



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 17, 2011

NATURAL GAS MARKET NEWS

North America

The National Oceanic and Atmospheric Administration raised its forecast for the 2011 hurricane season. The NOAA is now expecting 14 to 19 names storms, 7 to 10 becoming hurricanes, and 3 to 6 storms that are category 3 or larger.

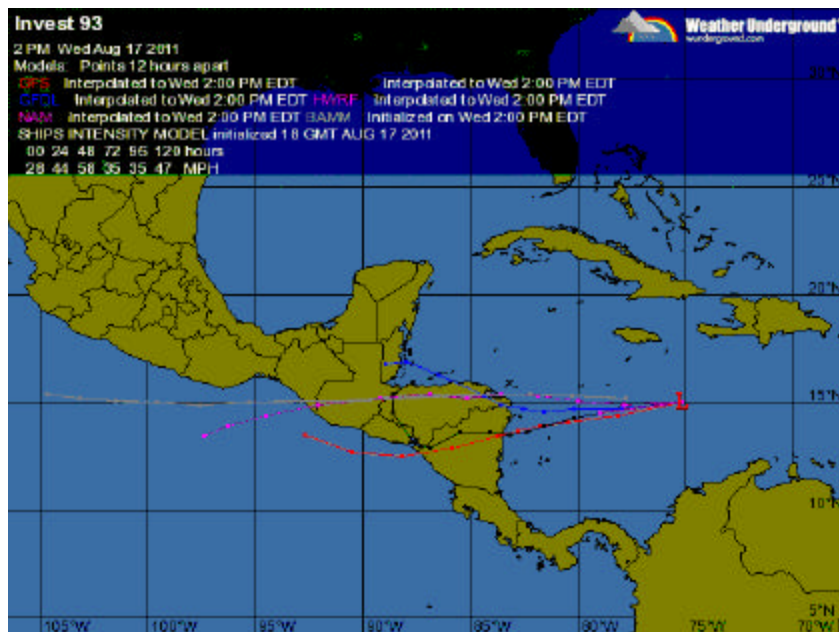
In the West-Central Caribbean Sea there is cloudiness and showers that are associated with a tropical wave. The system became more organized this morning but there is no evidence of surface circulation or fallen pressure. As it moves westward at 15

Generation Outages

ERCOT- Unit 2 at the 1,280mw South Texas Nuclear power plant owned by STP Nuclear Operating Company was returned to full power on Wednesday after being reduced to 20% operational capacity on Sunday to allow operators to remove an auxiliary transformer for regular maintenance. Unit 1 remained operating at full power throughout the process.

RFC- Duke Energy Corp's EastBend facility was shutdown on Tuesday but has been turned back on early Wednesday and is running about 120mw of the 669mw capacity. The Bruce Mansfield owned by First Energy increased generator use on Tuesday and is running near 2500mw of the 2742mw capacity.

The NRC reported this morning that some 95,056 Mw of nuclear generation was online, up 0.18% from yesterday and up 2.85% from a year ago.



to 20 MPH it will meet environmental conditions conducive for increased development. The system has a 40% chance of becoming a tropical cyclone in the next 48 hours.

SandRidge Energy is planning to sell natural gas assets to close the gap between spending and cash flow. The company needs \$1 billion in non-debt financing, which it plans to raise through the selling of assets and another royalty trust offering.

International

South Korea has come to an agreement with Royal Dutch Shell and Total to buy gas from their Australian LNG project for \$84

billion. The deal will allow South Korea to import 5.64 million tonnes per year of LNG from 2013 to 2035. South Korea, the world's second largest importer, signed the deal to fill the gap left by expiring contracts with Indonesia, Malaysia, and Brunei.

China has announced its desire to develop the country's shale gas resources with more exploration and production within five years. China is unsure of the amount of shale gas it holds within its borders but the EIA estimates that China has 36.1 trillion cubic meters of recoverable shale.

