ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 16, 2009

NATURAL GAS MARKET NEWS

The tropical Atlantic basin remains relatively quiet again today. The remnants of Hurricane Fred continue to move in a west northwestward direction at 15 mph. While wind shear and dry air continue to hinder redevelopment for the next several days, there are a few models looking for the system to have a second life. The Canadian model has the system remaining an open tropical wave until it reaches the southeastern Gulf of Mexico early next week where it would then regenerate back into a tropical cyclone. A few other models look for the storm to show some tropical development as it reaches the Bahamas by the end of the weekend. AccuWeather forecasters are looking at the potential of this storm being a threat to the U.S. East Coast. The NHC also continues to watch an area of disorganized showers that are associated with an area of low pressure and a tropical wave located some 400 miles west of the Cape Verde Islands. Development if any will be slow to occur.

Generator Problems

NPCC – OPG's 490 Mw Units #3 and #6 at the Nanticoke coal fired power station returned to service today.

PJM – Exelon's 1143 Mw Limerick #2 nuclear unit was at 90% capacity this morning down 10% from yesterday.

SERC – Southern Nuclear's 1200 Mw Vogtle #1 nuclear unit was at 94% capacity down 1 % from yesterday.

MISO – DTE Energy's 1122 MW #2 nuclear unit at the Fermi power plant saw output reduced to fix a recirculation pump. The unit was at 45% power.

FPL Energy's 615 Mw Duane Arnold Energy Center was at 98% capacity today, up 10% from yesterday.

SPP – Entergy Nuclear's 978 Mw River Bend nuclear unit was at 93% power this morning, down 1% from yesterday.

The NRC reported this morning that 88,182 Mw nuclear generation capacity was on line, down 0.6% from yesterday and off 7.2% from the same time a year ago.

The Federal Reserve Bank reported this morning that U.S. industrial production rose for the second consecutive month in August. The 0.8% increase was a bit higher than the 0.6% gain the market had been anticipating. An increase in auto manufacturing along with higher utility output, due to a warmer than normal August helped to boost the index.

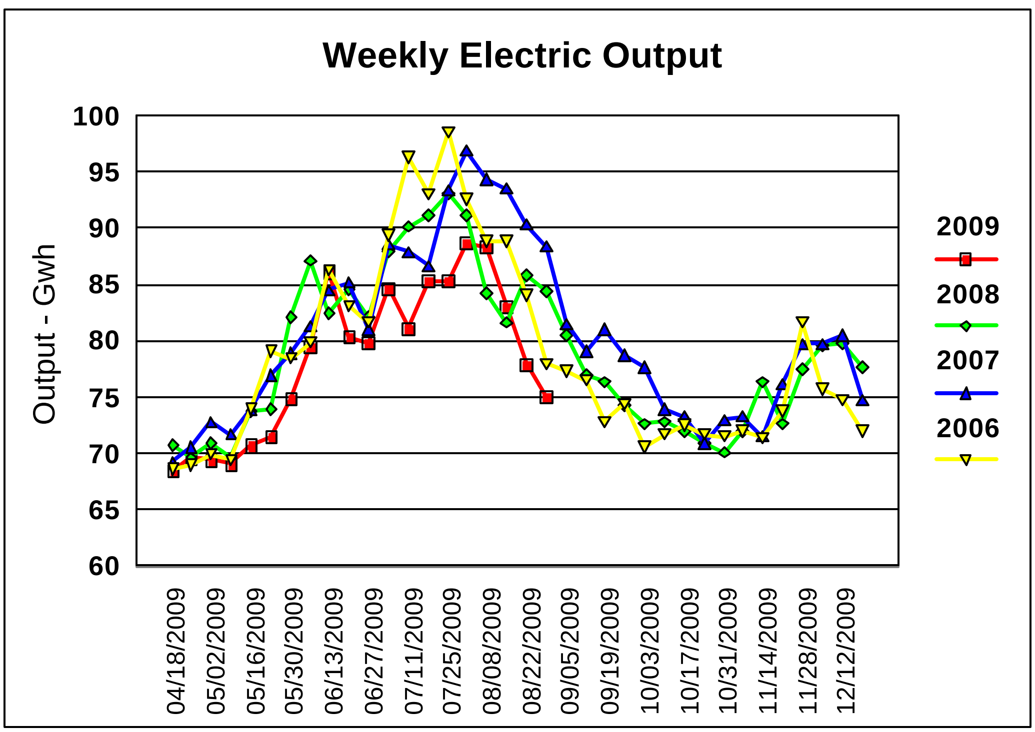
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	**Volume Traded**	**Avg Price**	**Change**	**Basis (As of 12:30 PM)**	**Change**	**Basis 5-Day Moving Avg**
Henry Hub	866,700	$3.284	$0.075	($0.348)	$0.023	($0.251)
Chicago City Gate	446,700	$3.407	$0.070	($0.225)	$0.011	($0.238)
NGPL- TX/OK	880,300	$3.261	$0.076	($0.371)	$0.017	($0.367)
SoCal	613,600	$3.592	$0.102	($0.040)	$0.043	($0.123)
PG&E Citygate	955,100	$4.022	$0.074	$0.390	$0.014	$0.306
Dominion-South	160,000	$3.424	$0.009	($0.208)	($0.050)	($0.224)
USTrade Weighted	19,533,500	$3.414	$0.082	($0.218)	$0.02	($0.251)

