



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JUNE 13, 2011**

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

##### **North America**

The National Hurricane Center noted this morning that the tropical Atlantic Basin remains quiet and is expected to remain fairly quiet for this week due to unfavorable environmental conditions.

Progress Energy Resources, which signed a \$1.09 billion shale gas alliance with Malaysia's state oil company, Petronas, is actively pushing for a consolidated regulatory process for pipelines and LNG export plants on the Canadian West Coast. The CEO of the company said federal and provincial authorities should consider combining regulatory proceedings for multiple plants and pipelines, given that there are several plans by various companies in the works. He noted that the current pipeline capacity to British Columbia's Kitimat region is about 100 Mmcf/d, far below what will be required to support an export industry. Progress Energy Resources is looking to finalize its agreement with Petronas by the end of the third quarter and that is when they plan to begin a feasibility study into the LNG plant.

##### **International**

The Mozah LNG tanker, which can carry up to 266,000 cubic meters of super-cooled natural gas, is heading for Britain's Isle of Grain terminal and is expected to arrive on June 17 according to Reuters.

The Mesaimmer LNG tanker is expected to arrive at the UK's South Hook LNG terminal on June 19 from Qatar, according to local port authority.

In the wake of the Japan disaster, demand for natural gas will increase amid a global backlash over the safety of nuclear energy according to Qatargas CEO Sheik Khalid bin Khalifa AL Thani. Qatar said in April that it would supply an extra 4 million tons of LNG to Japan over the next year to meet its

#### **Generation Outages**

**NPCC** – OPG's Lambton #4 coal fired power plant was restarted on Saturday. The unit had been taken off line on June 8<sup>th</sup> for maintenance.

OPG's 490 Mw Nanticoke #1 coal fired unit returned to service on Sunday. The unit had been shut on June 8<sup>th</sup>.

OPG's 535 Mw Unit #2 at the Lennox oil/gas unit was taken off line while its sister unit Unit #1 returned to service.

**SPP** – Entergy's 978 Mw River Bend nuclear unit was at 96% power this morning, up from just 54% power on Friday. Operators had reduced power at the facility last week to facilitate work on a turbine building.

**PJM** – FirstEnergy's 1245 Mw Perry nuclear unit ramped up to 79% power this morning, up significantly from Friday's reported power of just 8% capacity.

**MISO** - Exelon's 867 Mw Quad Cities #1 nuclear unit was at 50% power early Monday, up from just 17% power on Friday. The unit continues to ramp back up from its recent return from its refueling outage.

Xcel Energy's 551 Mw Prairie Island #1 nuclear unit exited its recent refueling outage on Saturday and was at 50% power this morning. The unit had been shut since April 29<sup>th</sup>.

**ERCOT** – NRG Energy's 858 Mw Limestone #2 coal fired power plant was being restarted today after operators completed repairs on tube leaks.

**SERC** – Duke Energy's 846 Mw Oconee #1 nuclear unit ramped up to full power early Monday. The unit had been at just 36% power on Friday.

**The NRC reported this morning that some 89,462 Mw of nuclear generation was online, up 1% from yesterday and only 2.6% below levels recorded a year ago.**

electricity needs after an earthquake destroyed its Fukushima Daiichi nuclear plant. This is in addition to the 6 million tons a year of LNG the Qatargas I facility ships to Japan a year in long-term contracts.

Japan's utilities consumed about 30 percent more LNG in May than a year earlier to generate electricity, industry data showed on Monday. The 10 utilities burned 3.6 million tons of LNG last month compared to 2.79 in May 2010.

| 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                | 1,103,300     | \$4.751   | \$0.031   | \$0.118                | \$0.119 | \$0.109                |
| Chicago City Gate        | 670,800       | \$4.767   | (\$0.007) | \$0.134                | \$0.073 | \$0.162                |
| NGPL- TX/OK              | 1,036,900     | \$4.630   | \$0.018   | (\$0.003)              | \$0.098 | (\$0.031)              |
| SoCal                    | 566,900       | \$4.760   | \$0.130   | \$0.127                | \$0.210 | \$0.003                |
| PG&E Citygate            | 1,068,100     | \$4.971   | \$0.063   | \$0.338                | \$0.143 | \$0.241                |
| Dominion-South           | 810,100       | \$4.859   | \$0.053   | \$0.226                | \$0.133 | \$0.260                |
| USTrade Weighted         | 20,801,200    | \$4.725   | \$0.039   | \$0.092                | \$0.12  | \$0.109                |

