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NATURAL GAS & POWER MARKET REPORT FOR MARCH 16, 2010

NATURAL GAS MARKET NEWS

AccuWeather today updated their long range weather forecasts. For the April-June period Accuweather expects to see basically normal temperatures for much of the period as high soil moisture levels coupled cool water off the East Coast should act as moderating influences. The private weather forecasting service though looks for colder air to return one more time this heating season starting this weekend and into next week, as ridging develops over northwestern North America and arctic air finally gets drawn back into the weather pattern. The core of the coldest air is expected to be centered over the Plains. But the colder pattern is expected to be short lived as the vortex pulls back to Alaska and a milder pattern will evolve for much of the nation after March 30th.

Generator Problems

NPCC – OPG's 490 Mw Nanticoke #3 coal fired power station was shut early Tuesday.

PJM – Exelon's Limerick #1 nuclear unit was at 93% power this morning as it coasted down to its scheduled outage.

SERC –Browns Ferry #2 nuclear unit was back at full power this morning, up 15% from yesterday.

ERCOT & SPP – Entergy's 1207 Mw Grand Gulf nuclear unit was at 76% power this morning, up 25% from yesterday.

The NRC reported that there was some 83,382 Mw of nuclear power generated today, up 0.5% from yesterday and 4.3% lower than a year ago.

Reuters reported that the U.S. Lake Charles LNG terminal in Louisiana is expected to receive a LNG cargo from Nigeria on April 1st. This would be the second Nigerian cargo the terminal is expected to receive in a two-week period, with the first arriving on March 22nd.

Encana Corp today raised its production forecast, saying it now looks to double production over the next five years as new supplies of unconventional gas resources come online. It noted that breakthroughs in horizontal drilling and hydraulic fracturing techniques have unlocked vast new supplies of natural gas for the company. It sees supply continuing to outpace demand for the near term and as a result expects to see gas prices to be lower than recent historical averages. The company is boosting its capital investment by $750 million this year to $4.5 billion. It is forecasting average 3.3 bcfd/e of natural gas production in 2010. Analysts at RBC Capital Markets noted that they are looking for the company to reveal yet another new emerging gas play, possibly in western Canada.

The Algerian energy minister today, who is also president of the Gas Exporting Countries Forum, said that natural gas producers may restrict their output in order to correct market imbalances. It appears that this public comment could prompt the gas exporting group to discuss the potential of production restraint when they meet on March 19th in Algeria. The Algerian minister also said that a fair price for natural gas would be $13-$14 per Mmbtu.

A Statoil executive today said that shale gas has created insecurity and uncertainty in what used to be a safe and stable market. He noted that Statoil's prospects to sell LNG have been hit by the growth of shale gas in the United States, which has cut the U.S. reliance on gas imports. He noted that recent LNG cargoes departing from its Snoehvit facility were destined for Great Britain and Spain, rather than the United States, which had been the primary destination for its cargoes when the facility was planned and constructed. He noted that shale gas has had an impact on the planning of new projects such as Shtokman, the giant Arctic Russian gas field that Statoil was looking to develop jointly with Gazprom and Total. He noted that the project was not dead, and planning work continued, "but it might be affected by shale gas".

Qatar is in talks to sell more LNG to India. Qatar currently sells 7.5 million tones of LNG a year to India.

Bloomberg reported that according to a trade source, Reliance Industries, India's biggest company by market value, is looking at buying stakes in shale gas assets in the United States.

Penn West Energy Trust, Canada's largest conventional oil and natural gas producing trust said it would double spending in Alberta, after the government lowered its royalty rates. Given the current levels of oil and gas prices, the company will look to spend some 75-80% of its capital spending on oil projects.

PIPELINE RESTRICTIONS

The Rockies Express Pipeline reported that effective today and until further notice it is at capacity for quantities delivered to Tenn/Guernsey. Based on the level of nominations, interruptible transportation/authorized overrun and secondary quantities are at risk of not being scheduled.

Southern Natural Gas said an event of force majeure will occur as a result of planned repair work on the Southeast Supply header. Work has been scheduled on the Gwinville Compressor Station beginning March 18 through March 20 and at the Delhi Compressor Station from March 22 through March 27th. Capacity will be reduced from 140,732 Dth/d to 124,000 Dth/d during the first scheduled work and then further reduced to 108,000 Dth/d for the final stage of work.

ELECTRIC MARKET NEWS

Genscape reported that coal stockpiles at U.S. power plants rose 0.9% this week, but were some 2.7% less than the same week a year ago. Current stocks equate to 56 days of supply.

The U.S. Northwest River Forecast Center said today it was looking for water runoff at the Dalles Dam on the Columbia River during the April through September should average 67% of normal some 4% less than the forecast a week ago. Water flows at the Grand Coulee Dam are seen averaging 73% of normal, down 2% from its prior forecast.

An analyst at the EPA said yesterday that the Obama administration is considering establishing a cap and trade program for Greenhouse Gases under the Clean Air Act if Congress does not pass climate legislation.

MARKET COMMENTARY

Despite a substantially stronger oil and equities market, the natural gas market settled slightly lower today as warm temperatures this week and the approach of the end of the heating season continued to weigh on futures prices. The market while basically being contained for the most part within yesterday's trading range still pushed to new contract low, and a four month new spot contract low by mid morning before finding support near the bottom of its current down trending channel once again.

Open interest reported at midday confirmed our suspicions from yesterday that the potential bounce off the lows yesterday probably prompted some short covering as open interest posted its first decline in 12 trading sessions, contracting by over 4,000 lots in the futures contract and 1500 lots in the combined and adjusted futures and swaps contracts.

Given the relatively extreme oversold nature of this market, as daily stochastics are nearly in single digits we would look for some technical short term bounce possibly back towards the $4.50 area before we would recommend new shorts to be added in this market. But we see little change in the bearish overall fundamental outlook for this market. We see initial support tomorrow at $4.33-$4.32 followed by $4.275, $4.259, $4.00 and $3.822. Resistance we see at $4.42-$4.44 followed by $4.555, $4.60, $4.784, $4.927 and $5.07