



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR MARCH 2, 2011**

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#### **NATURAL GAS MARKET NEWS**

##### **North American**

Sasol said today that it has closed on its deal of the acquisition of a 50% participation interest in the Montney Shale basin in Canada has been completed.

##### **Generation Outages**

**PJM** - Exelon's 1134 Mw Limerick #2 nuclear unit returned to full power on Wednesday. The unit had been at just 27% power on Tuesday.

The NRC reported this morning that some 89,565 Mw of nuclear generation capacity is online, basically unchanged from yesterday and some 1.1% higher than the same day a year ago.

The president of the Aboriginal Pipeline Group, one of the partners in the development of the \$16.7 billion Mackenzie pipeline project said today that the oil companies involved in the project are expected to hold a conference call next week to outline a timetable for negotiations in hopes of reaching a final agreement on the project by mid-year.

The Canadian government is looking for the partners to make a final investment decision by no later than 2013. The proposed line would have a 1.2 bcf/d capacity in moving gas to the Alberta pipeline network.

<b>Natural Gas Cash Market</b>						
ICE Next Day Cash Market						
<b>Location</b>	<b>Volume Traded</b>	<b>Avg Price</b>	<b>Change</b>	<b>Basis</b>	<b>Change</b>	<b>Basis 5-Day Moving Avg</b>
				(As of 12:30 PM)		
Henry Hub	472,300	\$3.786	(\$0.145)	(\$0.044)	\$0.113	\$0.092
Chicago City Gate	723,400	\$4.005	(\$0.136)	\$0.175	(\$0.067)	\$0.111
NGPL- TXOK	894,900	\$3.703	(\$0.146)	(\$0.127)	(\$0.077)	(\$0.163)
SoCal	542,300	\$3.772	(\$0.173)	(\$0.058)	(\$0.104)	(\$0.045)
PG&E Citygate	1,081,500	\$4.008	(\$0.135)	\$0.178	(\$0.066)	\$0.155
Dominion-South	521,700	\$4.030	(\$0.136)	\$0.200	(\$0.067)	\$0.116
USTRade Weighted	20,912,800	\$4.127	\$0.044	\$0.297	\$0.11	\$0.092

Provident Energy announced it has reached an agreement with Alta Gas to construct a 16-inch rich gas pipeline from a Montney gas plant to the Alta Gas/Provident Younger deep cut

natural gas processing facility in northeastern British Columbia. The 25 km line will serve as a trunk line to support the gathering of up to 250 million cubic feet per day of natural gas from the liquids rich Montney area. The line is expected to become fully operational by the fourth quarter on this year. The Younger facility is the only deep cut extraction plant in British Columbia. The facility provides recoveries of up to 80% of the ethane and 99 % of propane plus liquids entrained in the natural gas stream.

##### **International**

Spanish utility Iberdrola SA said today that the Medgaz natural gas pipeline, which will bring Algerian natural gas into southern Spain, will start commercial operations in April after more than a year of delays. The 900 million euro project was originally expected to begin operations in late 2009. The pipeline will have an annual capacity of 8 bcm.

BP said it has received a number of requests from interested parties in looking at buying the company's oil and gas fields in the southern North Sea. The company said it hopes to complete these sales by the end of 2011.

