Executive Summary

Energy Solutions, Inc. offers unbiased, educational publications on natural gas prices and price trends. These publications provide straightforward and timely information regarding the natural gas industry and serve to assist businesses in making more informed natural gas purchasing decisions. Our clients include businesses that consume natural gas; companies that are involved in the merchandising, production and delivery process; and investment firms, which may be recommending the buying or selling of natural gas-related funds.

*Natural Gas Buying Guide* is dedicated to buyers who want to manage and control their cost of natural gas for their company and are seeking some guidance in how to best accomplish this task.

*Natural Gas Buying Guide* offers a three-step approach to help companies improve their profitability by providing buyers with (1) an interpretation of various market data to improve a natural gas buyer’s understanding of current and future natural gas market conditions, (2) a timeline of anticipated natural gas price movements resulting from changing perceptions of natural gas market conditions, and (3) articulated natural gas purchasing recommendations that can be tailored to meet a company’s specific objectives and goals.

Unfortunately, there is not a one-size-fits-all type of plan because the way in which a company views its cost of natural gas is usually related to its past experiences and what was or was not viewed as successful. Some companies compare the cost of natural gas today to what they paid historically and that criteria may become the premise for making a natural gas purchasing decision. Some companies have a strict budget, so purchasing decisions are closely linked to natural gas price levels. Some companies use a myriad of criteria that, if developed correctly, will provide guidance in the natural gas purchasing process, but if developed or written ineffectively, will cause a buyer to become paralyzed in its decision-making.

*Natural Gas Buying Guide* helps companies understand the value and importance of a disciplined natural gas purchasing strategy and the numerous benefits it can provide. By following the three-step approach in *Natural Gas Buying Guide*, companies will enjoy a more streamlined natural gas purchasing process, improved price stability, and a reduction in natural gas budget variances. *Natural Gas Price Guide* also helps companies become better positioned to endure natural gas price rallies caused by unforeseen events.

In addition, *Natural Gas Buying Guide* provides buyers with the guidelines and tools to avoid the pitfalls of panic-buying or in the alternative, buying paralysis, which is the inability to make a natural gas purchasing decision.

When natural gas prices are rallying, as was the case in 2005 and 2008, natural gas purchasing becomes an urgency because of heightened risk that skyrocketing natural gas prices will severely damage a company’s profitability. This is referred to as panic-buying. History shows that panic-buying is rarely reflected on as a positive decision for a company’s bottom line. If anything, it is usually a decision that in hindsight is more easily criticized because panic-buying may have been avoided if there had been a disciplined natural gas purchasing strategy in place.

Alternatively, when natural gas prices are at historically lower price levels, one would think natural gas purchasing decisions would be easier, but that isn’t necessarily the case. When there is an overwhelming amount of data that points to weaker prices, and there seems to be little justification for a price move higher, the urgency to complete future or forward natural gas purchases is reduced. In fact, many times buyers postpone natural gas purchasing decisions and become increasingly reluctant to secure a future fixed price for their natural gas because there are no indicators that natural gas prices are going to rally. This is referred to as buying paralysis. History shows that buying paralysis rarely results in the buyer re-entering the natural gas market at the right time. Instead, buying paralysis usually results in panic-buying after natural gas prices have advanced beyond a certain price comfort point.
Executive Summary (cont.)

There is no disputing that new technologies of horizontal drilling and hydraulic fracturing have made prolific shale production a game-changing event for the natural gas industry. Noticeable growth in natural gas production occurred just as the nation was heading into a major recession. Robust supply growth amidst falling demand has pushed natural gas prices into a lower-price trading range and has created an entirely new perception of what is a competitive natural gas price.

However, even though the market environment may be different from the one that existed in 2005 when Hurricane Katrina caused prices to skyrocket or in 2008 when soaring crude oil prices pushed natural gas prices to double-digit figures, the responsibilities of a natural gas buyer have not changed as he/she must still decide when to buy, how much to buy and how far into the future to buy.

To arrive at those answers, a natural gas buyer needs to possess adequate information about natural gas market conditions, evaluate how that information will impact its company’s overall objectives and goals, and convert those results into an action plan. This takes time. As companies have streamlined operations to be more cost effective, in many cases, it means the natural gas buyer may not have adequate time to do all this research, so Energy Solutions, Inc. has done it for you in Natural Gas Buying Guide.

Natural Gas Buying Guide also emphasizes the importance of being prepared for historical natural gas price trends. History supports Seasonality and Time Cycle Analysis, which conclude that there are seasonal timeframes in which natural gas price rallies and price declines tend to occur. Natural Gas Buying Guide identifies those seasonal timeframes and provides buyers with the necessary tools and advice to adequately understand and prepare for these anticipated price moves. This preparation helps buyers avoid the pitfalls of panic-buying or buying paralysis.

Based on the analysis of current and future natural gas market conditions, as well as the timing of price trends resulting from Seasonality and Time Cycle Analysis, Natural Gas Buying Guide concludes:

- **The seasonal second quarter rally is near or possibly underway.** Growing bullish technical signals, a falling drilling rig count and the uncertainties of the Japan tragedy, indicate a price move higher is near or even possibly underway. This price move higher is expected to be fueled by the speculative sector, and buyers should prepare accordingly.

- **A major price decline will occur in late fall 2011.** Rapidly refilling natural gas storage inventories, reduced consumer spending, and a slowing pace of economic recovery will push near-term natural gas prices to new 2011 price lows.

- **A major price trend change will occur in the next twelve months.** The perception of the balance between supply and demand will undergo a dramatic shift in 2012. This shift in price momentum will be initiated by improving economic data and a leveling of natural gas production. However, the true price trend change will occur when the speculator sector begins a mass liquidation of its extreme net short positions.

The above conclusions are just a few of the reasons why Natural Gas Buying Guide emphasizes the importance of a company to develop and implement a natural gas risk management plan that contains a proactive, disciplined natural gas purchasing strategy. To assist companies with this task, Natural Gas Buying Guide identifies four timeframes over the next twelve months, referred to as Decision Timeframes, in which buyers are encouraged to evaluate and consider natural gas purchases for the rest of 2011, 2012 and 2013. There is even the potential to consider natural gas purchases for 2014.
These Decision Timeframes provide the foundation around which a company can build its own risk management plan, or in the alternative, a company can choose from one of the three risk tolerance buying models that have been included in *Natural Gas Buying Guide*. Low-risk, medium-risk, and high-risk tolerance buying models have been provided. Each of these models are developed on the premise that buyers of similar risk tolerance will take a similar approach to natural gas purchasing. Therefore, these risk tolerance buying models should be viewed as a foundation or template from which a company can further develop or tailor the construction of its own natural gas risk management plan and natural gas purchasing strategy to better meet its individual objectives and goals.

*Natural Gas Buying Guide* provides natural gas purchasing recommendations for each of the risk tolerance buying models. These purchasing recommendations identify potential volumes of natural gas to be secured under a fixed price, the purchasing timeframes, why a purchase may be recommended, and in some cases, a recommended purchase price level.

*Natural Gas Buying Guide* will simplify the natural gas purchasing process for buyers by providing a predefined calendar of Decision Timeframes. Most buyers don’t have the time or resources to monitor natural gas prices each and every day. Yet, there is a concern that if they don’t, they will miss a potential buying opportunity, which is a time when natural gas prices are falling or showing price weakness. Energy Solutions, Inc., through this guide and ongoing education, alleviates that concern. By targeting specific Decision Timeframes for natural gas purchases, which are supported by historical price trends, natural gas buyers can focus on other responsibilities more easily and focus on natural gas purchasing decisions when the time is right.

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