



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR APRIL 11, 2011**

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#### **NATURAL GAS MARKET NEWS**

##### **North America**

The FERC has approved Trunkline Gas Company's proposal to modify a portion of its existing South Texas System to allow the bidirectional transportation of liquids rich natural gas from the Eagle Ford Shale play in South Texas. The company has proposed to isolate a 165 mile segment of its pipeline in South Texas, which will be known as the Modified Transportation System, by closing off block valves at the Edna Compressor Station in Jackson County, Texas and installing valves at the existing Beeville Compressor Station in Bee County, Texas, to allow for the bidirectional transportation of gas. The capacity of the line is for 336,000 Dth/d.

A group of U.S. natural gas firms today launched a website that will disclose voluntarily the chemicals used in hydraulic fracturing. The website will reveal the precise makeup of fracturing fluids used in each well drilled. The companies are trying improving their public environmental image and expanding the acceptance of natural gas as a potential new generating fuel versus dirty coal. Several of the exploration companies participating in the website include Cheapeake Energy, Cabot oil & Gas and Devon Energy.

##### **International**

The Interconnector gas pipeline from Britain to Belgium set a new export record Friday, as an oversupplied British market due to LNG imports and Norwegian production problems helped to push gas from Britain to the continent. Friday's gas exports rose to 59 million cubic meters per day, breaking the previous record set on October 5<sup>th</sup>.

Norway's Visund field in the North Sea was shut down over the weekend after a gas leak was discovered. Statoil the operator of the field said that "limited" amounts of gas leaked for nearly five hours from a riser. While the company noted that there were no observations that would indicate that any other risers are damaged at this time, the company will re-evaluate these risk assessments in light of yesterday's incident. Statoil said the Snorre B platform has the same technical solution for risers as those on Visund and Njord, but these have already been inspected and three of the pipes replaced. It

##### **Generation Outages**

**PJM** – FirstEnergy's 846 Mw Beaver Valley #2 nuclear unit has exited its outage and ramped up to 25% power by early Monday. The unit had been shut back on March 7<sup>th</sup> for refueling.

**PSEG's** 1158 Mw Salem #2 nuclear unit was shut early Sunday. The unit had been at 94% of power on Saturday. The unit was believed to be beginning a scheduled refueling outage.

**NPCC-** Entergy's 1025 Mw Indian Point #3 nuclear unit ramped up to 86% power early Monday from just 48% power on Sunday morning. The unit returned to service last Friday following a month long refueling outage.

**SERC** – TVA's 1104 Mw Browns Ferry #2 nuclear unit ramped up to 68% power early Monday. The unit has been ramping up from its return to service back on April 6<sup>th</sup>.

Southern's 860 Mw Farley #2 nuclear unit dropped to 56% power after being at full power on Friday.

**MISO** – OPPD's 478 Mw Fort Calhoun nuclear unit was shut early Sunday. The unit had been at full power on Saturday. The unit was beginning a scheduled refueling outage.

**The NRC reported this morning that some 74,076 Mw of nuclear generation capacity is online, up 0.9% from yesterday and down 3.5% from a year ago.**

said there were “equivalent” risers in operation on five other installations, Veslefrikk, Snorre A, Norne and Aasgard Aog B.

The head of Wood Mackenzie’s Australia’s upstream research said today that Australia’s coal seam gas operations will need to work together to avoid cost overruns and meet tight project completion goals as key resources are in short supply. Three projects, BG Group’s Queensland LNG, Santos Gladstone LNG and ConocoPhillips Australia Pacific LNG are all expected to go ahead and will potentially compete with one another for such resources as rigs and workers. Australia is already producing some 670 Mmcf/d of coal seam gas. Meanwhile the CEO of Woodside Petroleum told a conference today that the number of LNG developments being proposed in Australia should be consolidated around multi-user hubs to contain costs.

Chevron said Sunday that Royal Dutch Shell would join its Wheatstone LNG project as an equity participant and natural gas supplier to the project. Chevron will sell Shell a 6.4% stake in the project, but will remain the operator of the project with a 73.6% stake. Shell will also assume an 8% participating stake in the Wheatstone and Iago natural gas fields, which will supply the first two trains of the Wheatstone project. The agreement comes as Chevron prepares to make its final investment decision on the project. The first phase of the project would have a combined capacity of 8.9 million tonnes per annum of LNG production as well as a domestic gas plant.

The chief investment officer of the UK-based investment manager Ecofin said today that the “disparity in price (between gas and oil) is not sustainable and we will not only see gas displacing coal as a source of power generation, but also oil in terms of transportation.” He noted that gas was six times more efficient than oil, and in the wake of the events in Japan gas will have an even more important role to play.

Local port officials reported today that the Lijmiliya LNG tanker is slated to arrive at the South Hook LNG terminal on April 17<sup>th</sup> from Qatar. The LNG tanker Imo is expected to arrive at the Dragon LNG terminal on April 18<sup>th</sup> from Nigeria. Meanwhile it was reported that the Maran Gas Coronis LNG tanker which had been expected to arrive in Britain on April 13<sup>th</sup> is now seen being diverted to Boston and will arrive on April 20<sup>th</sup>.