China's natural gas imports in May more than doubled from a year earlier to meet robust demand for the cleaner-burning fuel, the National Development and Reform

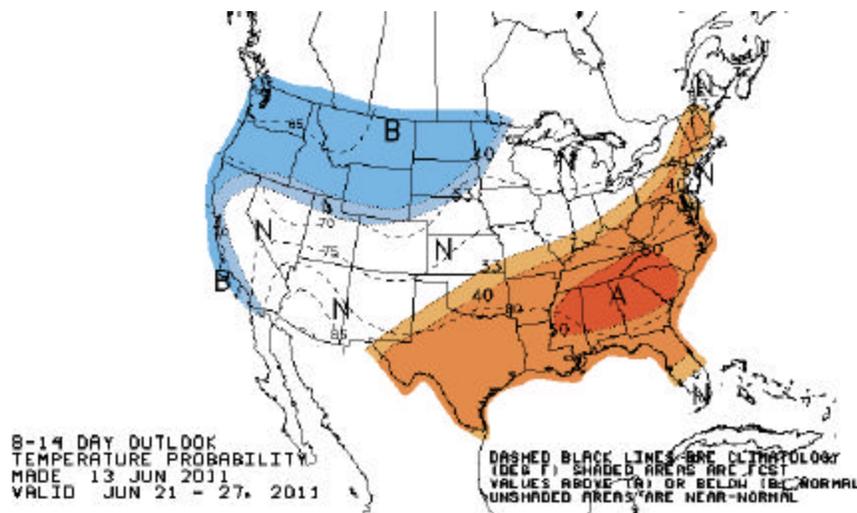
Commission said citing industry data. Natural gas imports reached 2.6 billion cubic meters last month with pipeline gas imports and LNG imports each accounting for half of the total.

Chinese President Hu Jintao will hope to put an end to a fractious dispute over Russian gas supplies vital for feeding China's booming economy when he visits Moscow this week. Hu has made securing energy for the world's second-biggest economy a diplomatic priority, but relations with Russia in this key area have not been smooth. The two sides have been bogged down in disagreements on pricing for the gas that Russian energy giant Gazprom would pump to China via two routes. Russia's ambassador to China warned last week that it would be inappropriate to set a date for the companies involved to conclude a deal, in which Russia would supply China with 68 billion cubic meters per year of gas over 30 years.

South Korea's state-run Korea Gas Corp said on Monday it had sold 2.09 million tons of LNG domestically in May, up 8.3 percent from a year earlier. Of the total, 1.06 million tons were for household and business consumption, while the remainder went to power generation.

Gas shippers storing more gas in Britain's Rough gas storage site than they have rights for must withdraw it or sell the excess to another firm capacity holder from June 19, operator Centrica said on Monday. Centrica Storage

allows customers to store more gas in Rough, Britain's biggest storage site, than they have firm capacity rights for while there is enough space to do so. But Rough has been restocked much faster than last year and those storing more gas in the site under the North Sea than they have booked room for must take it out or sell the gas to someone who has not yet filled their allocation from next Sunday.

