



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR MARCH 30, 2011

NATURAL GAS MARKET NEWS

North America

In a major speech on national energy security today, President Obama called on natural gas as a way forward for the United States to reduce its dependence on imports of oil to meet the nation's needs. The administration is looking to reduce its imports of oil by one third by in basically a decade. The President noted that "recent innovations have given us the opportunity to tap large reserves, perhaps a century's worth of reserves... in shale under our feet. [But} we've got to make sure that we are extracting natural gas safely without polluting our water supply. The president noted that there is bi-partisan support in Congress for legislation to provide incentives for natural gas vehicles. The White House said today that it is encouraging responsible development practices for natural gas and thus is focused "on increasing transparency about the use of (hydraulic fracturing) chemicals, working with state regulators to offer technical assistance and launching a new initiative to tap experts in industry, the environmental community and states to develop recommendations for shale extraction practices that will ensure the protection of public health and the environment."

The Obama administration said today it is developing incentives to expedite development of oil and gas production from existing and futures leases. The Department of Interior is looking at shortening lease terms, to encourage earlier development of leases and requiring drilling to begin before an extension can be granted on a lease. The Interior Department is also looking at the potential use of graduated royalty rate structures, such as those adopted by the state of Texas, to encourage more rapid production. Just yesterday the Interior Department released a study which showed that 70% of the undiscovered technically recoverable resources currently under lease in all areas of the federal waters in the Gulf of Mexico are not producing or not subject to approved or pending exploration and development plans. For onshore leases the study found that approximately 45% of all leases on

Generation Outages

The NRC reported this morning that some 81,420 Mw of nuclear generation capacity is online basically unchanged from yesterday day but some 1.5% higher than the same day a year ago.

federal land and about 57% of all leased acres were inactive as of March 14th.

Pennsylvania Senator Casey on Monday called for federal help to protect the public from risks associated with

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day Moving Avg
				(As of 12:30 PM)		
Henry Hub	565,700	\$4.253	(\$0.014)	(\$0.094)	(\$0.144)	\$0.043
Chicago City Gate	463,600	\$4.395	(\$0.099)	\$0.048	(\$0.197)	\$0.179
NGPL- TX/OK	951,100	\$4.178	(\$0.025)	(\$0.169)	(\$0.123)	(\$0.113)
SoCal	443,200	\$4.182	(\$0.039)	(\$0.165)	(\$0.137)	(\$0.076)
PG&E Citygate	1,174,100	\$4.424	(\$0.048)	\$0.077	(\$0.147)	\$0.203
Dominion-South	615,600	\$4.485	(\$0.055)	\$0.138	(\$0.153)	\$0.228
USTRade Weighted	19,694,200	\$4.282	(\$0.046)	(\$0.065)	(\$0.14)	\$0.043

the development of shale gas in the Marcellus and Utica plays. This call comes in the wake of two home explosions in his state over the last three months. Both homes were in McKean County, the state's most active county in drilling permits for oil and natural gas wells. The two homes destroyed were within two and a half miles of each other and were in an area where recent drilling had caused methane gas infiltration into drinking wells. Pennsylvania's Department of Environmental Protection Emergency Response Program has reported there have been dozens of gas migration incidents in northwestern Pennsylvania recently.

International

According to port officials the Methane Princess is expected to berth at the Dragon LNG terminal on April 6th. The Maran Gas Coronis LNG tanker is slated to arrive at the Isle of Grain terminal on April 13th.

ELECTRIC MARKET NEWS

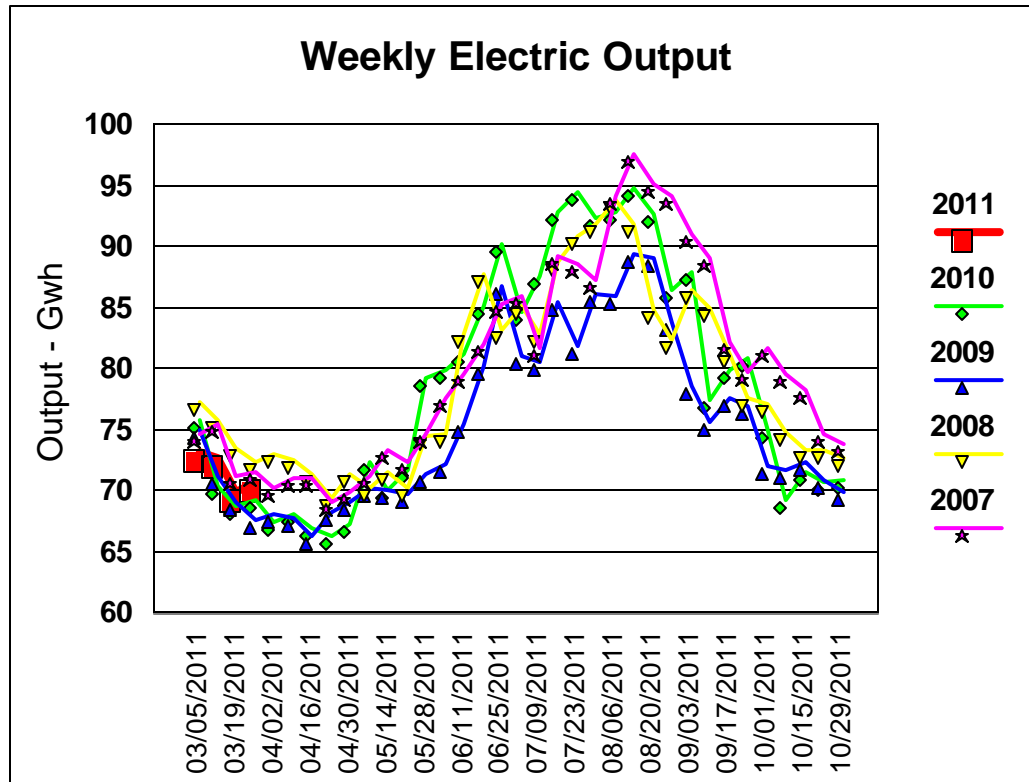
The Edison Electric Institute reported that electricity production in the US in the week ending March 26th increased by 2.1% on the year to 70,129 Gwh.

