



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 14, 2009**

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

ExxonMobil announced this morning that it would buy XTO Energy in an all stock transaction valued at \$30 billion. The purchase was seen as providing ExxonMobil a major foothold into North America's newest energy discoveries. XTO Energy is one of the leading developers of unconventional natural gas resources.

Anadarko Petroleum reported this morning that the Independence Hub natural gas platform in the Gulf of Mexico has returned to service and was running at a "normal" rate of about 700 MMcf/d after a brief maintenance. The platform, which shut late last week, had returned to service by Sunday.

The National Weather Service reported this morning that it estimates the U.S. would see 192 heating degree-days for the week ending December 19<sup>th</sup>. This would be 4.5% less than normal on a gas home heating weighted basis, and 6.8% less than the same week a year ago.

The EIA released their "Annual Energy Outlook 2010" today and it looks for total domestic natural gas production will grow from 20.6 Tcf in 2008 to 23.3 Tcf in 2035. Production from shale plays is expected to grow to 6 tcf in 2035, more than offsetting declines in conventional production.

The Russian government Monday said the volume of Russian gas transiting across the Ukraine to Europe fell by 22.7% in the Jan-Nov 2009 period compared to the same period a year ago. The government also reported that Russian gas production for all of 2009 might total 575 billion cubic meters.

#### **Generator Problems**

**NPCC** – TransCanada's 550 Mw Portlands natural gas fired power plant in Ontario was shut early Monday.

Bruce Power's 750 Mw #4 nuclear unit was shut today for a brief outage.

OPG's 535 Mw Lennox oil and gas fired Units #3 and #4 were shut early Monday.

**PJM** – Dominion's 917 North Anna #2 nuclear unit had returned to full power this morning. The unit had tripped off line back on Decdember 9<sup>th</sup>.

**SERC** – SCE&G's 986 Mw Summer nuclear unit was at 80% capacity, up 66% from Friday's levels.

Southern's 1200 Mw Vogtle #1 nuclear unit was at 93% power this morning, up 89% from Friday.

Southern's 876 Mw Hatch #1 nuclear unit was at 88% power down 12% from Friday.

**WSCC** – APS 1314 Mw Palo Verde #2 nuclear unit returned to service early Monday and was ramping up. The unit was at 11% power on Friday.

**ERCOT & SPP** – Luminant's 545 Mw Sandow #4 coal fired power plant was shut on Sunday for maintenance work. No restart date for the unit was given.

NRG Energy planned to restart its 650 Mw Unit #6 at the WA Parish power station over the next several days.

AEP's 675 Mw coal fired Pickey coal fired power station which was shut over the week end for maintenance is expected to be restarted by Thursday.

Entergy's 858 Mw Arkansas Nuclear One #2 nuclear unit was back to full power this morning, up 30% from Friday.

**The NRC reported today that 90,295 Mw of nuclear generation was on line this morning, up 1.9% from yesterday, and off some 4% from the same time a year ago.**

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	993,600	\$5.408	\$0.200	\$0.168	\$0.242	\$0.221
Chicago City Gate	746,200	\$5.776	\$0.272	\$0.536	\$0.300	\$0.372
NGPL- TX/OK	795,200	\$5.345	\$0.154	\$0.105	\$0.182	(\$0.028)
SoCal	477,300	\$5.628	\$0.179	\$0.388	\$0.207	\$0.324
PG&E Citygate	375,200	\$5.987	\$0.156	\$0.747	\$0.183	\$0.665
Dominion-South	255,600	\$5.771	\$0.119	\$0.531	\$0.147	\$0.422
USTrade Weighted	20,211,500	\$5.559	\$0.214	\$0.319	\$0.24	\$0.221

Gazprom said today it expects average European natural gas prices to rise to \$325 per thousand cubic meters or \$9.10 per Mmbtu.. This would be significantly higher than the

\$4.87 per Mmbtu forecasted last week by Merrill Lynch.

