



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR MARCH 8, 2011

NATURAL GAS MARKET NEWS

North American

The EIA released their latest Short Term Energy Outlook today and it looks for domestic natural gas production in 2011 to average 62.29 bcf/d down 0.1% from last month's estimate of 62.32 bcf/d. The agency also lowered their 2012 production estimate from 63.02 bcf/d to 62.88 bcf/d. Meanwhile the agency raised their consumption estimates for this year by 0.6% to 66.55 bcf/d and by 0.6% in 2012 to 67.19 bcf/d.

Industrial demand for 2011 showed the largest gain from last month's estimates being revised upward by 2.7% to 18.75 bcf/d. Despite an improved supply/demand balance, the agency lowered their price outlook for 2011 to \$4.22 basis Henry Hub, off 7 cents from last month, and is looking for prices to rebound in 2012 to \$4.72.

Southcross Energy announced today that it has entered into a long-term agreement with Swift Energy to provide natural gas gathering, transportation and processing services for production from Swift Energy's acreage in McMullen County in South Texas. Southcross will construct a 25-mile, 20-inch natural gas pipeline with related lateral gathering lines and convert an existing dry pipeline system to rich gas service in order to gather the Swift Energy gas for processing. The McMullen extension will have an initial, expandable capacity of 120 million cf/d and will be in service by the middle of this year. The pipeline project will be an additional extension for Southcross into the Eagle Ford Shale play.

Sasol Ltd said on Tuesday announced it will pay Talisman Energy \$1.08 billion for its second shale gas interest in Canada, as it looks to increase its gas portfolio and secure feedstock for gas

International

Australian based energy consultant, EnergyQuest said in a report today that they estimated Australian LNG production rose to a new record of 19.8 million tones in 2010, up from 18.6 million tones produced in 2009.

Qatar's oil minister said today that he is seeing a growing demand for LNG coming from the Gulf region and that going forward it may redirect some of his nations exports away from more distant markets.

The Mekaines LNG tanker is expected to arrive at the South Hook LNG terminal on March 16th from Qatar according to local officials.

Generation Outages

NPCC- OPG's 515 Mw Picjering #1 nuclear unit was shut late Monday for maintenance.

Entergy's 1025 Mw Indian Point #3 nuclear unit is scheduled to be shut late Tuesday for refueling.

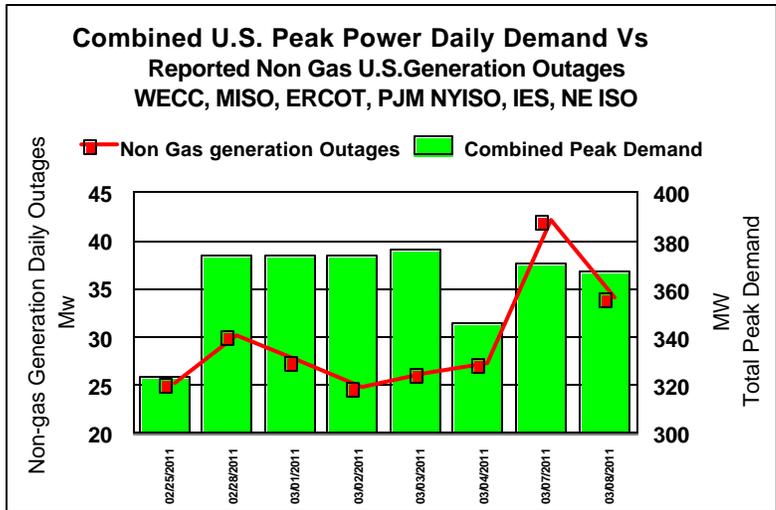
WSCC - APS' 1317 Mw Palo Verde #3 nuclear unit ramped back to full power early Tuesday, up from 69% power on Monday.

The NRC reported this morning that some 85,493 Mw of nuclear generation capacity is online, up 0.7% from yesterday and some 3.7% higher than the same day a year ago.

