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NATURAL GAS & POWER MARKET REPORT FOR MARCH 3, 2010

NATURAL GAS MARKET NEWS

The Senate Agriculture Committee said today that it hopes to unveil a draft bill to boost oversight of OTC derivatives by the week of March 22nd, at the earliest. Meanwhile the chairman of the Commodity Futures Trading Commission, Gary Gensler said it wants Congress to include as part of its financial regulatory reform package new securities-style firewalls and insider trading bans for commodities. He said the House version of the reform bill included some of the harmonized measures and said the CFTC will suggest legislative provisions to the Senate on other measures. He said the House financial reform bill is strong but may still let some large institutional traders escape a requirement to trade standardized derivatives on exchanges and clear those trades. Meanwhile, House Agriculture Committee Chairman Collin Peterson said he is willing to close a potential loophole that may allow big derivatives traders to avoid public scrutiny of their deals.

Generator Problems

NPCC – OPG's coal fired Nanticoke 4 and 6 and Lambton #4 power units all returned to service today.

Entergy's 1030 Mw Indian Point #2 nuclear unit is expected to be shut down by March 10th for planned maintenance and refueling. The unit was at full power this morning.

MISO – The 1170 Mw Wolf Creek nuclear unit was shut today. The unit had been at full power yesterday. The unit tripped off line due to the loss of a feed water pump.

The NPPD's 791 Mw Cooper nuclear unit was back at full power this morning, up 16% from yesterday.

ECAR – AEP shut its 1020 Mw Cook #1 nuclear unit today. The unit had been at 50% power yesterday.

SERC – Southern Nuclear's 1149 Mw Vogtle #2 nuclear unit will be shut for planned maintenance on March 7th. The unit was at 99% power this morning.

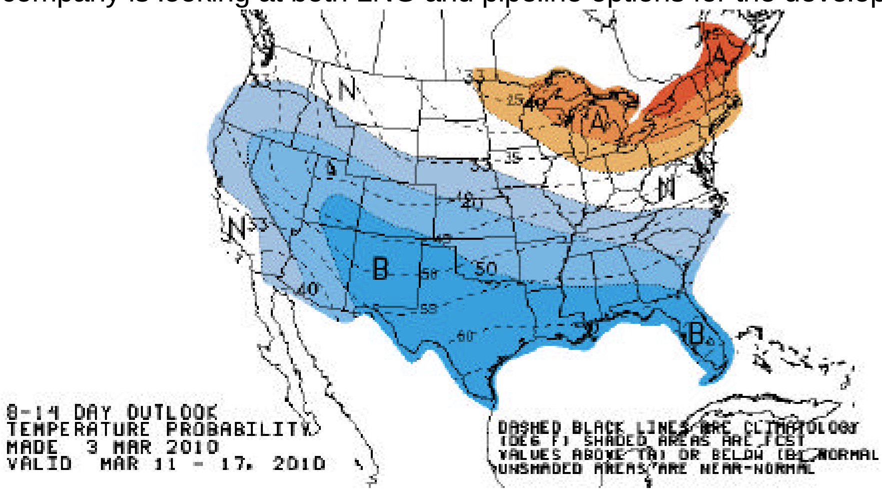
The NRC reported that there was some 88,603 Mw of nuclear power generated today, down 0.5% from yesterday and 1.6% lower than a year ago.

Gas flows into Britain via Shell's terminal at St. Fergus appeared to drop off today falling to zero after flowing at normal levels earlier this morning. While flows began to recover this afternoon they remained erratic. No official reason was given for the fluctuations.

BBL, operator of the gas pipeline transporting gas from the Netherlands to Britain, said it expects to launch a service that effectively sends gas in the opposite direction in an "interruptible reverse flow" service. The company believes the service could substantially reduce gas volumes heading to Britain especially during the summer months. The company has proposed an auction system to market the service.