The Maran Gas Cornis LNG tanker has been redirected away from Britain's Isle of Grain import terminal to South Korea due to higher spot prices in Asia versus Britain. This week there are five LNG tankers expected to arrive in Britain. In addition the Trinity Arrow LNG tanker is scheduled to arrive at Belgium's Zeebrugge terminal on December 19<sup>th</sup>.

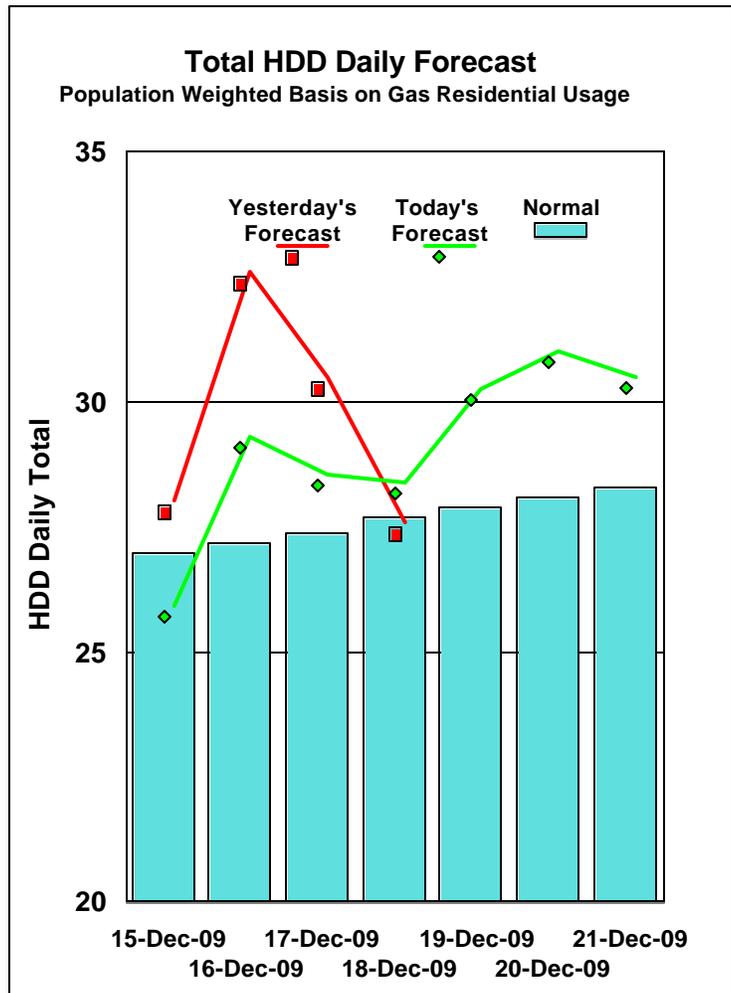
Iran said it has boosted natural gas production by around 10% so far during its fiscal year (March – February). It estimated that production is some 10 bcm ahead of last year.

The Indonesian government has approved plans to develop the Wortel gas field, operated by Santos Ltd. The field is believed to have recoverable reserves of 150 bcf. Production is expected to begin in 2011 The gas is expected to feed power companies in East Java.

Chevron announced it has made an additional natural gas discovery in the Carnarvon Basin offshore in western Australia.

Woodside Petroleum said it would raise over \$2.2 billion in an entitlement offer to fund its ambitious plans to expand its activities in the global LNG market. Market analysts noted that these additional funds should help address concerns voiced by some credit agencies last month over the company's financial strength following additional capital costs reported for its Pluto project.

