



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JANUARY 6, 2010

NATURAL GAS MARKET NEWS

Reuters reported this afternoon that natural gas sent into the U.S. natural gas grid from LNG terminals reached a two year high on Tuesday as cold weather boosted prices and demand. Send out levels rose above 3 bcf/d as nearly all U.S. LNG terminals sent gas into the grid.

National Grid said today that British storage levels which currently are at 76% of capacity, are sufficient to last for weeks, into late February if demand required maximum withdrawal rates from storage to be maintained. Storage in Britain only meets 10% of UK gas demand, with the remaining 90% of daily supply coming from pipelines either from North Sea, Europe or LNG. The company reported that it was looking for demand on Thursday to reach a new record high of 459 mcm, some 10 mcm higher than the record set back on January 7, 2003. The company though said this projected demand would still be below the gas balancing alert trigger level, which was lifted to 461.2 mcm after more supplies became available. The company said yesterday's gas balancing alert had reduced industrial demand for gas by 2 million cubic meters. Next day gas in Britain stood at 42.75 pence per therm (\$6.84 Mmbtu), down 1.35 pence from yesterday.

Barclays Capital this week in a research note said that if cold weather conditions continue to impact the U.S. major market areas, then the supply demand balance in the natural gas market could be fundamentally reset. But the bank warned that if the colder than normal weather subsides and the industry sees normal weather the rest of the winter storage levels would end the winter probably at 1.94 tcf, still nearly 300 bcf higher than a year ago. Barclays estimated that next injection season the market could accommodate upwards of 4 tcf of gas.

The FERC granted approval to Gulf South Pipeline to construct and operate three compressor units at its existing Hall Summit and Tallulah Compressor Stations in northern Louisiana. This should assist in increasing access to the Haynesville Shale play. The project will add 556,000 Dth/d of capacity on the company's East Texas to Mississippi system

The FERC yesterday issued an order granting a rehearing to Transco regarding the company's 85 North Expansion Project and how its fuel rates would apply to the proposal.

Midcontinent Express Pipeline received regulatory approval to operate at full design pressure.

Generator Problems

PJM – PSEG's Salem #2 nuclear unit ramped up to 91% capacity this morning, up 42% from Tuesday.

MISO – The Duane Arnold 615 Mw nuclear unit was at 94% power this morning up 24% from yesterday

NPCC – Constellation Energy's 498 Mw Ginna nuclear unit has exited its outage and was at 47% power this morning, up 45% from yesterday.

Dominion's Millstone #3 nuclear unit has been restarted and was at 15% power this morning..

The NRC reported today that 94,278 Mw of nuclear generation was on line this morning, up 1.1% from yesterday and off some 2.1% from the same time a year ago.

PetroChina said today the reason for its decision not to extend a \$40 billion gas import contract with Woodside petroleum, was the fact that Woodside could not supply gas in accordance with the agreed schedule because development of the Browse project was delayed, so the initial agreement to import 2-3 million tones per year signed back in 2007 could not be extended. Price of LNG could also be a actor given that LNG prices at the time of the agreement was signed in 2007 were averaging \$16 per Mmbtu versus current prices of \$7.00.

The Ukrainian energy minister today noted that while the Ukraine owes Russia \$892 million for its December natural gas purchases, by far its largest monthly bill of the year, it would settle it by the

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	1,052,100	\$6.471	\$0.279	\$0.480	\$0.037	\$0.477
Chicago City Gate	1,171,700	\$6.692	\$0.318	\$0.701	\$0.088	\$0.538
NGPL- TX/OK	1,443,100	\$6.447	\$0.341	\$0.456	\$0.111	\$0.195
SoCal	231,400	\$6.334	\$0.221	\$0.343	(\$0.009)	\$0.260
PG&E Citygate	945,900	\$6.210	(\$0.036)	\$0.219	(\$0.266)	\$0.449
Dominion-South	430,200	\$6.997	\$0.244	\$1.006	\$0.014	\$0.864
UStTrade Weighted	30,441,800	\$6.658	\$0.267	\$0.667	\$0.04	\$0.477

January 11th deadline.

Naftogaz later in the day said the bill had been paid in full.