ELECTRIC MARKET NEWS

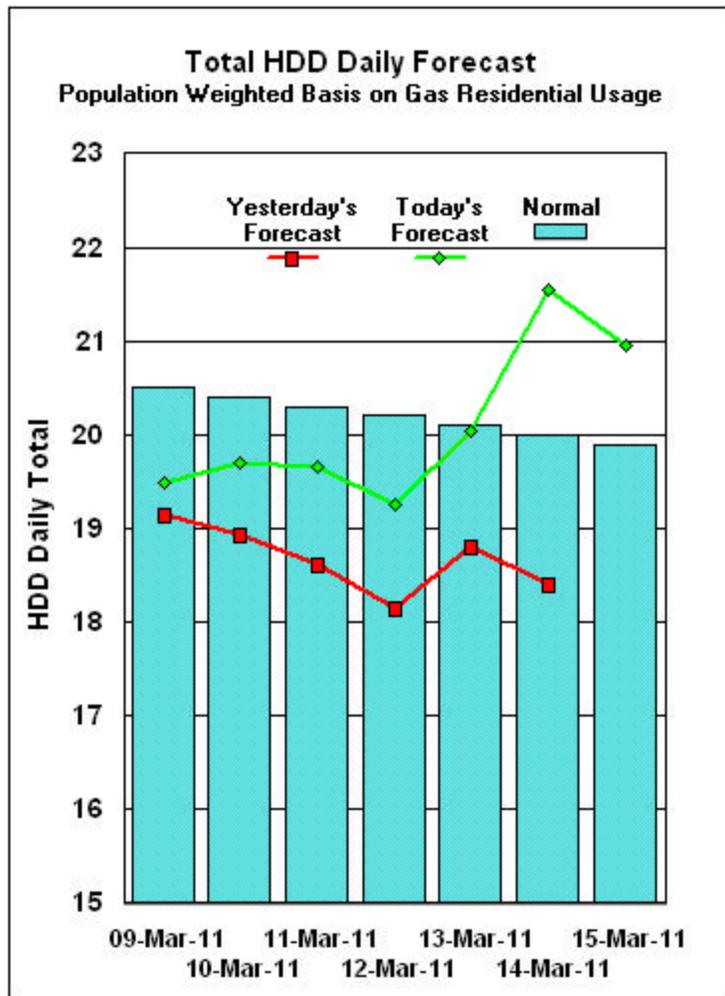
The U.S. Northwest River Forecast said today that its latest estimates for water flows at the Dalles Dam for the April-September period should be 99% of normal, down 4% from its last forecast. This is still higher than a year ago when water flows were just 84% of normal.

The U.S. EPA has called on three coal-fired power plants in Oklahoma to reduce their air pollution or convert the facilities to natural gas. The plants all built 30 or more years ago, emit more than a third of all the SO2 pollution from the hundreds of industrial and utility sources in the state. The EPA has given the plants three years to add SO2 scrubbers, switch to natural gas or use a combination of these approaches in order to fall into compliance with the Clean Air Act of 1990. The EPA said all other sources of air pollution in the state would meet the level of control needed to address the state's Clean Air requirements.



The EIA in their Short Term Energy Outlook sees U.S. electrical consumption growing this year by 0.5%, despite residential demand falling by 1.7% in response for the expectation of a more normal cooling season this summer.

In 2012 the agency sees power demand growing by 2%. Coal demand by electric utilities is expected to increase only slightly in 2011 after growing by nearly 5% last year.. Increases in generation from hydropower and wind generation should temper increased demand for coal in the power-generating sector.



ECONOMIC NEWS

The National Federation of Independent Business' small business optimism index in February increased 0.4 points from January to 94.5. The subindex of expected business conditions in six months fell 1% to 9%.

CFTC Commissioner Jill Sommers said the CFTC's proposed rule on how swap trades should be executed is overly restrictive. She said the rule is an overly restrictive reading of the statute and that she hopes the agency adopts final rules that are consistent with other regulators.

MARKET COMMENTARY

The natural gas market finished lower today after prices appeared to seesaw back and

forth for much of the session. It appeared some additional short covering helped to drive prices higher at midday but this rally failed to gain any follow through buying once the 62% retracement at \$3.959 was reached. Over the final hour of trading prior to the close price gains for the day were not only erased but values fell back to retest the lows recorded earlier in the morning.

With the lack of any significant weather demand and the return of some non-gas generation assets to service this market appears will remain range bound, especially in front of Thursday morning's EIA storage report. We see support tomorrow at \$3.82 followed by #3.731, \$3.71, \$3.656, \$3.41 and \$3.265. Resistance we see at \$3.964, \$4.10, \$4.17, \$4.305 and \$4.44.

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