



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 8, 2011

NATURAL GAS MARKET NEWS

North America

The EIA released its November estimates saying they expect natural gas consumption will increase by 1.7% to 67.1 Bcf/d in 2011, a 1.1 Bcf/d increase from its October projections. The projections for 2012 increased by 1.1% to 67.9 Bcf/d when compared to last month's estimates of 67.7 Bcf/d. Production in 2011 is expected to increase 6.1% over 2010 levels to 65.6 Bcf/d and will continue to grow in 2012 by 2%. The Henry Hub natural gas price averaged \$3.56 MMBtu in October \$0.34 lower than September and \$0.49 lower than the average in August. The EIA is predicting that the price will decline further and has lowered its prediction for the Henry Hub's average price in 2011 to \$4.09 and 2012 to \$4.13.

Generation Outages

The NRC reported this morning that some 82,621 Mw of nuclear generation was online, relatively unchanged from yesterday and up some 4.7% from the same day a year ago.

Southern Union Co reported third quarter earnings up 55% due to revenue increasing more than expected and hedging gains. The company reported a profit of \$58 million or \$0.46 a share an increase from its \$37.3 million or \$0.29 a share last year. The company also agreed to a \$5.7 billion cash and stock buyout offer from Energy Transfer Equity in July despite a continued pursuit by William Cos who argues their \$5.6 billion dollar offer is better because it is an all cash bid during a period of volatility in the market.

International

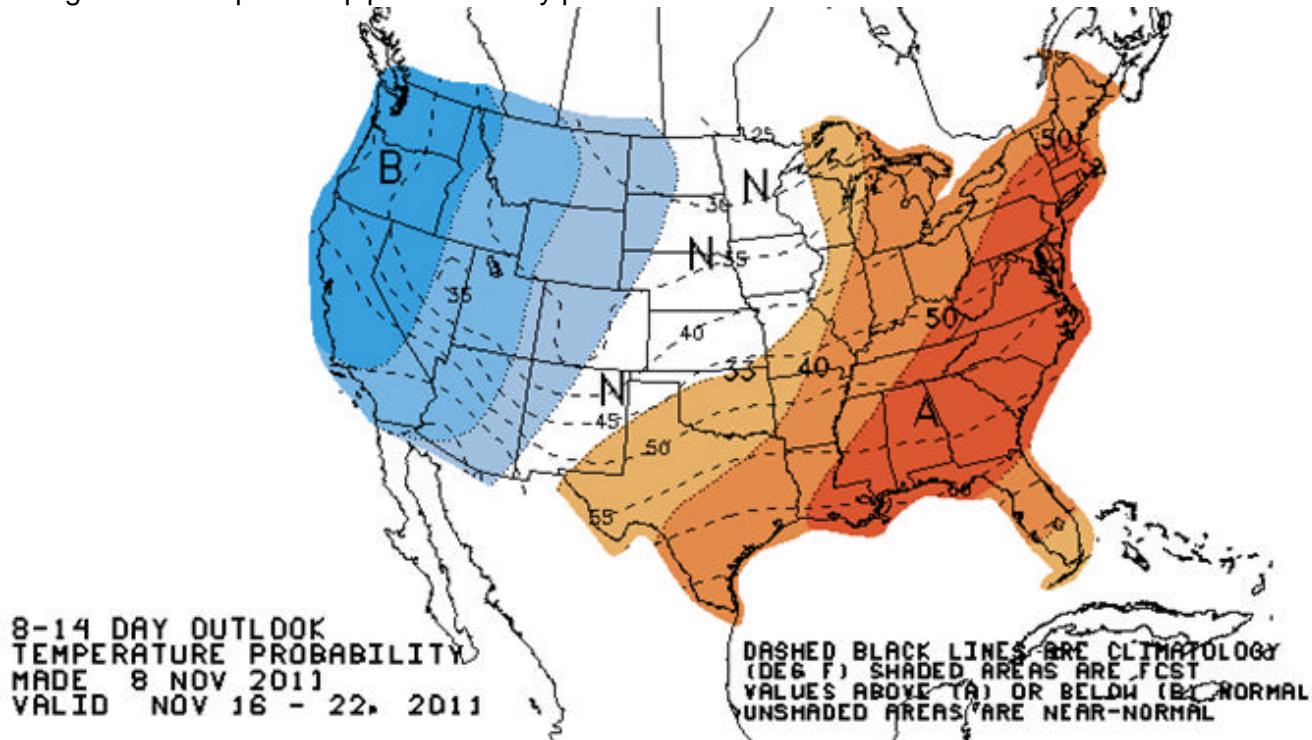
Argentina plans to import a record 80 LNG cargoes in 2012, an annual increase of 20%. Bahia Blanca plans to receive 45 cargoes while the plant in Escobar plans to receive the other 35 shipments. Enarsa opened a tender to supply the countries two LNG terminals, which is expected to drive up LNG day rates.