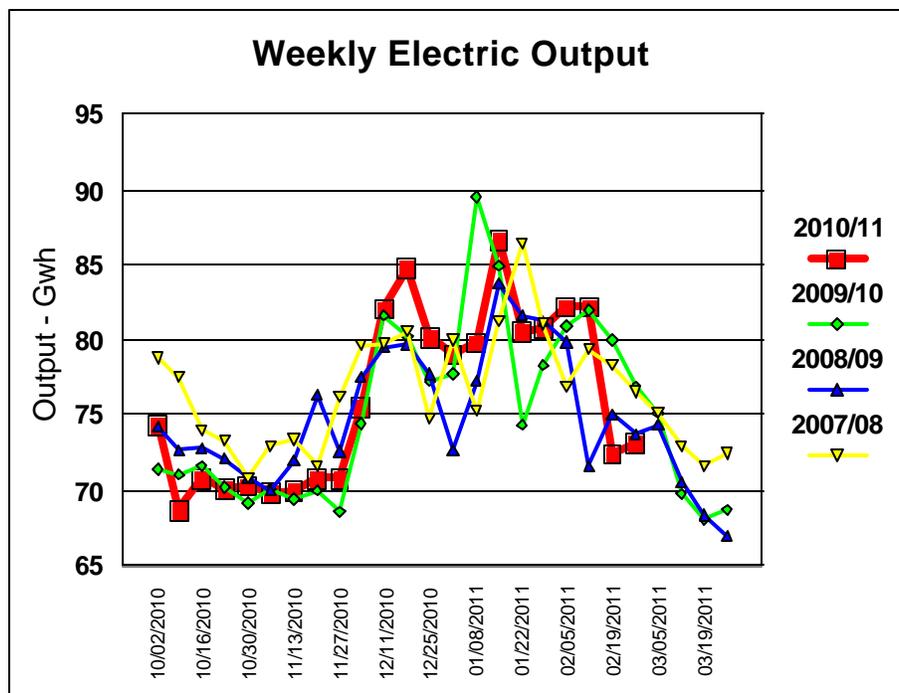
National Grid reported today that the Fraiha LNG tanker has berthed at the Isle of Grain terminal. Meanwhile according to ship tracking services, the LNG Ondo is expected to arrive at the Milford Haven port from Nigeria on march 10<sup>th</sup>.

China said it has reached agreement with Turkmenistan to buy an additional 20 bcm of gas per year. The agreement will be formally signed in the second half of this year. The country already supplies China with 40 bcm a year of natural gas. This agreement would ultimately supply China with 60% of its domestic needs recorded in 2010.

The Russian Energy Ministry reported today that Russian natural gas production in February reached 57.136 bcm down 0.7% from January and off 1.4% from February 2010. Exports in February reached 45% higher than the same month a year ago. Domestic gas consumption though fell by 6% from February 2009 as it totaled only 51.44 bcm.

BP reported that the consortium it leads in operating the Azeri-Chirag-Gunashi oil project in the Azerbaijani sector of the Caspian Sea produced on average 823,100 b/d in 2010, as well as 3.4 bcm of natural gas. BP also reported today that production at the first stage of the Shah Deniz gas project totaled 6.9 bcm of natural gas and 1.9 million metric tons of condensate in 2010. Production from Shah Deniz is expected to increase over the next five years reaching a plateau of 9 bcm a year of gas, with the second stage expected add a further 16 bcm per year.

Brazil reported its natural gas production in January was up 13.2% from the same month a year earlier.



The Delek Group said today that natural gas from the Tamar field would arrive onshore to Israel by 2013, as scheduled despite the uncertainty created by the government's tax plan. The company noted that \$1.4 billion of the \$3 billion needed to develop the gas field has already been invested.

The Polish gas monopoly PGNiG said Wednesday it was reducing its gas supply to the company's top oil refiner due to cold weather and rising demand from its other clients.

The Deputy Governor in Sakhalin said today that his province while seeing flat oil production this year will see higher gas output as a result of the Exxon led Sakhalin-1 project boosting output by 1 bcm to 9.1 bcm. This should move total production from the region to 25.3 bcm.

The Australian weather bureau said today that risks are dropping for a recurrence of the La Nina weather pattern. They noted that all available climate models suggest further weakening of the La Nina is likely through the southern hemisphere autumn, with a return to neutral conditions by the winter of 2011 in the southern hemisphere.

Total and Russia's largest independent gas producer Novatek announced today that Total would acquire a 20% stake in the Yamal LNG project, with Novatek retaining a 51% stake in the project..

### **ELECTRIC MARKET NEWS**

The U.S. Northwest River Forecast Center said late yesterday that it estimates water flows through the Dalles Dam for the April-September period will be at 103% of normal, some 4% higher than last week's estimates and some 19% higher than a year ago. Water flows at the Grand Coulee Dam are also expected to be 103% of normal, up 3% from last week and 23% higher than a year ago.

The East Kentucky Power Cooperative said the Kentucky Public Service Commission has approved its plan to cancel the 278 Mw Smith 1 power plant. The utility canceled the project after spending \$157.4 million after its need for power declined substantially from earlier forecasts.

The Edison Electric Institute reported that for the week ending February 26<sup>th</sup> power production in the U.S reached 73,152 Gwh, up 0.9% from the previous week but 5.1% less than the same week a year ago.