Private equity firm Apollo Management has agreed to buy struggling the oil and gas exploration and production company, Parallel Petroleum for $483 million. The transaction appears to be one of the first bailouts of a distressed oil and gas company.

The U.S. Interior Secretary said today that the $6.6 billion U.S. royalty in kind payment program for oil and natural gas drilling fees will be allowed to be phased out and will be replaced with a more "transparent" and accountable royalty collection system. The current program has been cited frequently for failures in auditing, accounting and employee conduct. The GAO in a report this week noted that the royalty payment program does not track data, audit energy production or document deliveries. The current program accounts for more than half of the $12 billion in royalties collected by the MMS in 2008. The GAO report estimated that the government missed out in at least $21 million in net fees, while another report estimated the government was underpaid $160 million in royalties to the government in 2006 and 2007.

The CME Group this morning released a press release " to respond to current misperceptions that could undermine confidence" in the markets. The CME said that it is proposing that the exchange administer any tailored hedge exemptions for eligible market participants and that its regulator the CFTC, be given expanded authority to impose and enforce aggregate position limits across OTC markets and all applicable U.S. derivatives markets. ***The new limits, which would include single month and all months combined, would be in addition to the existing hard position limits during the last three days of trading of the expiration months, and will commence when all CFTC regulated exempt commercial markets and foreign boards of trade synchronize a start date***.

National Grid said this week it will seek Massachusetts governmental approval for a reduction of an average 18% in natural gas commodity rates for its Massachusetts customers.



The German government reported that German gas imports in July were some 27.9% higher than the same month a year ago, but imports over the first seven months of the year still lag behind year ago levels by 12.6%.

The IEA said today that Europe faces the risk of another gas crisis this winter, but the agency noted that relations between Russia and the Ukraine appear to have improved slightly and thus has lowered the risk a bit. The agency though said that given the continued risk of a supply disruption it continued to encourage member countries to build up their own gas stocks.

Britain's Elgin-Franklin gas field was restarted early Wednesday after an unplanned outage had taken the line off line on Tuesday. The combined fields produce an average of 11.2 million cubic meters of gas a day.

Iran announced today that it has agreed to import 5 bcm of gas per year from Azerbaijan.

Total's CEO said today that he expects the Yemen LNG project to come on stream within "days". He also looked for 2010 to be a "good year" for production.

Iranian officials said yesterday that the Nabucco natural gas pipeline project cannot become a reality without Iranian participation in the project as a supplier.

Excelerate Energy has confirmed that three cargoes of LNG have been offloaded so far at the newly completed Mina Al-Ahmadi terminal in Kuwait. The company said that more than 6.3 bcf of gas has been offloaded via the regasification vessel docked at the terminal. The terminal received its first test cargo in mid August. A fourth cargo is expected to offload on September 24th from Oman. The terminal can deliver more than 500 mmcf/d of gas into the Kuwait grid. Some four cargoes are expected to be delivered in October.

