



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 9, 2010

NATURAL GAS MARKET NEWS

Baker Hughes reported this afternoon that the number of natural gas drilling rigs operating in the U.S. this week stood at 964 rigs, an increase of 4 rigs from the previous week. This was the third consecutive weekly increase.

Bloomberg reported today that U.S. private equity firm Kohlberg Kravis Roberts is planning to start up a natural gas exploration company focusing on shale and coal bed gas. The company reportedly will focus exploration activities on parts of Appalachia and Texas.

Continental Resources said it has increased its 2010 capital expenditure budget by 53% to \$1.3 billion and has raised its production outlook for the year on additional drilling in the Bakken and Anadarko shale plays. The company now expects production growth for this year of 15-17%, some 2-4% better than earlier forecasts. The company said it expects "significantly" stronger growth next year.

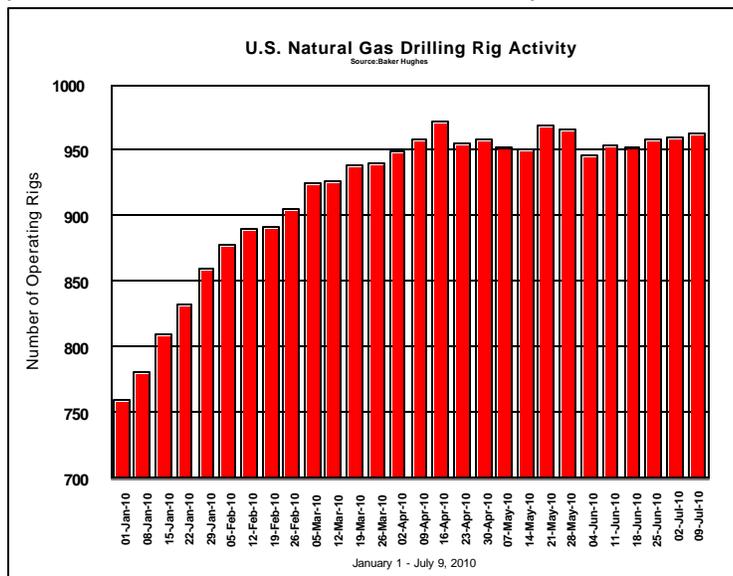
Indonesia's energy watchdog BPMIGAS said on Friday that Indonesia which still plans on having excess capacity for LNG will offer LNG to Singapore's planned receiving terminal, which will be ready by 2013. The group has estimated that Indonesia will have 68 excess cargoes of LNG in 2011 and plans to offer them into the Asian marketplace.

Generator Problems

ERCOT – Luminant's 568 Mw Unit #4 at the coal fired Sandow Steam Electric Station was shut down early this morning in order for operators to clean the air preheater. The maintenance was expected to take 12 hours.

The 675 Mw Unit #1 at the coal fired AEP Pirkey Power plant was undergoing maintenance starting this morning to fix a boiler tube leak. The work was expected to last until July 16th.

The NRC reported this morning that some 95,745 Mw of nuclear generation was operating today, up 0.1% from yesterday and off some 0.3% from than the same day a year ago.



Russia's second largest natural gas producer, Novatek, reported its natural gas production in the first half of this year rose 15.4% above the same period a year ago.

Australia's Santos said it is in talks to sell an equity stake in its Gladstone LNG project in an effort of the company to avert another equity offering. Royal Dutch Shell was rumored to be the leading candidate in the deal that could net Santos \$1.75 billion for a 30-35% stake in the project. The Gladstone project will have an initial production capacity of 3.4 million tones per annum, with a final investment decision on

the project expected for later this year, with production slated to begin in 2014.

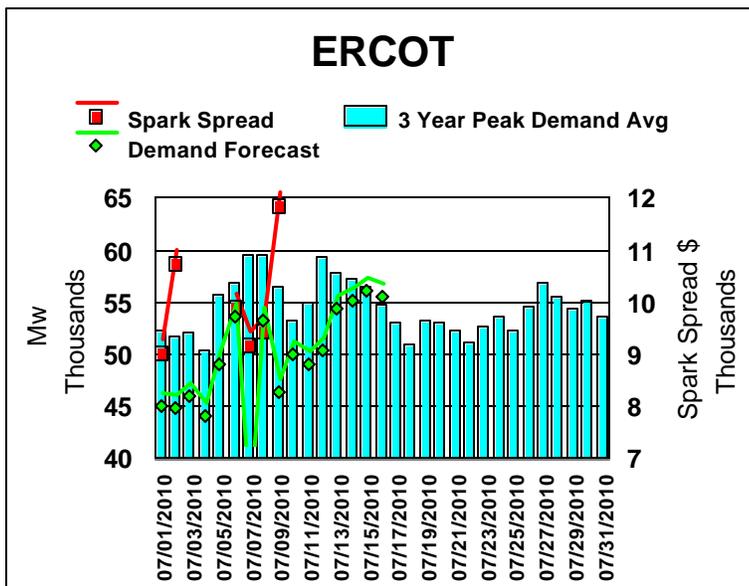
Reuters reported that while LNG traders have been recently watching a cluster of LNG tankers anchored east of the UAE in the Gulf of Oman. But their fears of excess floating inventories on these ships is unfounded.