The New Jersey Board of Public Utilities voted to approve three new natural gas fired power plants proposed by NRG Energy, Hess Corp and Competitive Power Ventures. The plants have a combined generating capacity of 1,949 Mw and were the first

selected to obtain 15 year contracts under a controversial state law designed to encourage new power plant construction by offering developers long term, rate payer subsidized contracts.

The Japanese Trade Ministry on Wednesday upgraded safety standards for the country's nuclear power plants. The measures will be implemented by April. Meanwhile Tokyo Electric Power said it will sound out the opinions of the government and local residents on whether to continue operating the plant's #5 and #6 nuclear reactors at the stricken Fukushima Daini plant. Those were the two reactors safely shutdown. The other four reactors once stabilized are expected to be scrapped. Meanwhile the IAEA has called for a high level meeting on June 20-24 in Vienna to address nuclear safety after Japan's Fukushima crisis. The agency also said today that high radiation levels, above recommended levels, have been recorded at a village some 25 miles northwest of the stricken plant

Utility Hokkaido Electric Power said it plans to build its first LNG fired thermal power plant to help meet rising demand in northern Japan. The plant will have up to 590 Mw of generating capacity from a combined cycle power plant that would begin operations in 2021.



The Japanese trade Ministry today reported that Japan imported some 6.261 million tones of LNG in February. This was down 1.5% from January. While volumes were down on the month, the average price paid was up 64 cent per Mmbtu from January to \$12.06 per Mmbtu in February.

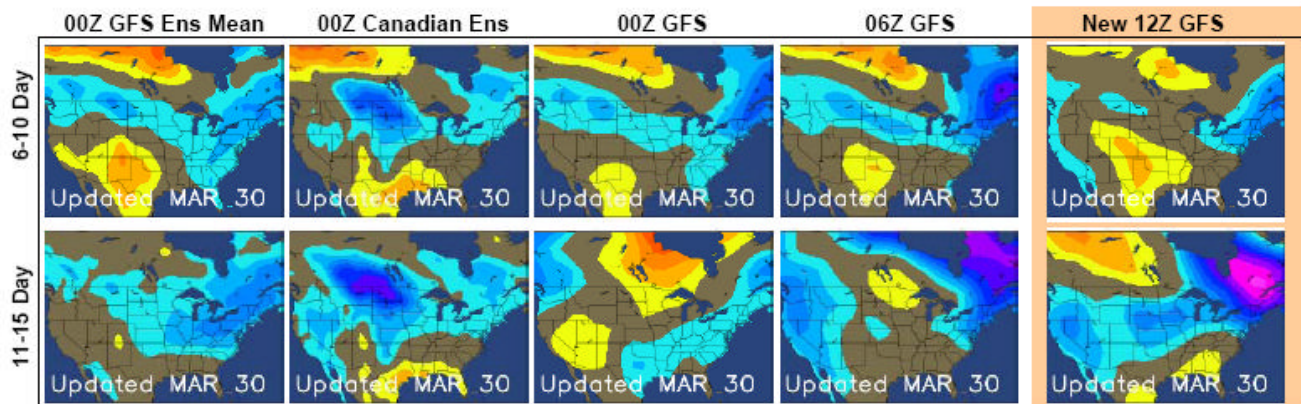
China may raise power prices by 2.5% in some regions in April to industrial and commercial customers, but not residential customers. The power price increase would be the first since 2009. Some coal fired generators have been complaining that they recently have been making little or no profit since they can not pas along higher coal prices to their ratepayers.