PIPELINE RESTRICTIONS

REX Pipeline said that effective immediately and until further notice it has limited capacity available for quantities received from WIC Sitting Bull. Based on the current level of nominations, interruptible transport service/authorized overrun and secondary quantities may be scheduled.

PIPELINE MAINTENACE

Gulf South Pipeline will be performing maintenance at the Montpelier Compressor Station on five units, but one at a time beginning September 21st and is expected to last six days. Capacity through the compressor during the work will be reduced by as much as 75,000 Dth.

Gulf South said that it has begun unplanned maintenance at the Airport Compressor Station beginning September 15th and lasting until further notice. Capacity through the station will be zero during the work.

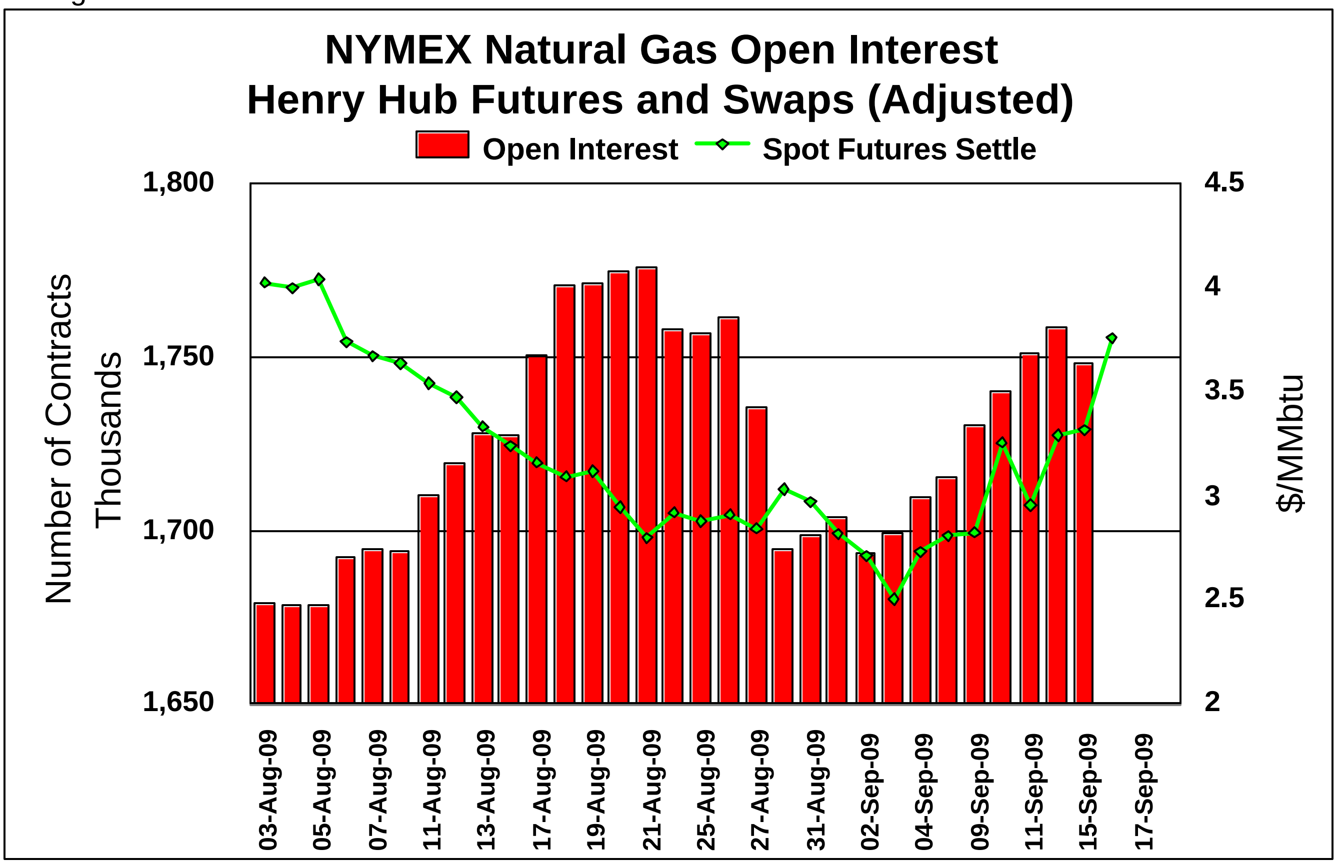
ELECTRICITY NEWS

The Edison Electric Institute reported that for the week ending September 12th U.S. power production was 75,052 Gwh down 3.7% from the prior week and was some 7.3% less than the same week a year ago.