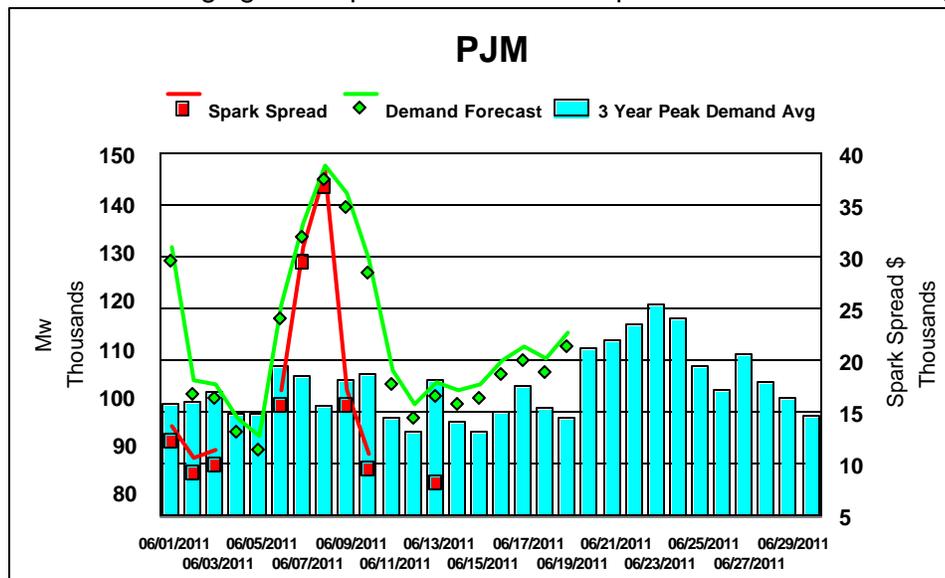


Royal Dutch Shell plans to install a second floating LNG project at Greater Sunrise field in the Pacific as it steps up production in the region to feed rising demand, a senior executive said on Monday. Gas consumption in the world's fastest-growing major economies China and India is surging as industries and cities expand, prompting exporters from Australia to Russia to Qatar to spend billions of dollars to boost output for a bigger share of the lucrative market. East Timor is locked in a dispute with Australia's Woodside Petroleum and partners over developing the Greater Sunrise gas field, which straddles Australian and East Timorese waters. East Timor wants a LNG plant to build on its shore, while operator Woodside wants to build a floating LNG plant. Shell will be able to quickly duplicate floating units to produce the super-chilled gas after announcing its first for the Prelude gas field offshore Australia. The technology allows the company to tap on stranded offshore gas resources to meet surging LNG demand in Asia which could double by 2020.

Thailand's natural gas demand is expected to rise 6-7 percent in 2011 and needs to secure gas supplies to serve growing domestic demand mainly from the electricity, industrial and transport sectors the country's top energy firm, PTT said. State-controlled PTT is looking to buy about 1 million tons of LNG a year in short-term contracts from several suppliers in Europe, South America and Asia.

**ELECTRIC MARKET NEWS**

Wind generators in the Pacific Northwest that include Iberdrola Renewables, PacifiCorp, Horizon Wind Energy, NextEra Energy and Invenergy were reportedly preparing to file a complaint with the FERC today, asking regulators to order Bonneville Power Administration to revise its curtailment practices. The BPA since mid May due to the largest snowpack in the region since 1997 which has boosted water flows throughout the region, has curtailed wind and other generators on a daily basis so it can increase hydropower output to protect salmon and other fish. But wind generators say the practice of curtailing without compensation is unfair use of BPA's grid, costing generators lost income and in the future discouraging development of renewable power resources in the region.



The U.S. EPA under mounting pressure from Republicans in Congress and big utilities, said Monday that it has extended its deadline by two months on draft rules that would for the first time limit greenhouse gas emissions from power plants. The new date for releasing the guidelines will be September 30<sup>th</sup>. The deadline for final standards though remains May 16, 2012.

The head of the California Air Resources Board said today that the new analysis of carbon regulation ordered recently by the court shows that cap and trade is still the "correct" choice" for California.

One out of three turbines at E.ON Isle of Grain gas fired power plant in Britain started commercial operations on Monday. A technical problem is keeping the other two units from beginning operations. The opening of the 1275 Mw combined cycle gas turbine plant has been delayed several times since it started generating power for commissioning tests nearly one year ago.