Progress Energy said work is ongoing to tighten tendons in the repaired wall at its Crystal River nuclear plant and the unit may begin its restart in April, after being offline for more than a year and a half. This will be the third delay in the unit's restart.

### **ECONOMIC NEWS**

Australia's GDP rose 0.7% in the fourth quarter of 2010 from the third quarter and rose 2.7% from the year earlier period. This increase was 0.1% less than market expectations.

The president of the Kansas City Fed said today that the Federal Reserve needs to raise interest rates and stop pursuing a policy that may create inflation and financial market problems. While he noted that some of the jump in commodity prices reflects rising world growth and supply disruptions, the Fed's easy money approach has also been a factor. He also called for the nation's largest banks to be downsized and he continued to support a return of key aspects of the Glass Steagall banking regulations. He fears complicated bank regulations will simply be gamed by financial institutions and wants clear and simple rules so that a repeat of the last financial crisis will not occur. The president of the KC Federal Reserve Bank is currently a non-voting member of the bank's Open Market Committee.

The Fed Beige Book reported today that the Fed has seen the U.S. economy slowly gaining strength in the first two months of this year, but gains were not evenly distributed across the country. While job prospects modestly improved across the country, some companies were still looking to hire only temporary workers instead of creating permanent jobs. Home sales and construction remained low.

Congressman Frank said today that he thought the Fed should keep an open mind on possibly buying more bonds in light of rising oil prices and their impact on the economy. Congressman Frank also noted that the oil price spike underscores the need for the CFTC to take steps to rein in speculation in the commodity markets, such as setting position limits.

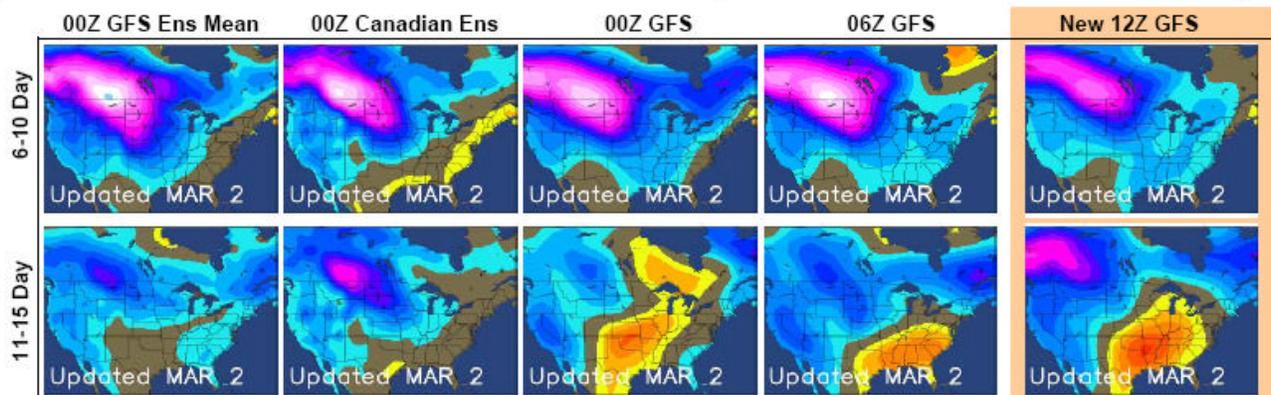
ADP reported this morning that U.S. private sector employers added more jobs than expected last month, adding 217,000 jobs in February. The company also revised January figures higher by 2000 to 189,000 jobs added on the month.

## MARKET COMMENTARY

With the winter heating season quickly drawing to a close and weather forecasts which appear to show no prolonged cold spell in the cards the natural gas futures market moved lower for the second straight trading session. It also appeared some traders that may have been friendly to the market may have liquidating longs and moved to the sidelines until after tomorrow's storage report.

Market expectations for tomorrow's EIA storage report appear to be running between a 65-105 bcf draw down, with most centered around a 85 bcf draw. For the same week a year ago stocks declined 124 bcf, while the 5 year seasonal decline is at 131 bcf.

### Forecast Model Comparison



### 10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast



The NYMEX reported at midday that open interest in the natural gas futures climbed on Tuesday to an all time high, increasing by 21,659 lots to 982,208, eclipsing the old record set back on July 23, 2008. Open interest in the last month has grown by 18% or more than 150,000 contracts.

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