BG Group said today that they see U.K. natural gas demand will be 30% higher than recent government forecasts by 2020 as wind-energy projects are delayed and aging electricity plants close, thus requiring more gas fired power generation. The company sees Britain consuming 95 bcm of gas per year by 2020. Britain has kicked off a $120 billion offshore wind program to help avert an energy shortfall and meet emission targets.

Gazprom's Deputy CEO said that the company sees LNG shipments competing with rising output of shale gas in the United States. The company has previously stated it is looking to capture a 10% share of the U.S. gas market by 2020. The company said it has no reason to revise that target given the costs and possibly negative environmental impact of developing shale gas. The company also said its gas output will depend on market conditions. The company is waiting for "full clarity" on U.S. developments and is not considering acquiring U.S. shale gas assets, even though the company has begun extracting coal bed methane last month. It did say it was still moving forward with the development of the Yamal Peninsula, which is believed to hold 16 tcf of natural gas. He said the company is looking at both LNG and pipeline options for the development of the field.



China said today that it is still in talks with Russia over term prices of a gas supply agreement that the two countries signed last October, despite a state media report that initial price consensus had been reached. The agreement signed had called for 70 bcm of gas per year to be delivered to China from Siberia and the Russian Far East.

The Chinese government said late Tuesday that it is looking to build more LNG receiving terminals in the southern province of Guangdong. Currently there is one existing LNG terminal in operation in the province with three more planned.

Gassco reported that the compressor problems at Norway's Kaarstoe gas processing plant may take months to fix, limiting processing capacity by some 6-16% in the meantime. Earlier the company said it would take several weeks to fix the problems.

The Institute for Supply Management reported that the US non-manufacturing sector expanded at a faster than expected pace in February. The ISM's non-manufacturing purchasing managers' index increased to 53 last month from 50.5 in January. The February business activity/production index increased to 54.8 from 52.2. The new-orders index increased up to 55 from 54.7 in January.

PIPELINE MAINTENANCE

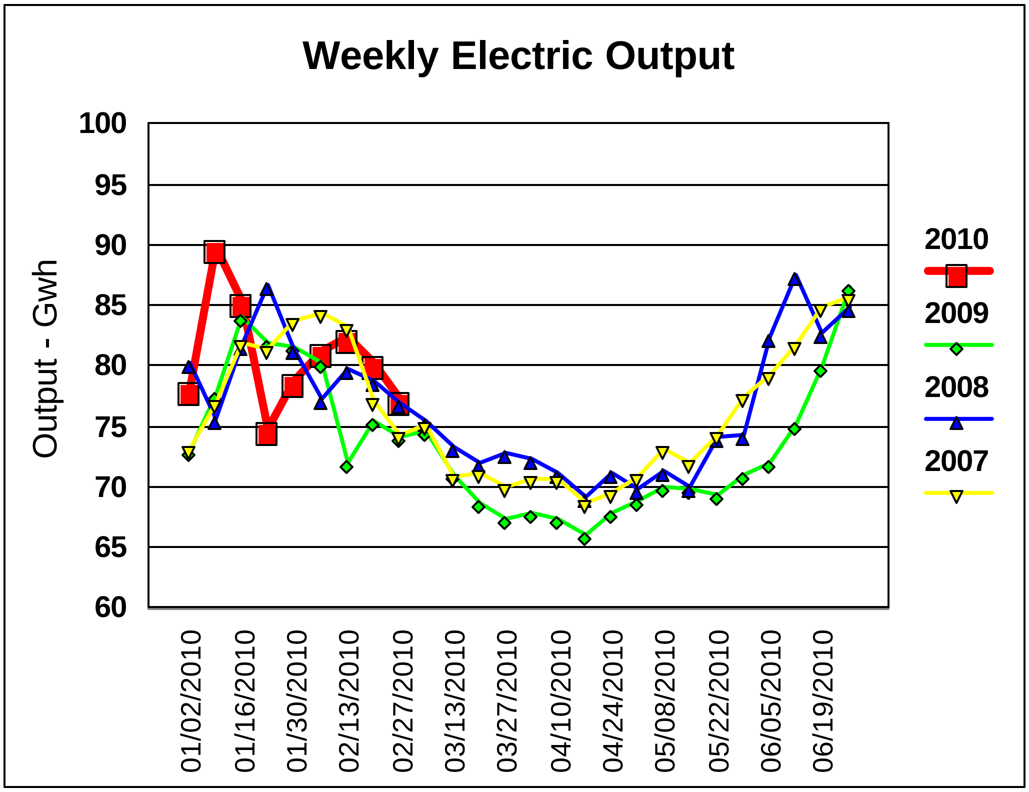
Gulf South said it would perform pipeline maintenance at the International Paper Mill Meter Station facilities at Mansfield, Louisiana beginning on March 9th and lasting through March 10th. Since the paper mill has scheduled plant maintenance during this work, there is no expected service interruption.