CFTC Chairman Gensler said today that position limits on commodity

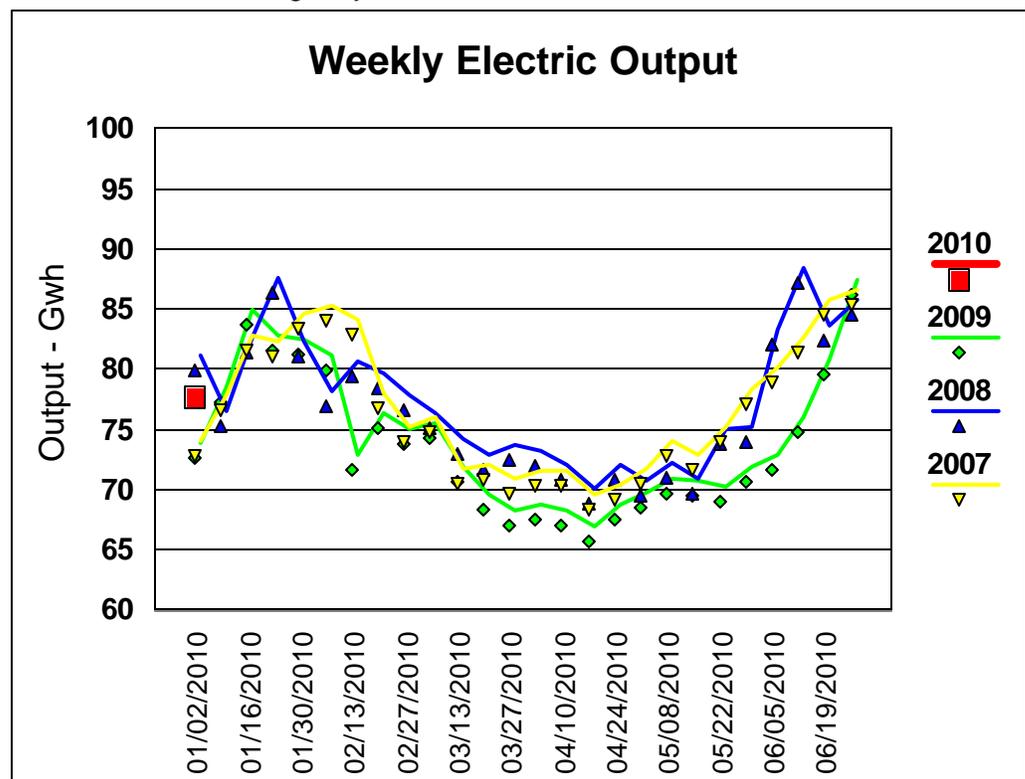
futures trading needed to be seriously considered and that U.S. swaps reforms need to follow reform efforts elsewhere in the world. He said that governance of trading and clearing venues should not be controlled by dealers. Gensler told reporters to “stay tuned” for more details on position limits. He noted any proposal would be open to public comment. Some reports have an announcement would be made by the middle of this month. Meanwhile CFTC commissioner Michael Dunn said while the agency may release a proposal shortly on the position limits. A final regulation will still take some time and if other countries do not follow suit, trading may shift to overseas markets.

PIPELINE MAINTENANCE

Gulf South Pipeline reported today that it had begun performing system compressor maintenance at the Arnaudville Compressor Station. Capacity through the station could be affected by as much as 150,000 Dth during the work.

PIPELINE RESTRICTIONS

Tennessee Gas Pipeline said Wednesday it was lifting the operational flow order that has been in effect due to

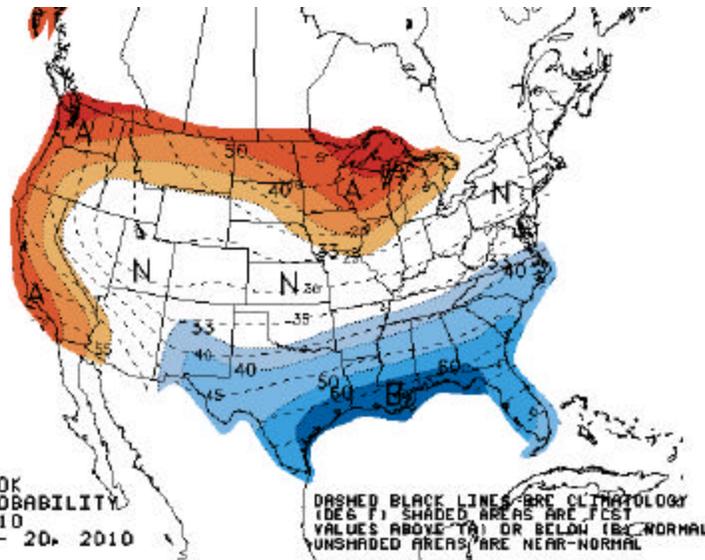


a filter change at Station 47.