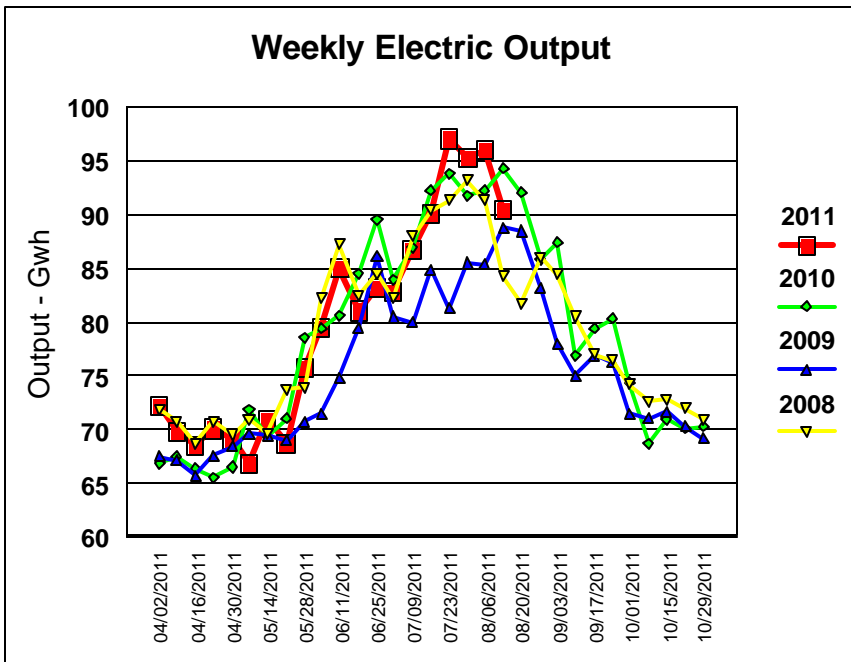
An increase in Asian demand for natural gas will leave new European LNG terminals empty as cargo ships move farther east in search of higher prices. Many Asian countries are starting to sign long term LNG deals with companies that have projects not scheduled to come online for several years in order to secure their supply. The demand in Asia for natural gas is so high that it has the potential to buy nearly all the LNG in the market leaving little for European countries to buy.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	690,100	\$3.975	(\$0.058)	\$0.012	(\$0.067)	\$0.039
Chicago City Gate	70,500	\$4.030	(\$0.058)	\$0.067	(\$0.084)	\$0.086
NGPL- TX/OK	570,000	\$3.915	(\$0.046)	(\$0.048)	(\$0.072)	(\$0.042)
SoCal	712,200	\$4.156	(\$0.014)	\$0.193	(\$0.040)	\$0.117
PG&E Citygate	1,017,000	\$4.304	(\$0.024)	\$0.341	(\$0.051)	\$0.274
Dominion-South	993,500	\$4.011	(\$0.075)	\$0.048	(\$0.102)	\$0.078
USTRade Weighted	18,751,600	\$4.011	(\$0.041)	\$0.048	(\$0.07)	\$0.039

Poland's Gaz System and Czech's Net4Gas have completed a new .5 billion cubic meter per year gas link with the Czech Republic that is scheduled to come online in September. Poland's PGNiG and Germany's VNG signed a deal in 2009 to deliver gas through the new link. The link is also expected to expand and be able to deliver gas to Slovakia and Lithuania by 2018.

Pakistan removed import restrictions against natural gas companies by no longer requiring them to enter into long-term deals and by lowering the minimum reserve of natural gas capacity of 20 years. Pakistan is in need of energy to give to its power sector, which consumes 43% of domestic supplies. Pakistan agreed to a deal with Iran for a \$1.3 billion pipeline that will pump 750 Mmcf/d from Iran to Pakistan by 2014 but is currently looking at 17 companies to determine who can provide the country with 500 Mmcf/d of LNG by mid-2012.

The Browse LNG project in Australia has discovered bilbies near the construction site. The bilby is a ground dwelling marsupial on the vulnerable species list. Woodside Petroleum does not expect the discovery will cause delays but the states Environmental Protection Authority has yet to make a decision on matter.



ELECTRIC MARKET NEWS

PSE&G sent over 50 employees to New York City on Wednesday to help Con Edison restore gas service following a water main break in the Hamilton Heights section of upper Manhattan. Con Edison was forced to turn off gas service to thousands of customers and many of those people will not have gas until Sunday because the area is densely populated with large buildings and the repair crews need to visit each apartment to re-light gas appliances.

The Edison Electric Institute reported that US electric generation in the week ending August 13th fell by 4.1% on the year to 90,435 Gwh. For the first 33 weeks of the year, power production totaled 2,600,644 Gwh, up 0.1% on the year.

ECONOMIC NEWS

The US Labor Department said the Producer Price Index increased a seasonally adjusted 0.2% in July following a 0.4% decline in June. The report showed that last month's increase in producer prices was driven by higher costs for food, tobacco products, trucks and pharmaceuticals. The Core Producer Price Index, excluding food and energy, increased 0.4% in July after rising 0.3% in June. It is the largest increase since January.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, increased 4.1% in the week ending August 12th. Its seasonally adjusted index of refinancing applications increased 8% to their highest level since early November. Refinancing accounted for 78.8% of total applications, up from 75.6% the previous week.

Philadelphia Federal Reserve President Charles Plosser said he disagreed with the Fed's decision to keep interest rates low for another two years because policy should be dictated by the economy rather than a timeline. The Fed last week pledged to keep interest rates low for at least two years and said it would consider further steps to help growth.

Market Commentary

While the natural gas market ended the session relatively unchanged, it settled in positive territory for the first time in four days. The market was supported by some technical buying ahead of Thursday's release of the EIA's natural gas report. The natural gas market posted a low of \$3.892 in overnight trading before it gradually retraced some its losses and posted a high of \$3.982 in early afternoon trading. It later retraced some of its gains and settled up just 1 point at \$3.933.

Market expectations for Thursday's EIA Storage Report are centered around a 49 bcf build. For the same week a year ago, natural gas inventories increased by an adjusted 28 bcf while the five year average increase was 43 bcf.

The natural gas market on Thursday will look for further direction from the EIA inventory report. The extended weather forecasts continue to lend little support to the market as they show milder temperatures for the Northeast and Midwest region while above normal temperatures linger in Texas and the West. Technically, the natural gas market is seen finding support at \$3.892, \$3.889, \$3.846 and \$3.799. Resistance is seen at \$3.979, its high of \$3.982, \$4.026, \$4.042 and \$4.069. More distant resistance is seen at its previous high of \$4.143.