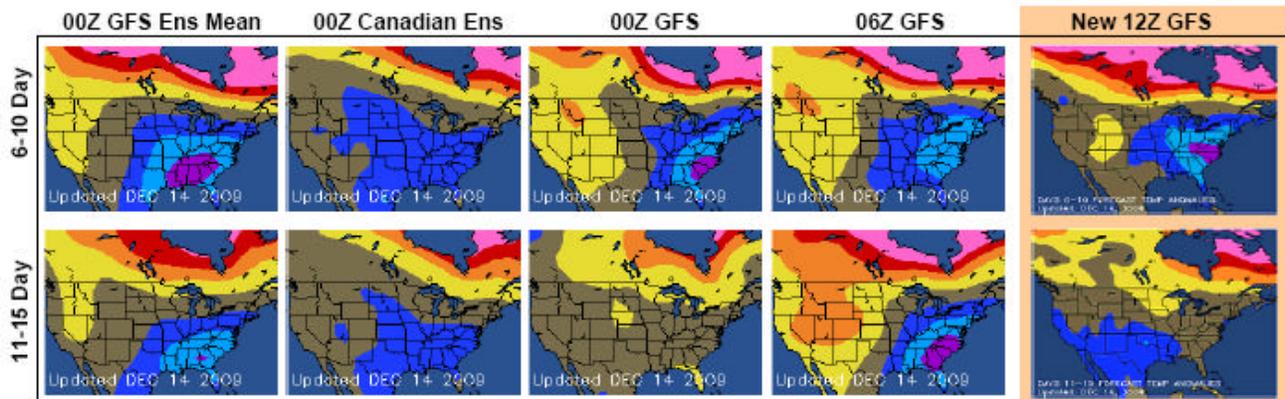
The French power grid RTW said Monday that France could break electricity consumption records by the end of the week due to cold weather across the nation.



**PIPELINE MAINTENANCE**

Transco said facility modifications on the central Louisiana Lateral that began on December 8<sup>th</sup> and was expected to last through December 15<sup>th</sup> is progressing, but the completion date has been moved back to December 18<sup>th</sup>. During this outage, Chevron Fort Henry, Robgers Tigre Lagoon, Tiger Lagoon and Henry Gas PL will not be available for flow into the system.

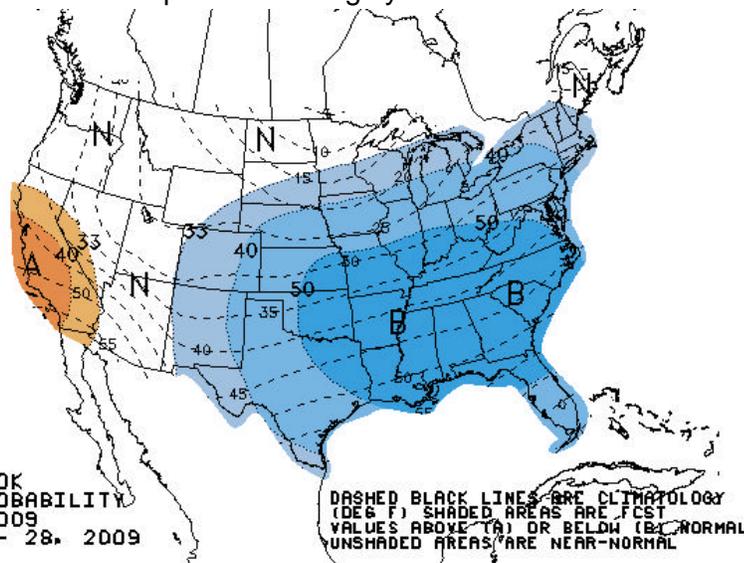
**Forecast Model Comparison**



Gulf South said that pigging maintenance on Index 8 and Overton Field pipelines, was postponed from December 9<sup>th</sup> and 10<sup>th</sup>, will be done December 14<sup>th</sup>. The company did not anticipate any effect to capacity or flow rates.

**PIPELINE RESTRICTIONS**

Tennessee Gas Pipeline said that for December 14<sup>th</sup> it has restricted through approximately 42% of supply to market secondary out of path nominations pathed for delivery to the Leidy meters. The company also notified customers that as of December 16<sup>th</sup> it will request that customers match physical flow with scheduled quantities to prevent imbalance from occurring in Zones 4,5,& 6 that could threaten Tennessee’s operational integrity.