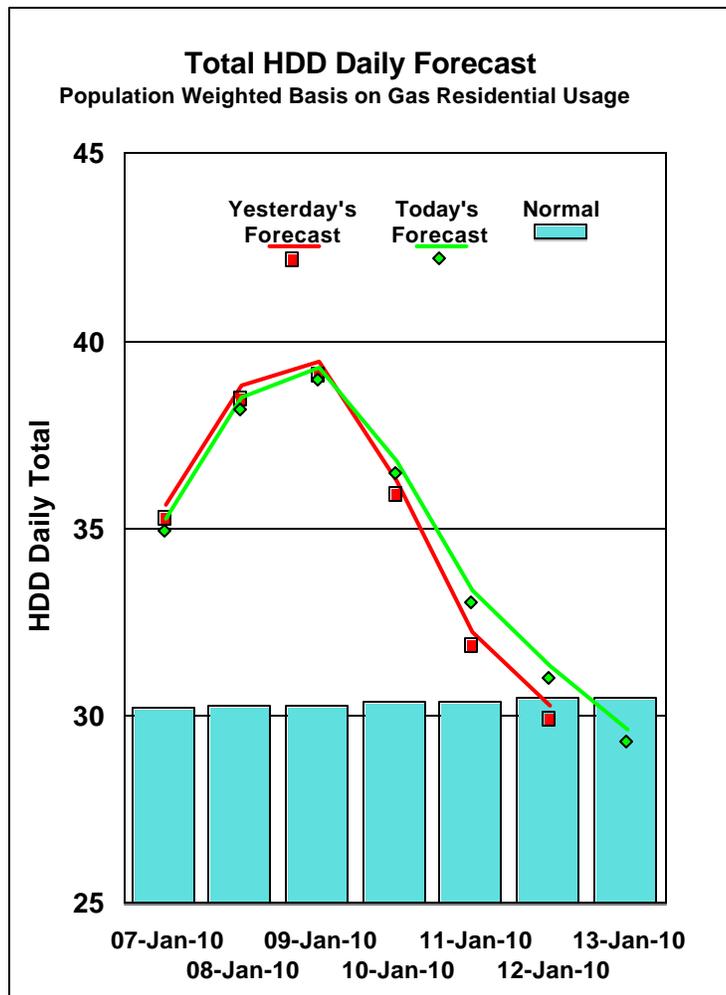
FGT on Wednesday issued another shipper alert due to expected cold temperatures in its service territory. The company issued an overage alert at 5% tolerance

ELECTRIC MARKET NEWS

The Edison Electric Institute reported that for the week ending January 2, 2010, it estimated power production in the United States reached 77,730 Gwh. This was 0.62% higher than the previous week but 6.5% higher than the same week a year ago.



MARKET COMMENTARY



The natural gas market worked higher throughout the day as the advance of a new arctic outbreak in the Midwest tomorrow and moving onto the East Coast this weekend helped to drive the cash markets higher in strong buying volume. The ICE day-ahead natural gas market set yet another new record volume day today. In addition the futures market found support from weather forecasting models that appeared to be moderating a bit in the expectation for a warm up in the 11-15 day period. New computer runs this morning and again at midday showed that Canada could be much colder than was forecasted earlier this week and thus could portend for yet another arctic outbreak in the future in the lower 48 states. Thus the February contract was able to finish the day back above \$6.00 a price level an event that has not occurred since mid October.

Despite some wild talk in the news media of a natural gas drawdown reaching possibly 300 bcf next week, market expectations for tomorrow's report appear to be centered around a 150-150 bcf draw down. A year ago stocks fell an adjusted 60 bcf for the same week with the five-year seasonal average posting a 78 bcf decline. One must remember that industrial demand remained

restricted due to the holiday period.

We would expect that barring a dramatic change in weather forecasts by early tomorrow this market will remain relatively static in front of tomorrow morning's storage report. But given that the bulls over the past couple of weeks have been disappointed by the release of the weekly storage report, a hard and quick sell off is possible if storage draw downs do not meet or exceed market expectations.

We continue to see resistance tomorrow at \$6.075 followed \$6.145, \$6.28-\$6.30 and \$6.53. Support we see at \$6.00, followed by \$5.76, \$5.69, \$5.48, \$5.30 and \$5.11.

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