



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 22, 2010

NATURAL GAS MARKET NEWS

The National Weather Service forecast that US heating demand this week is expected to be 8.9% above normal. Heating demand for natural gas this week will average 8.7% above normal. Last week, heating demand for natural gas was 6.7% above normal compared with a forecast for 8.2% above normal.

WSI Corp expects the upcoming March-May period will average cooler than normal in the southeastern half of the US, with warmer temperatures in much of the western and northern US, particularly in March and April. In March, WSI predicts colder than normal weather for the Northeast, Southeast and South-central US with warmer than normal weather expected in the North-Central, Northwest and Southwest US. In April, WSI predicts a similar scenario with colder than normal temperatures in the Northeast, Southeast and South-central US and warmer than normal weather expected in the North-central, Northwest and Southwest US. In May, colder than normal weather should remain in the Northeast and Southeast while warmer than normal weather overtakes the rest of the country.

Generator Problems

NPCC – Entergy's 838 Mw FitzPatrick nuclear powered unit has ramped up to 79% of capacity, up from 64% on Friday. The unit was slowed due to a control rod sequence exchange and fuel route integrity testing.

Constellation Energy has returned output at its 621 Mw Nine Mile Point unit 1 to 100%, up from 45% on Feb. 16. Power was reduced to replace two valve controllers on the unit's feedwater system.

SERC – Southern Nuclear's 920 Mw Farley nuclear unit 1 cut its output to 92% early Monday from full capacity. A reason for the reduction was not immediately known.

Southern's 883 Mw Hatch #2 nuclear unit ramped up to 100% on Monday, up from 94% capacity on Friday. The unit was cut from full power to near 60% on February 17th due to indications of elevated temperatures in the main generator.

FRCC – FPL Group Inc's 693 Mw Turkey Point 3 nuclear unit returned to full capacity on Monday, up from 40% of capacity on Friday. It had reduced its output for maintenance work and other testing.

WSCC – PG&E Corp's 1,122 Mw Diablo Canyon nuclear unit 1 cut its output to 82% of capacity on Monday, down from full capacity on Friday. A reason for the reduction is not yet known.

The NRC reported that there was some 91,346 Mw of nuclear power generated today, down 0.04% from Friday and 1.6% higher than a year ago.

The UK Milford Haven Port Authority said late Monday that talks to avert a strike by the Unite trade union, which would shut the port from February 23rd, were continuing. Ship pilots are planning a 12 hour strike on Tuesday. The workers would follow up with an indefinite work-to-rule period, which would halt large oil and liquefied natural gas tankers from arriving at the port in south Wales.

The steady stream of LNG tankers that have been arriving in the U.K. is expected to continue with the expectation of another on February 27. The Al Mafyar is expected at the South Hook Terminal. The Dragon LNG and South Hook LNG terminals, both in South Wales, were fully commissioned in 2009, with a combined capacity to supply up to 25% of the U.K.'s gas requirements.

According to UBS Wealth Management Research, natural gas supplies are likely to continue growing in light of the increase in drilling activity by more than 200 rigs since early in the second half of last year.

A recently discovered gas field in Iran has reserves of 12.4 trillion cubic feet, with an estimated 249 million barrels of condensate gas. An energy official said that considering that the recovery at gas fields usually stands at 70-75%, it is projected that about 70% of the field's in-place reserves, equivalent to 8.938 cubic trillion feet are recoverable. He said that once the field is developed, NIOC will be able to produce 50 million cubic meters of gas/day over a 20 year period.

Schumberger Ltd, already the largest oilfield services contractor in the world, said it could take on more natural gas shale drilling once its acquisition of Smith International Inc is completed.

PIPELINE RESTRICTIONS

Transcontinental Gas Pipe Line Co said its gas will not be processed during the period from March 1 through March 9, due to Enterprise Gas Processing LLC shutting down its North Terrebonne Gas Plant to install a new motor control room. It will continue to accept nominations from production upstream of the plant. Transco will monitor the situation but does not expect this short-term increase to have a significant impact on its operations.

Tennessee Gas Pipeline Co said that effectively immediately it was lifting the imbalance warning across the system. However Tennessee said it continues to request all parties to match physical flow with scheduled quantities.

ELECTRICITY NEWS

The emissions markets unit of Cantor Fitzgerald LP said the EPA may act alone to set up a US carbon market if legislation that would establish a cap-and-trade program for greenhouse gases fails to pass Congress. The Supreme Court ruled in 2007 that the EPA has the authority to regulate greenhouse gases under the existing Clean Air Act. So far, the agency has used its authority to propose tougher fuel economy standards for cars and a requirement that new and modified industrial facilities, such as power plants, use the best available technologies to minimize pollution. The EPA signaled in its budget request for fiscal 2011 that an emissions trading system may still be possible through agency regulations. Its request calls for \$7.5 million to assess and potentially develop further greenhouse gas regulations that include where possible market-oriented mechanisms and flexibilities to provide lowest cost compliance options.

MARKET COMMENTARY

The natural gas market gapped below its psychological support at \$5.00 as it continued its downward trend in overnight trading on Globex. The market, which gapped lower from \$5.008 to \$4.95, remained focused on the end of winter and the high stock level. The market partially backfilled its gap up to \$4.977 before it continued to trade lower as the floor trading commenced. The natural gas market sold off to its lowest level in 11 weeks at \$4.841 by mid-day amid the weakness in the cash market. It later bounced off its low and retraced some of its losses ahead of the close. The market settled in negative territory for the third consecutive session, settling down 14.9 cents at \$4.895.

While weather forecasts, may be calling for temperatures in the Northeast and Midwest to mostly average below normal for the next two weeks, readings are moderating. This along with concerns of an oversupplied market will keep the market pressured after it technically gapped lower today. The natural gas market is seen finding support at its low of \$4.841, \$4.832, \$4.765, and \$4.696. More distant support is seen at \$4.58 and \$4.55. Resistance is seen at \$4.93, \$4.968, followed by its gap from \$4.977 to \$5.008, \$5.04 and \$5.104.

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