FERC Commissioner Marc Spitzeer said Congress needs to take action on carbon pricing in order to establish more parity between renewables and fossil fuels. Meanwhile the CFTC chairman said that OTC deals in the carbon market established by "cap and trade" legislation should be allowed so long as the trades are "fully regulated". Senate Democrats continue to discuss sharply curtailing OTC deals in the carbon market that will be established by future/current legislation.

Baclays Capital in research released this week noted that the displacement of coal by natural gas fueled power plants has greatly boosted the use of gas in the power sector in 2009, with coal's displacement alone accounting for an estimated 3 bcf/d of gas demand through May and a projected 3.7 Bcf/d for the year. Power sector demand for gas has been running 200 MMcf/d above year ago levels and would have been significantly below 2008 levels had not gas competed effectively with coal. The company speculated that with out the displacement of coal the natural gas industry would have been looking at record shut ins of gas production. The bank warned "this has clear implications for 2010." The recovery of gas prices next year needs the demand side of balances to cooperate. A recovery of gas prices will reduce or even eliminate the coal switching observed in 2009. They estimated the sustained displacement of of coal at 2009 levels would require gas remain below $4.00 per Mmbtu in 2010.

The ISO New England in a recently released study found that significant amounts of wind power generation could be added to New England's power system, but offshore wind farms in particular would be the most cost effective use of the region's transmission. The report identified up to 12,000 Mw of potential wind resources could be added to the Iso if transmission is appropriately expanded. Anywhere from 1000 to 4000 circuit-miles of new transmission might be needed. Cost estimates varied widely, but a midrange estimate would be more than $25 billion for 12,000 Mw of land and sea based wind generation.



A coalition of coal generators warned today that consumers will pay higher prices if independent power producers are not provided adequate allowances under the proposed federal cap-and-trade legislation. The group noted that prices could increase more than 20% in certain regions and up to 16% nationally over what they would otherwise under the bill with merchant coal allocation.

MARKET COMMENTARY

The natural gas market finished higher today for the seventh time out of the last eight trading sessions. The bullish euphoria that the recession is over and that the recovery has begun which many traders continue to trumpet was again supported today (in the bullish viewpoint) in the release of the industrial production numbers. In addition the power generation sector continues to look toward natural gas as a key generation fuel especially given the seasonally brisk nuclear refueling and maintenance work going on, which today has resulted in nuclear generation levels falling more than 7% below year ago levels. The October contract since the Labor Day weekend has retraced nearly 69% of the sell off of the prior five weeks.

While much has been written by market analysts that the pace of this rebound has been driven significantly by short covering, it appears the NYMEX open interest report did not support this theory until yesterday's trading. The exchange reported at midday today that yesterday saw the combined and adjusted open interest levels in the Henry Hub futures futures and swaps contracts fell by over 10,500 lots, the first decline of any kind since September 2nd.

Market expectations for tomorrow's EIA natural gas storage report range between a 65-85 bcf build in working gas levels, with most estimates falling between a 70-75 bcf build. Stocks rose an adjusted 65 bcf a year ago and the five year seasonal average increase is for 82 bcf.

While we remain overall bearish on this market, we recognize that this bullish freight train is not going to slow and stop until oil prices and the equity markets cool off and the dollar rebounds relative to other world currencies. As a result we continue to feel a short position can not be attempted unless it is placed through a long put position and we continue to look at the $3.00 October puts, but given today's price action we would now look at the $3.25 and $3.50 puts which settled at 8.1 and 15.3 cents respectively. We see resistance at $3.924 followed by $4.079, $4.362 and $4.421. Support we see at $3.478, $3.267, $3.195, $3.153, $3.103, $3.036 and $2.939.