



# ENERGY RISK MANAGEMENT

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## NATURAL GAS & POWER MARKET REPORT FOR JULY 22, 2011

### NATURAL GAS MARKET NEWS

#### North America

Baker Hughes reported today that the number of drilling rigs searching for natural gas in the United States this week stood at 889, up four from last week. This was the second consecutive week of increases in the number of drilling rigs.

On July 21<sup>st</sup>, Bison Pipeline declared a force majeure effective immediately after a section of pipe in Campbell County, WY ruptured. As a result Powder River Basin production receipts onto the system were scheduled down 50% or 180 MMcf/d on July 21<sup>st</sup> and have been reduced to zero fro July 22<sup>nd</sup> until further notice. Receipts onto Bison have averaged 354 MMcf/d since the pipeline came online in mid-January. Flows are being re-routed onto Wyoming Interstate and likely sent out to the Midcon through Cheyenne Hub on Trailblazer or Cheyenne Plains. The Ventura market

will be able to make up the lost supply by sourcing more gas from Canada. Alliance Pipeline has scheduled maintenance to begin on July 26<sup>th</sup> at the Windfall compressor station and Carson Creek Lateral. Due to high temperatures in its service territory, Algonquin Gas transmission has an imbalance warning in effect while Millennium issued an OFO warning. Iroquois stated that it had a capacity

#### Generation Outages

**NPCC** – OPG's 535 Mw Lennox #1 oil and gas fired power plant was shut Thursday evening.

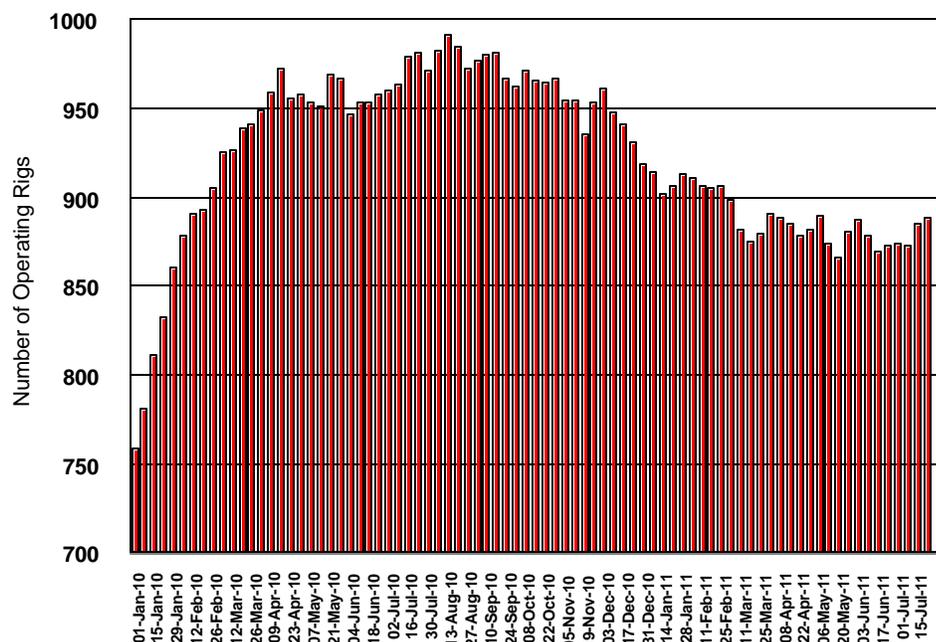
All four units at Calpine/Mitsui's 1153 mw Greenfield natural gas fired power plants were back online by Thursday afternoon. The units had been shut late Wednesday.

**SERC** - TVA's 1148 Mw Sequoyah #1 nuclear unit has begun to exits its recent outage and ramped up to 12% power this morning. The unit had tripped off line automatically late Wednesday.

**The NRC reported this morning that some 97,226 Mw of nuclear generation was online, up 2.7% from yesterday and up 2.2% from recorded a year ago.**

U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes



January 1, 2010 - July 22, 2011

constraint at the AGT interconnect at Brookfield.

NGI's Unconventional Rig Count moved up for the week ending July 22<sup>nd</sup> by three to 987 rigs.