**ECONOMIC NEWS**

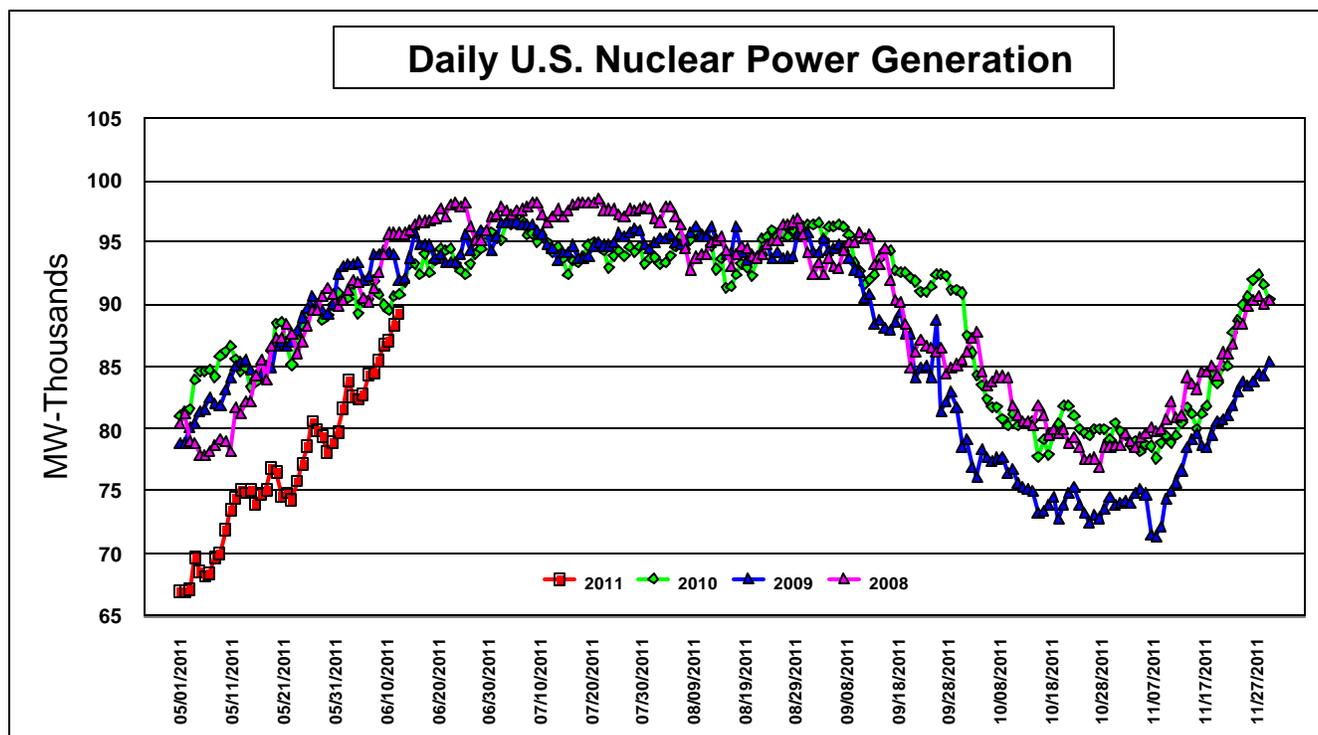
Richmond Federal Reserve Bank President Jeffrey Lacker said the US economy is recovering slowly and growth could remain soft for some time as employers remain reluctant to add workers. He said the reluctance of many employers to add workers despite rising demand is a sign that economic growth could underperform for a sustained period. He however said it does not mean the Federal Reserve should rush into another round of monetary stimulus.

Standard & Poor's cut Greece's credit ratings by three notches, saying the country is increasingly likely to restructure its debt in a way the ratings agency would consider a default. S&P cut Greece's long term sovereign credit ratings to CCC or eight notches into junk territory from B. The short-term rating was affirmed at C. The outlook on the long term rating remains negative, however in a sign that another downgrade is expected in the next 12 to 18 months.

The People's Bank of China said Chinese banks lent 551.6 billion yuan in local currency loans in May, missing market forecasts for 610 billion yuan.

Japan's core machinery orders unexpectedly fell in April by 3.3% on the month. The economy is still expected to grow in the second half of the year, allowing the Bank of Japan to refrain from further policy easing when it meets this week.

India's power output increased an annual 10.45% in May, the first double digit growth in almost two years, due to better coal availability and as the country built more power plants to help offset a shortfall. India added about 9.2% to capacity a year to April 2011 to 174.36 gigawatts. Electricity generation in May was 75.1 billion kilowatt hours compared with 68 billion kwh in May 2010.



**MARKET COMMENTARY**

The natural gas market received a double punch of bearishness today. Not only were rebounding nuclear generation levels a weight on this market to kick off the week, but Goldman Sachs released their weekly natural gas commentary and they issued a sell recommendation for this market on the basis that the recent rally in natural gas prices was unsustainable, which seems to have prompted some hedge fund liquidation to start the day. This selling pressure appeared to remain in place until

midday before values finally stabilized and moved in a sideways fashion. But the market finished the day back near its lows for the day, settling of over 11 cents and posting its lowest settlement May 30<sup>th</sup>.

We remain comfortable in holding our short position and would not look to lighten the position until prices reach back down to the \$4.41 area. We find support in our belief given the continued rebound in nuclear generation levels, moderate cooling demand, no trouble in the tropics and technically seeing the daily stochastics clearly point to the downside. We see initial support tomorrow at \$4.595-\$4.584 followed by \$4.499, \$4.467 and \$4.415. Additional support we see at \$4.357, \$4.209 and \$4.14, Resistance we see at \$4.67, \$4.811, \$4.87 and \$4.983-\$5.009.

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