Reuters noted that its analysis of these tankers floating at key anchorage points show that most of these tankers are in fact sitting empty due to regional supply

constraints. Nearly all the tankers at the Fujairah anchorage are either assigned to projects in Qatar currently undergoing maintenance or to new projects yet to come online. Of the 37 tankers in this area as of July 7th, up to 25 were Qatari tankers assigned to such projects. These 25 tankers have a combined capacity to roughly 169 bcf of gas.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	707,600	\$4.355	(\$0.258)	(\$0.040)	(\$0.276)	(\$0.026)
Chicago City Gate	607,000	\$4.304	(\$0.259)	(\$0.091)	(\$0.280)	\$0.051
NGPL- TX/OK	526,500	\$4.187	(\$0.220)	(\$0.208)	(\$0.241)	(\$0.094)
SoCal	387,200	\$3.927	(\$0.246)	(\$0.469)	(\$0.267)	(\$0.382)
PG&E Citygate	691,200	\$4.028	(\$0.247)	(\$0.367)	(\$0.268)	(\$0.297)
Dominion-South	517,900	\$4.585	(\$0.254)	\$0.190	(\$0.275)	\$0.367
UTrade Weighted	19,063,000	\$4.225	(\$0.255)	(\$0.170)	(\$0.28)	(\$0.026)

U.S. Interior Secretary Salazar said on Friday that he planned to make a statement on the department's deepwater drilling moratorium in a few days.



The European Bank for Reconstruction and Development said on Friday that Russia has a strong untapped potential for eco-friendly associated petroleum gas projects. Russia flares around 20 billion cubic meters of associated gas every year. The bank noted that the Russian market for associated gas processing is almost non-existent. It noted that Canada has 940 plants that process associated gas, the U.S. 566 and Russia just 29. By law in 2012 all oil firms in Russia will be legally obliged to utilize 95% of their total associated gas or face large fines. The bank today awarded a \$120 million loan to Monolit, a small private Russian firm specializing in associated petroleum gas processing.

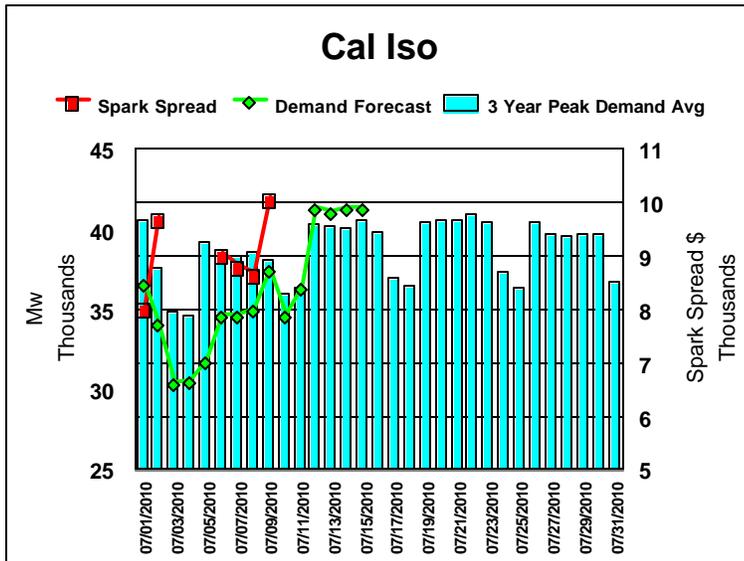
PIPELINE MAINTENANCE

Southern Natural Gas said yesterday that ongoing work to modify a section of the 30-inch Riverdale line in central Georgia will extend the AGL South Atlanta meter station and Transco Interconnect outage through approximately October 31st. The line had been expected to be back in full service by July 15th. The company also reported that October 31st is the scheduled completion date of the work on the 20-inch Thomaston-Griffin 2nd Loop Line and the Thomaston Compressor Station.

PIPELINE RESTRICTIONS

PG&E has issued a system wide OFO for July 10th due to high inventory. Tolerance was set at 5%.

Tennessee gas Pipeline said that effective for today it would accept nomination increases of 4500 Dth of capacity at the Leidy delivery meters and 17,000 Dth at the Rivervale delivery meter. The company also lifted the contract/meter specific balancing alert OFO for meter #021022 initiated on July 8th.



ELECTRIC MARKET NEWS

President Obama was slated to ask Congress Friday to extend a manufacturing tax credit of \$5 billion to foster private investment in clean energy.