ELECTRIC MARKET NEWS

The Edison Electric Institute reported today that power production in the continental U.S. for the week ending February 27th climbed 4.2% from the same week a year ago but down 3.9% from the previous week.

Tenaska told Illinois state regulators that the planned 602 Mw Taylorville coal to gas fired power plant in Taylorville would cost near $3.5 billion to build and would enter service by 2014. The plant is looking to utilize an integrated gasification combined cycle technology that would convert Illinois coal into pipeline quality substitute natural gas and then burn it to produce electricity. The company would look to begin construction in December 2010, but still needs Illinois environmental regulators to issue an air permit and the DOE to complete its environmental review.

The Obama administration is looking to give small businesses a break on the coming rules on carbon dioxide emissions but coal fired power plants and heavy industry will sill be subject to a crack down, according to Lisa Jackson, the U.S. EPA administrator. The EPA said that the proposed climate regulations would exempt factories emitting under 75,000 tons of carbon annually for at least 2011 and 2012. She also noted that while there had been some uncertainty concerning the definition of "smaller plants" and what level would be required to eventually be regulated, she said today the threshold would be significantly higher than the 25,000 ton level discussed by some policy officials.



Trading activity in the Regional Greenhouse Gas Initiative markets remains limited in front of the March 10^{th} allowance auction. It appears many traders have backed away from the market until they gain a clearer idea on how RGGI allowances will be treated under a federal cap and trade system. Both the House of Representatives Waxman-Markley climate bill as well as the Senate's Kerry Boxer legislation would allow holders of RGGI allowances to exchange them for federal emission permits based on the average auction price paid for the allowance in a given year.

Tampa Electric reported in a recent filing that it burned about 4.2 million tons of coal and petroleum coke during 2009 and estimates that its combined coal and petroleum coke consumption will be about 4.7 million tons in 2010.

Congressman Markey said today that he still thinks his cap and trade bill can become law. He said the CO2 reduction targets spelled out in his legislation may be largely met with existing technology.

MARKET COMMENTARY

The natural gas posted its second modest daily gain in a row today as stronger oil prices, positive economic news and some light short covering in front of tomorrow's storage report appeared to keep many traders on the sidelines. Volume today in the April contract was the lightest in two weeks. Weather forecasts released today though do not offer any real major support given that the main gas consuming areas of the upper Midwest and Northeast are expected to see above normal temperatures starting next week and continuing into the following week. While the southern half of the country is seen as being cooler than normal this will translate into little true significant gas heating demand.

Market expectations for tomorrow's EIA Storage Report appear to be looking for a 120-140 bcf draw with most centered around a 130 bcf draw down. The same week a year ago saw a decline in stocks by 101 bcf while the five-year seasonal average showed a drop of 124 bcf.

We see resistance tomorrow starting at $4.805, $4.852 and $4.915. More significant resistance though we see at $4.99, $5.10 and $5.196. More distant resistance we see at $5.531. Support we see at $4.70, and $4.655-$4.632. Additional support we see at $4.595 and $4.432.