2012 | SUMMER 2012 | WINTER 2012/2013 | |
| SETTLEMENT | \$4.12 | \$5.70 | \$5.94 | \$6.94 | \$6.68 | \$7.43 | \$6.92 | \$7.63 | |
| CALLS | \$5.00 | \$0.22 | | | | | | | |
| | \$5.50 | \$0.15 | \$0.95 | \$1.21 | | | | | |
| | \$6.00 | \$0.10 | \$0.74 | \$0.99 | \$1.51 | | | | |
| | \$6.50 | \$0.07 | \$0.58 | \$0.81 | \$1.28 | | \$1.45 | | |
| | \$7.00 | \$0.05 | \$0.46 | \$0.66 | \$1.25 | \$1.10 | \$1.58 | \$1.26 | |
| | \$7.50 | \$0.04 | \$0.36 | \$0.55 | \$1.08 | \$0.95 | \$1.38 | \$1.10 | \$1.52 |
| | \$8.00 | \$0.03 | \$0.29 | \$0.45 | \$0.93 | \$0.82 | \$1.22 | \$0.96 | \$1.36 |
| | \$9.00 | \$0.02 | \$0.18 | \$0.31 | \$0.70 | \$0.62 | \$0.97 | \$0.74 | \$1.10 |
| | \$10.00 | \$0.01 | \$0.12 | \$0.22 | \$0.55 | \$0.48 | \$0.77 | \$0.57 | \$0.91 |
| | \$11.00 | \$0.01 | \$0.08 | \$0.16 | \$0.44 | \$0.38 | \$0.62 | \$0.45 | \$0.76 |
| | \$12.00 | \$0.01 | \$0.06 | \$0.11 | \$0.35 | \$0.30 | \$0.51 | \$0.36 | \$0.64 |
| STRIP PERIOD | SUMMER 2009 | WINTER 2009/2010 | SUMMER 2010 | WINTER 2010/2011 | SUMMER 2011 | WINTER 2011/2012 | SUMMER 2012 | WINTER 2012/2013 | |
| SETTLEMENT | \$4.12 | \$5.70 | \$5.94 | \$6.94 | \$6.68 | \$7.43 | \$6.92 | \$7.63 | |
| \$3.00 | \$0.09 | \$0.04 | \$0.06 | \$0.03 | \$0.04 | | | | |
| \$3.50 | \$0.21 | \$0.09 | \$0.12 | \$0.07 | | \$0.07 | | | |
| \$4.00 | \$0.44 | \$0.18 | \$0.22 | \$0.13 | \$0.17 | \$0.14 | | | |
| \$4.50 | \$0.77 | \$0.32 | \$0.36 | \$0.23 | \$0.28 | | | | |
| \$5.00 | \$1.16 | \$0.51 | \$0.55 | \$0.37 | \$0.43 | \$0.35 | \$0.42 | \$0.34 | |
| \$5.50 | \$1.59 | \$0.75 | \$0.78 | \$0.54 | \$0.62 | \$0.50 | \$0.60 | \$0.48 | |
| \$6.00 | \$2.05 | \$1.04 | \$1.05 | \$0.76 | \$0.85 | \$0.69 | \$0.82 | \$0.66 | |





Hedging Survey Analysis

RMI recently conducted two surveys, one of RMI's utility clients, and the other of RMI's commercial & industrial customers. The survey questions examined hedging practices given the current economic downturn. The results provide guidance on how similar entities are reacting to the economic situation, and, more importantly, what kind of action and hedge strategy revisions are the norm. How much volume do I hedge? How far into the future do I hedge? What tools do I use?

RMI is available to discuss this survey and review the issues that are a concern for your hedge program on an individual basis. An annual review is always recommended and we want our clients to feel free to call our office at anytime.

**EXCERPT FROM
RMI MARCH 2009 UTILITY SURVEY**

MANDATORY LENGTH OF TIME IN ADVANCE THAT YOU MUST BEGIN TO HEDGE NATURAL GAS PRIOR TO A SEASON OR MONTH?

| Mandatory Advance | LDC Months | Gas for Elec Months |
|-------------------|------------|---------------------|
| Average | 15 | 20 |
| Median | 13 | 18 |
| High | 36 | 59 |
| Low | 1 | 1 |

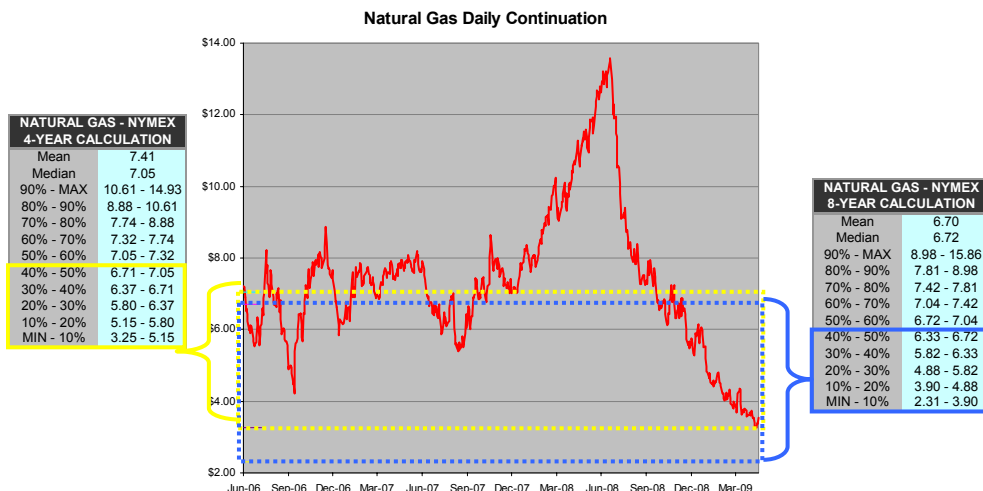
**EXCERPT FROM
RMI MARCH 2009 C&I SURVEY**

LENGTH OF TIME IN ADVANCE THAT YOU MIGHT BEGIN TO HEDGE THE FOLLOWING ENERGY COMMODITY PRIOR TO A BUDGET YEAR?

| | Natural Gas | Electricity | Diesel |
|---------|-------------|-------------|--------|
| Median | 18 | 18 | 6 |
| Average | 18 | 20 | 9 |
| High | 48 | 48 | 18 |
| Low | 0 | 6 | 4 |

Eight Year Matrix

Due to the unexpected and extreme deflationary environment, natural gas buyers have begun to extend coverage, and some are purchasing or considering purchases three to as many as ten years into the future. The changing economic environment makes such purchases more risky, but not necessarily unwise. The new reference point in such purchases is certainly longer than what has been the norm for RMI's client base. As a result, RMI introduced an eight year matrix in October, in addition to the original four year matrix. The eight year matrix may better represent a pricing reference for these long term decisions. Again, the matrix does not predict price and only provides a frame of reference for buyers.



DISCLAIMER: This information is intended to clarify a volatile energy market. RMI attempts to extrapolate subjective market analysis into market direction. We are not always right. That alone is enough reason to follow a risk management plan including value, time, and budget/stop triggers. Markets do not always react the way analysis dictates. A disciplined hedge program is easier to defend after-the-fact, especially in the current environment. Market analysis should be an additional resource when making hedge decisions within a larger plan. As always, we are available to discuss hedge plan recommendations. Information is obtained from sources believed to be reliable, but no guarantee is implied or possible where projections of future conditions are attempted. The content of this report should not be construed as an express or implied promise, guarantee or implication by RMI, or any of its employees, that you will profit or that losses can or will be limited. Past performance is not necessarily indicative of future results.