Genscape reported that U.S. coal use fell 1% last week from the week before but was 9% higher than the same week a year ago.

A spokesman for Progress Energy said today that work to replace concrete to close the damaged containment-building

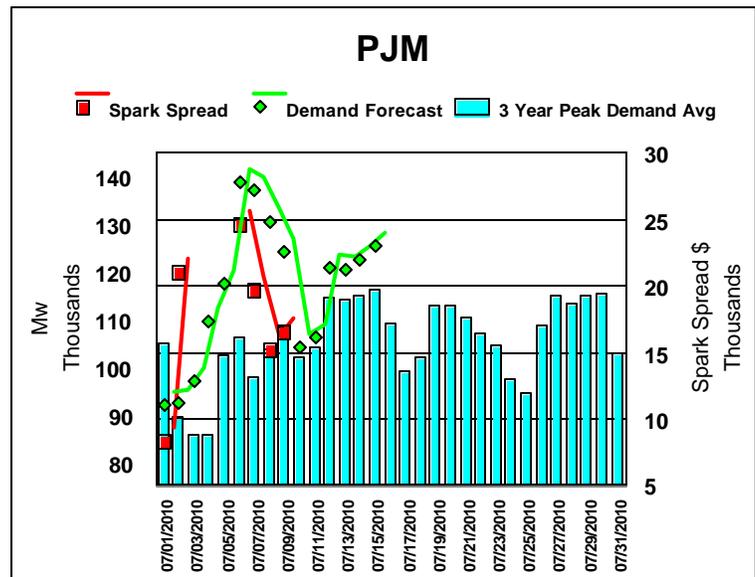
wall at the Crystal River nuclear plant began on Tuesday. As a result the 838 Mw nuclear unit remains on schedule to return to service sometime in the third quarter, about nine months after an outage to refuel the unit and replace its steam generators was expected to be completed.

ECONOMIC NEWS

The Commerce Department reported this morning that U.S. wholesale inventories rose in May to their highest level in 11 months, but sales fell unexpectedly for the first time in more than a year. Wholesale inventories increased by 0.5%, 0.1% more than market expectations and has been seen as one of the key drivers of the economy's recovery from the recent recession. Sales though fell 0.3% in May, versus a market expectation for a gain in sales of 0.5%. April sales levels though were revised higher by 0.2% to a 0.9% increase.

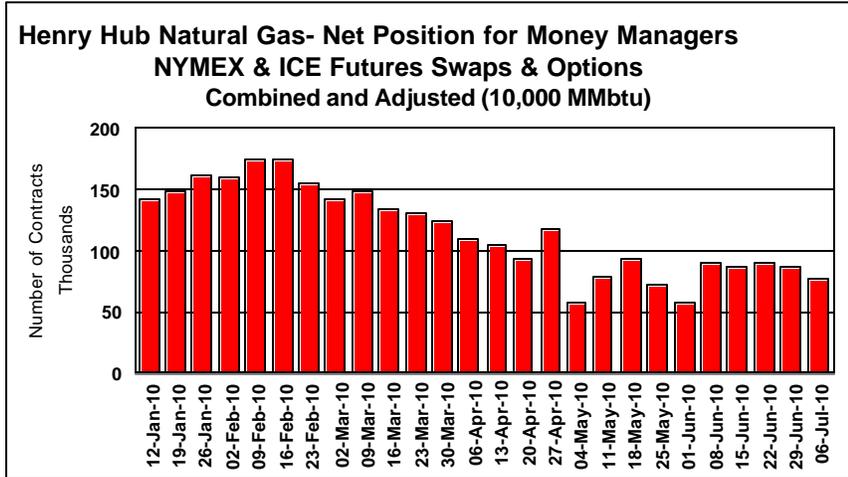
MARKET COMMENTARY

The natural gas market posted a typically uninspiring summer Friday trading session. The August contract posted its smallest daily trading range since May 24th as the market appeared content to continue to trade on either side of the \$4.40 level again today. While the flat price appeared to building some price consolidation, the Oct Jan spread continued to get driven lower. Our uninspired call Wednesday night to be a buyer of the Oct versus the Jan at a 78-80 cent discount was finally stopped out and erased today as the spread traded through our stop trigger price of 83 cents and traded all the way down to 85.6 cents today. This spread appears headed for an October discount of 86.4 and then 93.3 cents to the January contract, the 50% and 62% retracement of this spread's rally from mid-May through mid-June.





Given the weather forecasts for the return of hotter than normal temperatures coupled with the prospects of the tropics flaring up late next week we feel that weather concerns will be able to overcome the bearish news of yet another increase in the weekly natural gas rig count.



This afternoon's Commitment of Traders Report showed that Money Managers decreased their net long position in Henry Hub futures options and swaps for the week ending July 6th by just over 10,250 contracts, to the lowest level in five weeks.

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