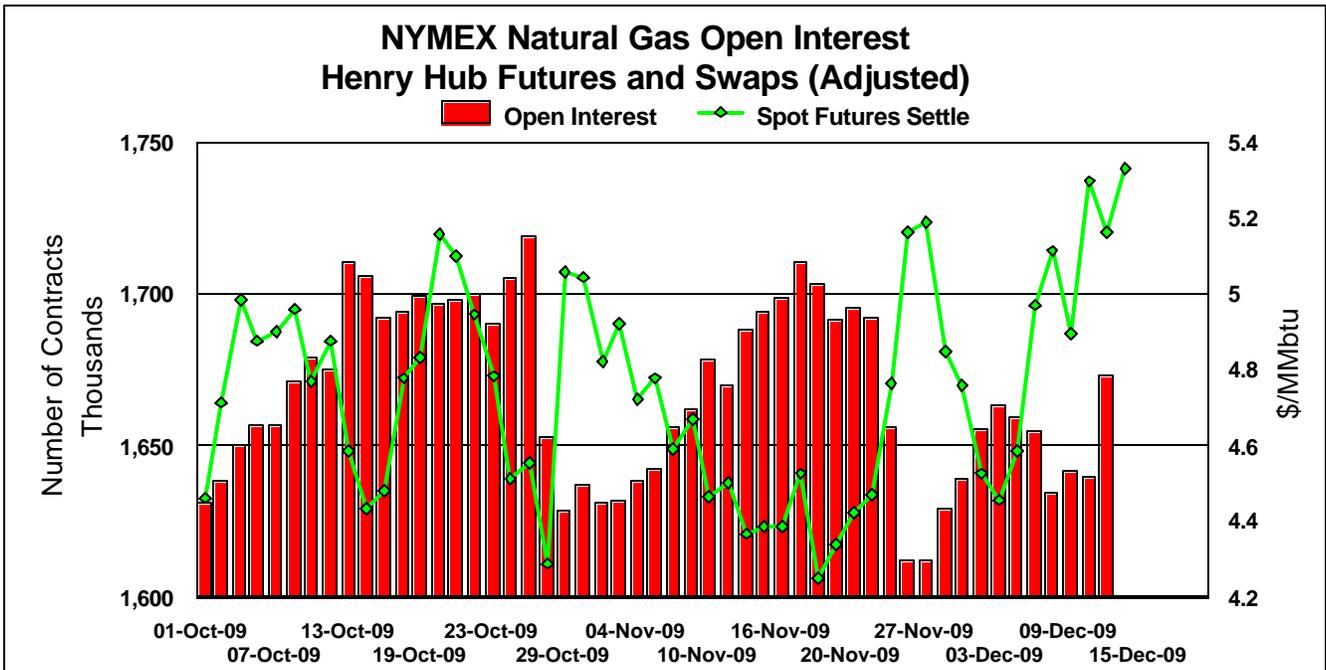
NNG said that due to colder than normal temperatures, it was calling a SOL in Zones ABC and EF with 0% safety management systems for December 15<sup>th</sup>.

Rockies Express Pipeline said the force majeure declared on December 10<sup>th</sup>, which required a system interruption effective December 12<sup>th</sup> near

Wamsutter compressor station remains in effect.