Temple University

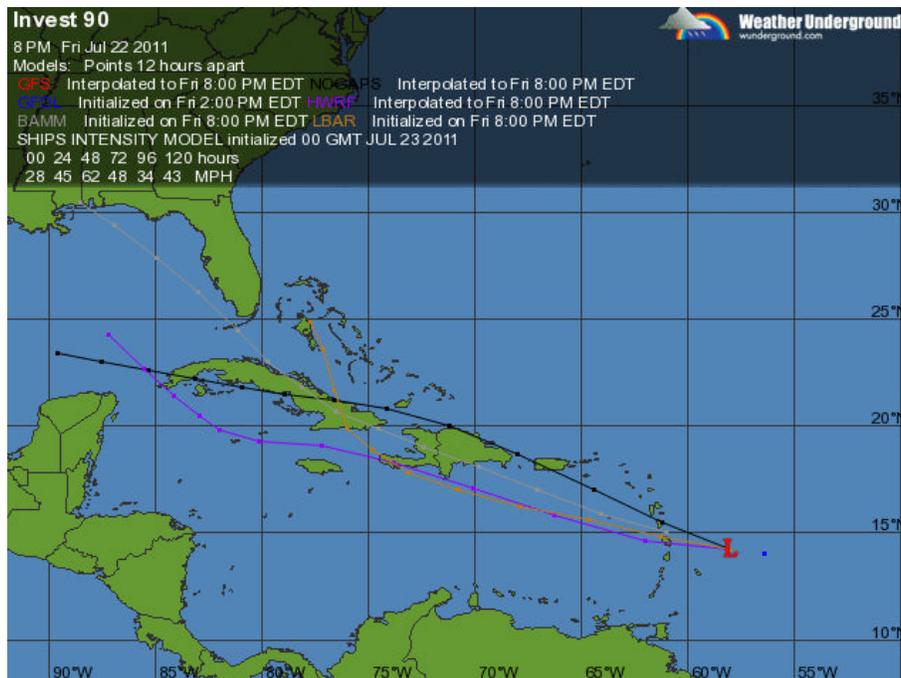
announced earlier this week that three faculty members will investigate the source of methane gas that has contaminated water wells near Marcellus Shale drilling sites in Susquehanna County, PA.

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	554,900	\$4.461	(\$0.116)	\$0.050	(\$0.365)	\$0.222
Chicago City Gate	613,400	\$4.552	(\$0.157)	\$0.141	(\$0.146)	\$0.197
NGPL- TX/OK	995,000	\$4.401	(\$0.113)	(\$0.010)	(\$0.102)	\$0.009
SoCal	513,400	\$4.425	(\$0.155)	\$0.014	(\$0.144)	\$0.038
PG&E Citygate	715,100	\$4.644	(\$0.073)	\$0.233	(\$0.062)	\$0.217
Dominion-South	972,700	\$4.606	(\$0.252)	\$0.195	(\$0.241)	\$0.299
USTrade Weighted	21,793,200	\$4.523	(\$0.376)	\$0.112	(\$0.36)	\$0.222

The Pennsylvania Marcellus Shale Commission today released their final report on the development of a comprehensive and strategic plan for responsible natural gas drilling in Pennsylvania. The report contains 96 recommendations that include increasing the distance between gas well sites and streams, private wells and public water systems. It called for tougher civil and criminal penalties for violators, such as doubling of the current fines. And developing "Green Corridors" for vehicles powered by natural gas. To view the complete report go to

[http://www.portal.state.pa.us/portal/server.pt/community/marcellus\\_shale\\_advisory\\_commission/20074](http://www.portal.state.pa.us/portal/server.pt/community/marcellus_shale_advisory_commission/20074).

The National Hurricane Center this evening noted that a well defined tropical wave some 200 miles east of the Lesser Antilles is producing disorganized showers and thunderstorms, but had a 30% chance of become a tropical cyclone over the next two days as it moves westward.

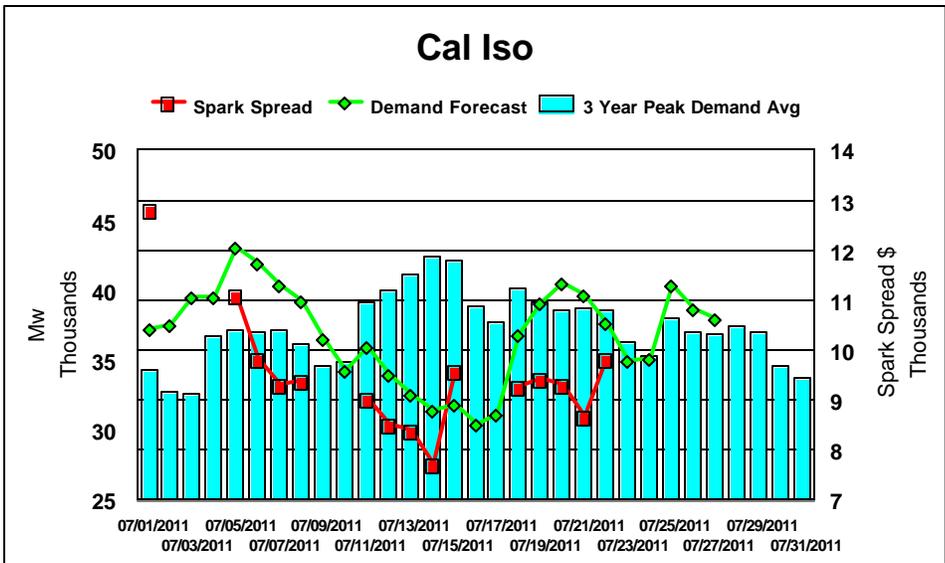


### International

State run CPC Corp. discovered natural gas reserves in Chuhuangkeng, Taiwan. The initial estimates show that the three wells will produce a total of 90,000 cubic feet of natural gas a day by mid-2012.