Gazprom said today that its exports increased by 30% in the first quarter of 2011, including a 12% rise in its key European market, where prices turned in its favor. The company noted that in the first quarter of 2010, its export contract price was \$293 per thousand cubic meters and exceeded spot prices by 50%. In the first quarter of 2011 the difference between contract prices and spot prices fell to 8%, as Gazprom’s export price averaged \$346, with spot prices during the quarter actually reaching over \$400 at times.

Belgium grid operator Fluxys and the Dutch grid operator Gasunie said today they would jointly pursue opportunities to strengthen their market position in Europe as they aspire to become major cross border players.

### **ELECTRIC MARKET NEWS**

Genscape reported this morning that it estimated U.S power output for the week ending April 7<sup>th</sup> fell 3.3% from the prior week and was 1.9% greater than the same week a year ago.

The NRC said it has approved a request by Exelon to raise its generation capacity of its two units at its Limerick nuclear power station by 1.65% for each unit. The power uprate will increase the capacity of each unit to 1,205 Mw within the next 90 days.

According to a senior Chinese official, Reuters is reporting that China will launch pilot emissions trading schemes in six provinces before 2013 and set up a nationwide trading platform by 2015.

Trading schemes appear will begin in the cities of Beijing, Chongqing, Shanghai and Tianjin and the provinces of Hubei and Guangdong. China has pledged to cut the amount of carbon dioxide produced per unit of GDP by 40-45% by the end of 2020, compared to 2005 levels. The ministry of Environmental Protection said provinces and regions have already been issued local targets, but these figures have not yet been released to the public. The government is looking to rely more on “market mechanisms” like carbon trading to meet climate and pollution goals in the coming years, after disastrous results were recorded last year when the central government used “administrative” orders to force provinces and local governments to cut off power supplies in a last ditch effort to meet 2006-2010 energy and pollution targets,

The Japanese on Monday expanded the evacuation zone around its crippled nuclear plant because of high levels of accumulated radiation. The country once again experienced 66-aftershock tremor, which knocked out power to 220,000 households. Tokyo Power reported that it has stopped releasing low-level radioactive water into the sea from its crippled Fukushima Daiichi nuclear complex. Nearly 10,400 tonnes of low-level radioactive water has been released.

### **ECONOMIC NEWS**

Goldman Sachs said it is not too sure the latest oil price surge can continue. It said that with Brent crude near \$125/barrel, price risk is more neutral. It said it was closing its Crude Oil, Copper, Cotton/Soybeans and Platinum basket trade, first recommended on December 1, 2010, for a gain of about 25%. It said that on a 12 month horizon, it believes the CCCP basket still has upside potential, the unrest in the Middle East and North Africa region and the potential for further supply shocks pushed the basket up significantly in a short period and thus the risk/reward no longer favors being long the basket.

Federal Reserve Vice Chairman Janet Yellen said that the time for the Federal Reserve to exit its monetary stimulus program has not yet arrived. Despite a recovery that has started to impact the US labor markets, the vice chairman indicated that an exit from the expansive monetary policy did not appear to be in the immediate future. She stated that the Fed would need to communicate its intentions to the market in order to guide expectations of when easy money policies would come to a close. Separately, New York Federal Reserve Bank President William Dudley said the US Federal Reserve should not be too enthusiastic about tightening monetary policy soon as there is still significant slack in the economy. He said there is still significant slack in the US economy as unemployment is high and wage growth low.

According to a Chicago Fed paper co-authored by bank president Charles Evans and the bank's director of economic research Jonas Fisher, increasing commodity prices does not push up underlying rates of inflation much and does not require a policy reaction from the Federal Reserve. They argue that commodity price increases do not get much of a reaction from Fed policy either. The paper argues that one of the key reasons commodity prices do not cause broader problems is due to the fact the public has greater confidence the Fed would act appropriately.

The International Monetary Fund said global economic growth should slow this year to 4.4% as new risks to the recovery surface. The IMF sees new risks to the world economy from an increase in the price of oil and other raw materials. It said risk of a major supply disruption that rallies oil to \$150/barrel and the potential for Europe's sovereign debt crisis to spread to its core economies are the biggest threats to the global recovery. However it said that the world economy is not facing “any major downside risk.” The IMF said that although China's currency policy is increasing domestic economic activity, it could be putting the world economic recovery at risk if China does not allow faster appreciation of the yuan. It said higher commodity prices would draw more supply to the market in 2011, leading supply and demand growth to moderate. The overall IMF commodity price index increased by 32% from the middle of 2010 to February 2011.

## **MARKET COMMENTARY**

The natural gas market today posted an outside trading session. The market, which prior to the start of trading on the floor briefly pushed below the \$4.00 price level but this was met by buying support in what appeared to be some technical short covering that helped to push prices higher during the mid morning. While prices moved in a basic sideways pattern for much of the remainder of the session, it seemed value for the time being was being found around the 40 day moving average.

While we have been a seller of this market on a scale up basis for much of the last month, we feel that this sell off may be finding a short term bottom and as a result would look to significantly lighten short positions from \$4.10-\$4.00. The daily stochastics appear to be on the verge of trying to cross back to the upside over the next day or so, signaling that this market is preparing for at least some further short term technical bounce. We see support tomorrow again around the \$4.00-\$3.99 level followed by \$3.865-\$3.855, \$3.805 and \$3.731. Resistance we see at \$4.15-\$4.16 followed by \$4.207, \$4.275 and \$4.342. Additional resistance we see at \$4.385, \$4.453 and \$4.56.

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