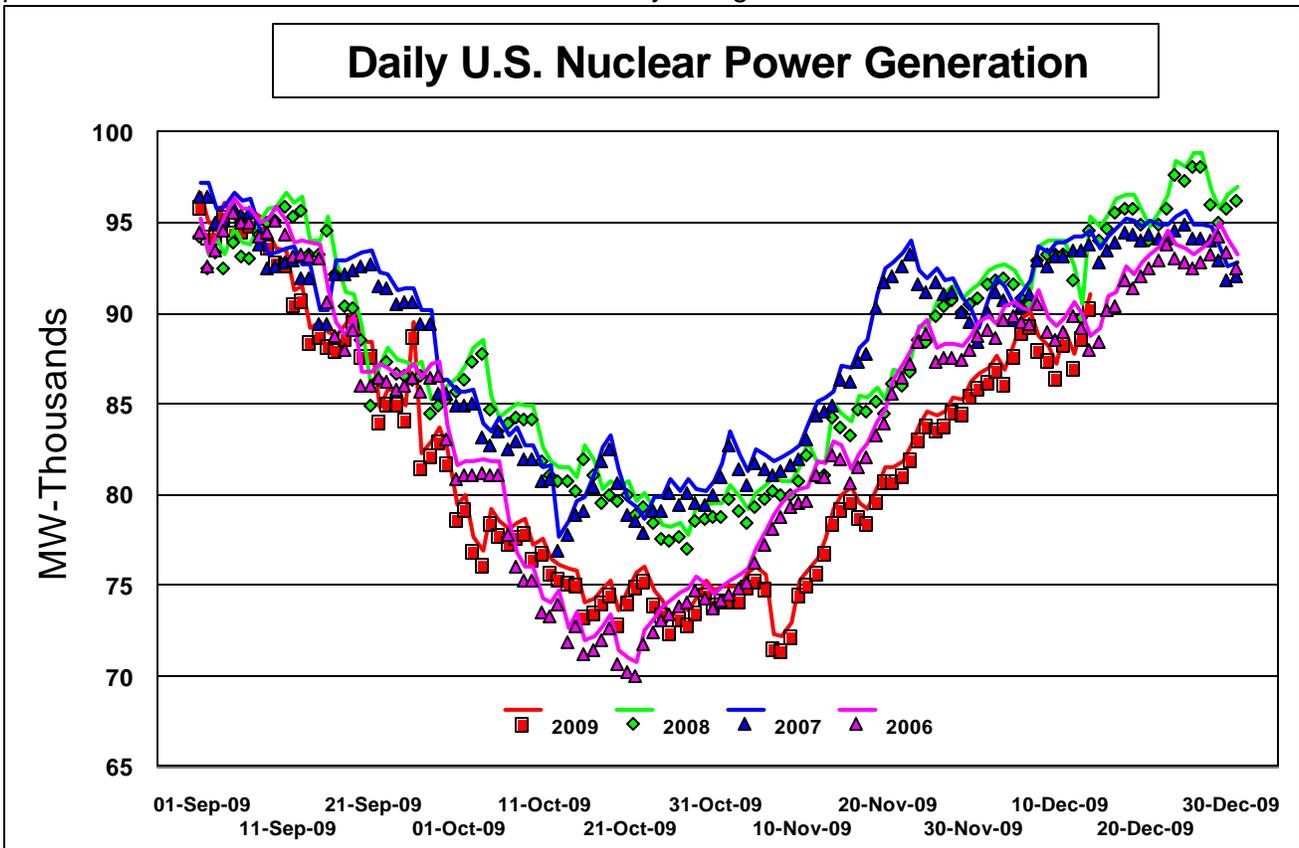
**ELECTRIC MARKET NEWS**

The U.S. Energy Secretary Chu announced today that the United States was pledging to contribute \$85 million to a \$350 million multinational fund aimed at speeding up renewable energy and energy



efficiency technologies in poor countries.

Genscape reported this morning that it estimates U.S. power output last week grew by 16.3% from the prior week and was 1.6% above the same week a year ago.



## **MARKET COMMENTARY**

The bullish perspective returned to the market today, as traders returned from the weekend to find that the weather forecasts remained relatively supportive for the next couple of weeks for stronger heating demand. Thus with stronger cash market values coupled with some probable short covering following the strong jump in open interest on Friday, especially in the February and March contracts, allowed the January contract to finish higher for the fifth time out of the last seven trading sessions and at its highest level since October 30<sup>th</sup>.

We remain skeptical though that this bull move in natural gas can be maintained for significant upside gains, given the large stock overhang and the inability of weather models to show that a severe cold outbreak can be maintained, especially as Canadian temperatures continue to run warmer than normal for much of the forward period. In addition nuclear generation levels are finally returning to more seasonal levels and thus erasing some of the support that the power generation market was providing to the natural gas market.

As a result we remain comfortable in our target of being a scale up seller in the January contract starting at \$5.60. We see initial resistance tomorrow at \$5.43 followed by \$5.53, \$5.565, \$5.60, \$5.648. More distant resistance we see at \$5.80 and \$6.266. Support we see at \$5.212, \$5.13, \$5.036, \$4.921 and \$4.805. We also continue to watch the March-April spread with a target of selling the spread if March reaches back to near parity with the April contract.

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