Japan's top oil and gas developer, Inpex, will sell 30% stake in Indonesia's Abadi gas field in the Masela block to Shell. Inpex will retain a 22% of the project. Shell will build a floating LNG terminal, the first of its kind.

Italy's Eni Spa and China's Petroleum & Chemical Corp. signed a memorandum of understanding. While details of the agreement are not yet known the deal strengthens ties between Italy's biggest oil company and a Chinese hydrocarbon firm.

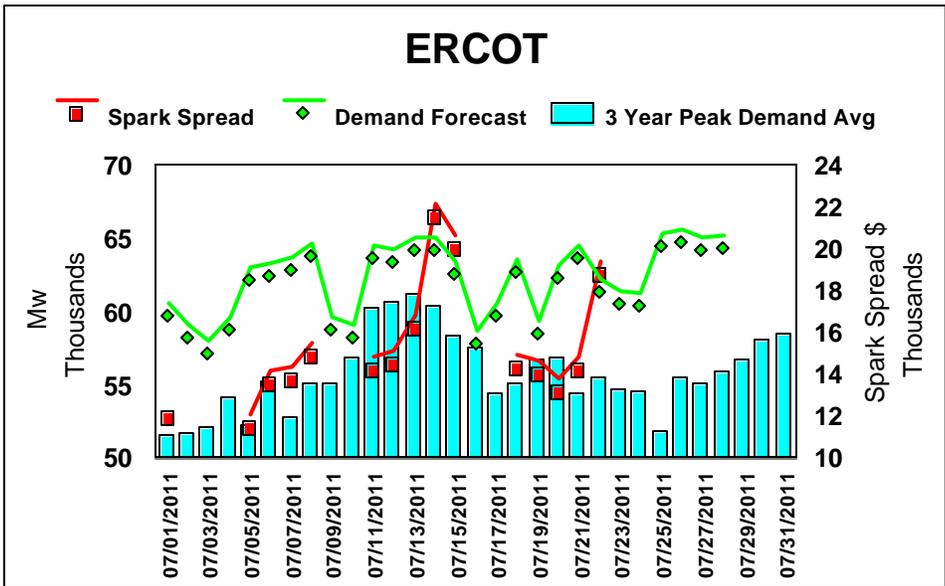


The Philippines expects to sign a deal with a group of partners in August to develop the \$1.5 billion second and third phases of the Malampaya natural gas project. The project will increase production in an area southwest of the capital. The expansion will raise the power per day from 2700 mw to 3000 mw.

Lijmiliya, a Qatari LNG tanker is expected to arrive at Britain's Milford Haven terminals in Wales on August 8<sup>th</sup>.

**ELECTRIC MARKET NEWS**

Consolidated Edison (Con Edison) said that power usage on Thursday was the highest for the year and there was speculation that the all time record could be broken on Friday as people try to combat the heat. In order to meet the demand Con Edison had to reduce the voltage or cause a brownout for about 100,000 customers in Westchester and Queens.



PJM the biggest power grid in the United States had consumers use a record amount of power on Thursday. PJM reported no problems and was able to handle the supply without even offering customers economic incentives to reduce the amount of power they use.

Genscape reported that U.S. coal consumption rose 4% in the past week from the prior week, but was 1% less than the same