Location	Natural Gas Cash Market					
	ICE Next Day Cash Market					
	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day Moving Avg
Henry Hub	1,174,200	\$3.418	\$0.065	(\$0.272)	\$0.144	(\$0.245)
Chicago City Gate	806,400	\$3.718	\$0.175	\$0.028	\$0.214	(\$0.123)
NGPL-TX/OK	1,008,500	\$3.396	\$0.097	(\$0.294)	\$0.136	(\$0.428)
SoCal	604,800	\$3.761	\$0.055	\$0.071	\$0.094	(\$0.081)
PG&E Citygate	1,090,000	\$4.005	\$0.000	\$0.315	\$0.039	\$0.234
Dominion-South	645,700	\$3.564	\$0.107	(\$0.126)	\$0.146	(\$0.269)
USTrade Weighted	23,746,100	\$3.573	\$0.105	(\$0.117)	\$0.14	(\$0.245)

The British Energy Minister has ordered a regulator to investigate medium to long term gas supplies due to declining domestic production and public backlash against higher utility bills.

A.T. Kearney released a report in Germany on Tuesday saying they expect a sharp increase in gas markets until 2014 when they expect the world will be oversupplied and prices will fall. The company estimates that gas prices can rise as much as 30 to 40 percent by 2014 and then fall by as much as 60 percent in 2015. The company also forecasts world gas demand will grow by 1.7 percent and Europe's demand will grow by 0.4 percent in the long run.

The 1,200 km undersea Nord Stream pipeline was due to deliver its first gas from Russia to Germany on Tuesday. The first phase of the pipeline will handle 27.5 billion cubic meters per year, half the pipeline's total planned capacity. Some in Europe view the pipeline's inauguration as a success because Europe now has a means to import gas that is not subject to transit countries that have recently grown hostile to Russia over the price they pay for Russian gas. Others believe that despite this move Gazprom is struggling. PGNiG filed an arbitration case against the company this week, Ukraine is still seeking a discount on its gas deal despite the new pipeline diminishing its power, and the company has yet to sign a deal to supply gas to China all while the company needs ship gas through its new expensive pipelines to stay profitable.



The Deputy Chief Executive Alexander Medvedev of Gazprom said that he was surprised by the European Union authorities' raids in September. He is not concerned about the allocations of anticompetitive behavior and believes that the charges will be dropped when the investigation does not uncover any evidence.

Medvedev also said that Gazprom would be willing to the price that German customers would be for Russian gas. There is currently a \$100 difference between the spot price and what some contracts were signed for this quarter. Analysts estimate that Gazprom would probably give an additional level of spot indexation of less than 5% on top of existing spot indexation.

Electric Market News

The EIA is predicting that coal consumption for electricity generation will decline by 1.6% in 2011 and an additional 4.6% in 2012 due to increases in electric generation from natural gas, nuclear power, hydropower and other renewable energies in addition to lower electricity consumption. The price of coal has steadily risen over the past ten years by an average of 6.7 each year and the EIA expects the trend to continue in 2011.

According to the EIA electricity consumption is estimated to increase by 0.3% this year and then fall by 0.6% next year. The EIA expects prices to increase by 1.7% in 2011 and 1.2% in 2012.

Economic News

The Bureau of Labor Statistics reported that the number of available jobs in the US increased by 300,000 in September to 3.4 million, up from 3.1 million in August. Last month, the US economy created 80,000 jobs in addition to the 158,000 jobs added in September. The job growth allowed the unemployment rate in October to fall to 9% from 9.1% in August.

Market Commentary

The natural gas market opened relatively unchanged and traded sideways in overnight trading. It looked set to post an inside trading day after failing to test its previous low as it posted a low of \$3.656 early in the session. However as traders sought bargains, the market bounced off that level and traded back towards the \$3.75 level in afternoon trading. This was despite the EIA increasing its natural gas inventory growth in the fourth quarter. It expects end of period working gas inventory to increase to 3.199 tcf while demand was revised downwards. The market settled up 4.9 cents at \$3.745 and later continued to trend higher to post a high of \$3.769 in late afternoon trading.

The market will likely retrace some of today's gains as its gains are still seen limited. The market will remain pressured so long as the weather forecasts continue to call for mild temperatures. Private forecasters do not expect cooler temperatures to set in until December. The market is seen finding resistance at its high of \$3.769, \$3.836, \$3.847 followed by \$3.863 and \$3.995. Support is seen at \$3.75, \$3.678, \$3.656, \$3.612 and \$3.565.