



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 22, 2009

NATURAL GAS MARKET NEWS

Once again the tropical Atlantic basin remains unseasonably quiet today. None of the major forecast guidance models are calling for any tropical cyclone development for at least the next seven days. This tranquil period is in part due to unusually strong wind shear across the Caribbean and much of the tropical Atlantic.

Nexen said today that it has concluded its recent three well drilling program in the Horn River shale gas property and was producing between 15-20 mmcf/d of gas from its five shale gas wells. The wells have a higher fracture density than earlier wells and given Nexen's land position in the area it could support up to 500-700 wells. The company estimates that its acreage in the area could have 3-6 tcf of contingent recoverable resource.

Goldman Sachs analysts this week warned that while it expects an overall rebound in energy prices next year, natural gas values could lag the rest of the complex for at least three years.

Callon Petroleum's CEO said today that his company would focus on acquiring functional natural gas properties rather than drilling new wells given the low natural gas price environment. The CEO said drilling is profitable in the continental shelf or in shallow waters of the Gulf of Mexico when spot gas prices are at \$6.00 or higher.

Pennsylvania regulators issued a notice of violation today to Cabot Oil & Gas for spilling thousands of gallons of a chemical used in natural gas drilling. The state regulators gave the company 10 days to explain what it is doing to clean up two spills that took place on September 16th near the northeast Pennsylvania town of Dimock, where Cabot is drilling for gas in the Marcellus Shale formation.

Generator Problems

NPCC – OPG's 490 Mw Nanticoke #2 coal fired power plant was shut for work early Tuesday.

WSCC – PG&E's 1122 Mw Diablo Canyon #1 nuclear unit has started to exit its outage and was at 8% power this morning. The unit went off line back on Monday.

FRCC - FPL stopped the restart of its 839 Mw St. Lucie #2 nuclear unit yesterday afternoon due to a leaky valve. Operators were attempting to bring the unit back from an outage to fix a pump motor that took the unit off line on September 10th.

ERCOT & SPP – AEP's 675 Pirkey coal fired power plant as shut on Tuesday due to problems with a boiler fan. While the unit was initially expected to be restarted quickly, operators later said repair may take at least a month to complete.

The Sandow Electric Station Unit #4 load was reduced to facilitate ESP maintenance. The work is expected to last until Wednesday morning.

Unit #1 at the Martin Lake steam electric station may be reduced today as operators work on the unit's electrostatic precipitator.

The NRC reported this morning that 84,073 Mw nuclear generation capacity was on line, down 4.1% from yesterday and off 3.7% from the same time a year ago.

Saudi Arabia said today that it would continue exploring for natural gas resources in the country as it seeks to meet rapidly rising demand. The country currently is burning 150,000 b/d of crude oil to meet demand that could easily be offset by natural gas.

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	563,900	\$3.369	\$0.023	(\$0.227)	\$0.091	(\$0.207)
Chicago City Gate	382,100	\$3.454	\$0.055	(\$0.142)	\$0.136	(\$0.223)
NGPL- TX/OK	700,200	\$3.322	\$0.041	(\$0.274)	\$0.122	(\$0.346)
SoCal	505,400	\$3.619	(\$0.053)	\$0.023	\$0.028	(\$0.013)
PG&E Citygate	1,095,800	\$3.954	(\$0.087)	\$0.358	(\$0.006)	\$0.375
Dominion-South	172,800	\$3.523	\$0.111	(\$0.073)	\$0.192	(\$0.209)
USTrade Weighted	18,348,700	\$3.466	\$0.010	(\$0.130)	\$0.09	(\$0.207)

Contrary to earlier reports, the Ukrainian government has set a deadline of October 20th by which the Finance Ministry and the state owned Naftogaz must conclude

talks on restructuring the firm's 1.6 billion debt, which includes a \$500 million Eurobond maturing on September 30th.

China's imports of LNG in August fell some 30% from the record highs recorded in July. August volume though was still 22.5% higher than a year earlier.

British prompt gas prices rebounded from yesterday's three year low as news that the Interconnector pipeline would be reopened on Wednesday, restoring the flow of gas from the UK to the European continent.

PIPELINE MAINTENANCE

Benetek in a research report noted that Texas Gas' shut down of the Fayetteville and Greenville Lateral starting on September 1st for a three-month long repair work could not have come a better time in supporting natural gas prices on a national basis. The pipeline work has resulted in production shut ins. While current capacity on the laterals is set at 0 Mmbtu/d once the work is completed between the western most receipt points to Bald Knob capacity will be increased to 550,000-750,000 Mmbtu/d. Once the work is completed and compressions along the lines have been increased the company expects to have a capacity of 1.3 bcf along the Fayetteville Lateral and 1 bcf/d for the Greenville Lateral.

Tennessee Gas Pipeline said that due to better than expected performance and favorable weather conditions, the company has begun the process of locking out and tagging out (shutting-in) all those meters located and attached to the 26 inch pipeline in Ship Shoal 156 and south of the debris located in Ship Shoal 156/157. Under the repair plan, physical flow for meters will be suspended for the duration of the repair work. The work is expected to last 8 days. Upon completing the work the relay and tie in of the damaged segment of the 26-inch line, producers attached to the line will be allowed to flow. The relay has been damaged since Hurricane Ike last year.

PIPELINE RESTRICTIONS

Questar Pipeline said that effective for September 23rd gas day and continuing until further notice, Questar will not allow in-kind imbalance payback to or from the pipeline and is requiring shippers and point operators to have production volumes aligned with scheduled nominations.

ELECTRICITY NEWS

Genscape reported that it estimated coal supplies at U.S. power plants rose 0.8% for the current week from a week ago and was some 26.8% above year ago stock levels. U.S. generators had as of Tuesday some 68 days of forward supply of coal at power plants, some 14 days more than a year ago.

The EPA said on Tuesday it will require for the first time large facilities to monitor and report their greenhouse gas emissions, the first step in making it easier for the EPA to cut U.S. greenhouse gas emissions if Congress fails to pass climate change legislation. The EPA said its system would cover 85% of the total U.S. greenhouse gas emissions created by 10,000 facilities. The reporting system will take effect on January 2010 and large emitters are required to file their annual emissions data in 2011.

Texas Governor said that the U.S. climate bill currently before Congress would cripple the Texas economy as well as damaging the national economy. He called for the expansion of nuclear power and alternative energy, such as wind and solar as keys to power generation.

MARKET COMMENTARY

While oil prices and the equity market moved higher today the natural gas market spun its wheels and ended the day where it basically had begun. It appears that the bulls are losing the argument that the excess natural gas inventories are an insignificant factor to prices at these current levels. With near term economic activity looking rather stagnant at best and with no tropical threat in the cards for at least 1-2 weeks, the selling pressure on the front of the curve seems to be returning to this market. The October-January spread which basically posted a double top at -\$1.80 per Mmbtu over the past week appears to be reflecting this mood which today finished the day at -\$1.88 and appears could be headed back towards the \$2.00-\$2.10 level by the time the October contract expires.

We would look for the October contract to find minor resistance at \$3.725 with more significant resistance at \$3.86, \$3.90, \$3.95 and \$4.41. Support we see at \$3.485 followed by \$3.386, \$3.33, \$3.154 and \$2.979.

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