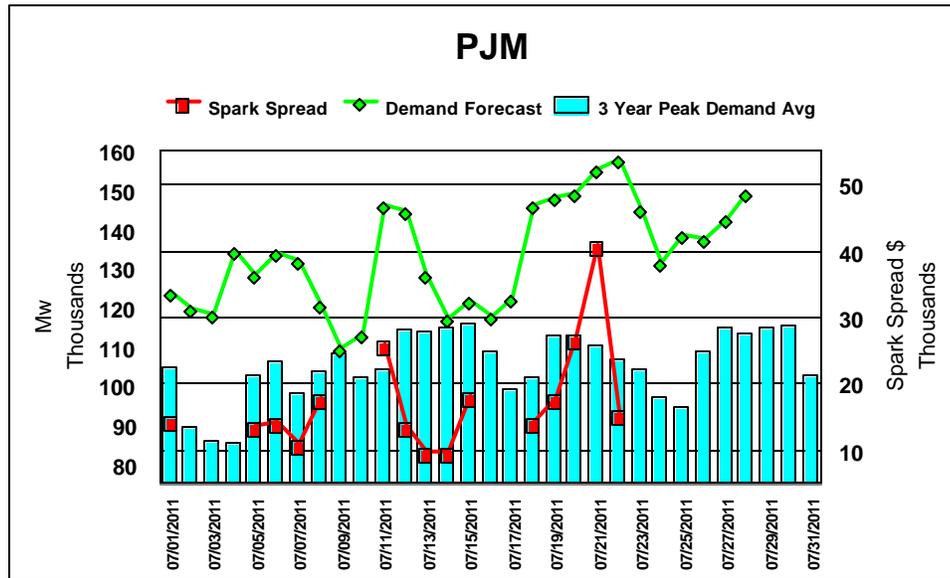
week a year ago.

The Florida Municipal Power Agency, a wholesale power company whose members supply 2 million Florida residents are reportedly considering taking 10% of the output of the new 1100 Mw nuclear units under development at the Summer nuclear plant in South Carolina.

**ECONOMIC NEWS**

The Economic Cycle Research Institute said its Weekly Leading Index decreased to 127.5 in the week ending July 15<sup>th</sup>, a two week low, from 128.4 the previous week. The index's annualized growth rate remained constant at 1.7%.

The Labor Department said nonfarm payroll employment fell in 24 states during June. The largest decline in payroll employment occurred in Tennessee, cutting 16,900 jobs. Missouri followed with 15,700 jobs while Virginia payrolls fell by 14,600. The US unemployment rate increased in June to 9.2%.



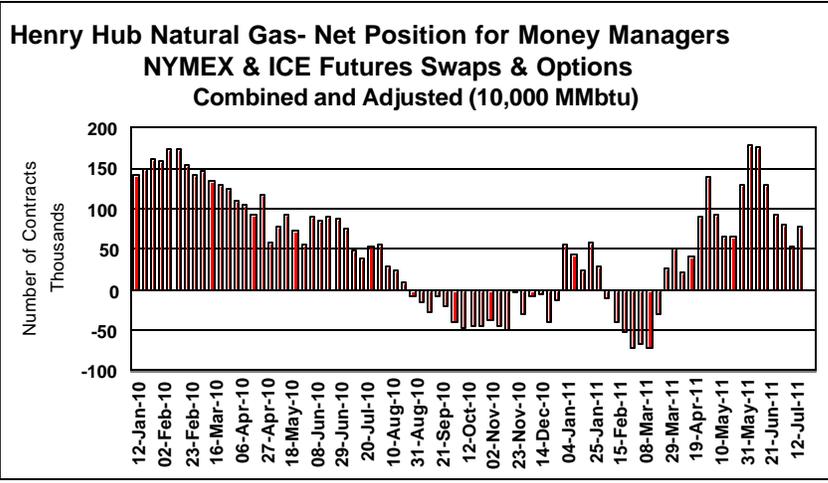
New York Fed President William Dudley said the bond buying program was a modest help to the economy. He described the program as a success, saying it contributed to a firming of the economic activity around year end although the recovery remained distinctly subpar into 2011.

The European Union's Statistics Office said Euro zone industrial new orders increased more than expected in May by 3.6% following a decline of 0.1% in April. Industrial new orders in the European Union in May increased by 2.5% following an increase of 0.3% in April.

The National Development and Reform Commission said China's current inflation cycle is near a turning point and may head lower. An official said inflation may be lower in the second half of 2011 than in the first half as easing global commodity prices help to curb price pressures. China's annual inflation reached a three year high of 6.4% in June.

**MARKET COMMENTARY**

The natural gas market basically traded water today as traders appeared to have little appetite to take on new positions in either direction today in front of the week end, Volumes dropped off by nearly 40% from Thursday as prices posted a trading range that was nearly half of yesterday's activity and nearly was an inside trading session. But the market did post its first positive daily settlement out of the last four trading sessions.



We continue to feel that without a tropical threat this market does not have a major rally in the cards. But with the continued prospects for high cooling demand for the next two weeks this market probably will not see any sharp sell offs either despite a slightly bearish Baker Hughes report released this afternoon. In addition it appears that the commodity funds are in the process of rebuilding their net length in the natural gas market as this afternoon's Commitment of Traders Report showed that this group of traders added to their net length by over 25,000 contracts via futures, swaps and options on the NYMEX and ICE exchanges on a combined and adjusted basis. This is the first weekly gain following five consecutive weekly of selling or reducing of their net length.

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