The CEO of Calpine said yesterday that the U.S. energy system is now dependent on more than 230,000 Mw of power generation from fossil fuel power plants that are more than 40 years old and thus represents a tremendous opportunity for the construction of newer, more efficient electric generation plants over the next five years, most of which will probably be fired by natural gas. He places this investment boom at \$165-\$275 million

ECONOMIC NEWS

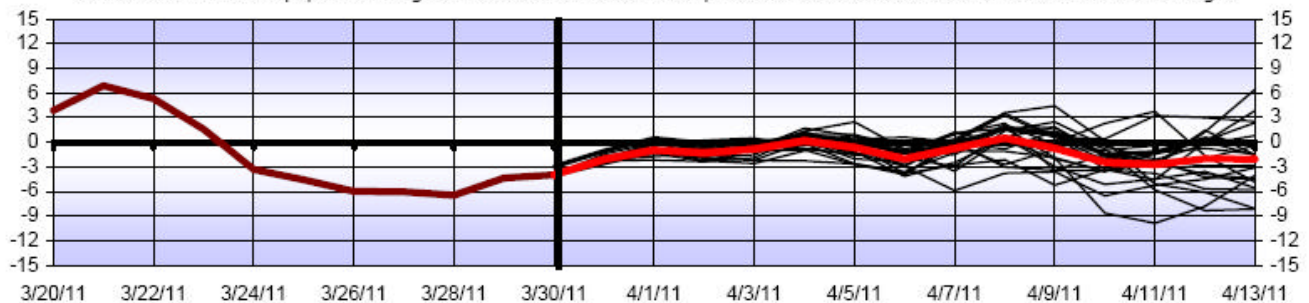
According to the ADP Employer Services report, US private employers added 201,000 jobs in March while February's figure was revised down to 208,000 from 217,000. The market expected a gain of

Forecast Model Comparison



10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast

Forecast lines are U.S. population weighted anomalies from 00Z GFS operational and ensembles. Red line is the forecast average.



203,000 jobs in March.

Kansas City Federal Reserve Bank President Thomas Hoenig renewed his call for higher benchmark interest rates and shrinking the Fed's balance sheet to pre-financial crisis levels. He had previously called for a modest increase in borrowing costs and expressed his opposition to the Fed's \$600 billion bond buying program. He said there is evidence that Fed policies are fueling imbalances and inflationary pressures.

The European Commission's monthly survey showed that economic sentiment in the Euro zone fell to 107.3 points from a revised 107.9 in February. Industrial sentiment held unchanged at 6.6 points in March against February. For consumers, the inflation expectations increased to 30.8 from 25.7 in February and 20.9 in January. Among manufacturers, selling price expectations increased to 23.8 in March from 22.4 in February and 17.3 in January. Separately, the European Commission said its business climate index fell to 1.41 in March from a revised 1.46 in February.

Japan's Ministry of Economy, Trade and Industry said the country's industrial output increased for the fourth consecutive month in February but is expected to decline in the coming months as a devastating earthquake and tsunami and a subsequent nuclear safety crisis and power outages dampen business activity. Japan's industrial production in February increased 0.4%. Manufacturers surveyed by the ministry expect output to increase 1.4% in March and fall 1.3% in April.

Statistics Canada reported that Canadian producer prices and raw material prices increased faster than expected in February. Industrial product prices increased by 0.7% from January, more than double the 0.3% forecast by analysts. January's increase was revised to 0.4% from an originally reported 0.2%. The February rise was led by a 3% increase in oil and coal products.

MARKET COMMENTARY

While the UK natural gas market today saw prompt prices fall to their lowest level since Japan's earthquake and tsunami nearly three weeks ago as warmer temperatures and a continued steady stream of LNG imports weighed on the market, the U.S futures market moved in the opposite direction. The May contract posted its first up session in three days today, possibly finding some support from revised forecasts this morning which began calling for a major coastal storm that could end up bringing significant snowfall to areas just inland from the coast. Yesterday's lows held overnight and as the morning got underway the May futures contract remained in a basic upward channel. By the end of the day the market had nearly retraced 50% of its prior two day sell off in good volume, despite today being the day after an expiration.

But with the U.S. cash market not following the futures higher today and a temperature outlook on a population weighted basis that appears normal to only slightly cooler than normal over the next two weeks, it does not appear to us that weather will play a significant impact on natural gas prices here at the end of the winter heating season and the start of the new injection season.

As a result we continue to feel comfortable with our bearish bias on this market, especially as the daily stochastics remained pointing lower. We see resistance in this market at \$4.407, \$4.443 \$4.559 and \$4.707. Support we see initially at the double bottom of the past two trading sessions at \$4.255 followed by \$4.182 and \$4.093. More distant support we see at \$3.985, \$3.855 and \$3.80.

Market expectations for tomorrow's EIA storage report appear to be running between a 15 bcf build to a 15 bcf draw with most centered around stocks being basically unchanged. For the same week a year ago stocks rose an adjusted 12 bcf while the five year seasonal average shows a 22 bcf decline.

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