



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 4, 2011

NATURAL GAS MARKET NEWS

North America

Philippe turned west this morning with winds of 65mph. It is expected that the storm will strengthen over the next several days and may regain hurricane status. The storm is expected to slowly turn away from the east coast and head out to sea in the next couple of days. Elsewhere tropical waves in the western Caribbean and east Africa are not expected to develop over the next few days but a system near Panama has some potential for development later this week.

Generation Outages

PJM - Due to a loss of a battery charger for diesel generators Constellation Energy Nuclear Group cut power to Unit 1 at Calvert Cliffs nuclear power plant to 68% on Monday night.

SERC - The 693mw Unit 3 at the Turkey Point nuclear plant shut on Tuesday after being at full power on Monday.

ERCOT Xcel Energy Inc plans to shut the Unit 1 at the Harrington coal fired power plant. The 437mw unit is scheduled to undergo the maintenance from October 4th through the 6th. Luminant shut down its Unit 2 at the Monticello facility to repair a boiler tube leak on Tuesday. The unit is expected to restart following the repairs. Unit 3 at Martin Lake, another Luminant owned facility, has been forced to shut down do to a boiler leak. The facility is expected to restart on Wednesday.

The NRC reported this morning that some 85,243 nuclear generation was operating this morning, basically unchanged from yesterday and up 2% from the same day a year ago.

The Federal Energy Regulatory Commission has approved Tricor Energy's application to build and operate a new underground natural gas storage facility. The plant will be located in Bakersfield, California and is supposed to improve operational efficiencies in the gas transportation network in the west. The project is estimated to cost several hundreds of millions of dollars and will be designed to hold 32.5bcf with a working capacity of 22.4 bcf.

Enbridge Inc is in discussion with a potential LNG producer and is creating a proposal to export LNG from Canada.

Dominion has filed with the Department of Energy seeking permission to export LNG to any country with which the US does not prohibit trade from its Cove Point facility in the Chesapeake Bay.

US natural gas prices are expected to be relatively flat this winter due to the economy and weather having "subtle" downward pressure creating a stable outlook for consumers.

International

Eni's proclamation that it will have the ability to resume gas exports in October from Libya along its Greenstream pipeline is dependent on no security risks. Italy needs Greenstream to resume service to provide supply during the peak demand hours in the winter. The pipeline accounts for 10% of Italy's natural gas.

A decision is expected by the end of the year to decide whether to proceed with the Netherlands' first carbon storage project. The Rotterdam Capture and Storage Demonstration Project has already received a promise from the European Commission and Dutch government that they will pay 330

million euros of the projects estimated cost of 500 million euros. If the project is built it will have the capacity to transport 5 million tonnes a year and is expected to be full operational by 2020.

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	906,100	\$3.555	(\$0.011)	(\$0.079)	(\$0.006)	(\$0.015)
Chicago City Gate	646,700	\$3.607	\$0.023	(\$0.027)	\$0.013	\$0.029
NGPL- TX/OK	734,800	\$3.480	\$0.011	(\$0.154)	\$0.001	(\$0.104)
SoCal	513,100	\$3.624	(\$0.006)	(\$0.010)	(\$0.016)	\$0.095
PG&E Citygate	718,000	\$3.869	\$0.005	\$0.235	(\$0.005)	\$0.294
Dominion-South	504,700	\$3.633	\$0.013	(\$0.001)	\$0.003	\$0.046
USTrade Weighted	19,196,700	\$3.559	\$0.004	(\$0.075)	(\$0.01)	(\$0.015)

Officials from Ukraine and Moldova met to discuss shale gas reserves along their shared border to develop a memorandum of understanding on the issue by next week. Both countries have been trying to lower their dependence on Russian gas and are in search of unconventional gas reserves.

Kuwait plans to extend its summer LNG buying season by a month. Kuwait has bought LNG from March to October since 2009 using a temporary receiving facility to meet air conditioning demand in the summer and reduce the burning of crude oil at its power plants. The increased demand has caused the Kuwait Petroleum Corporation to consider building a permanent LNG import facility to help meet the growing power demand.

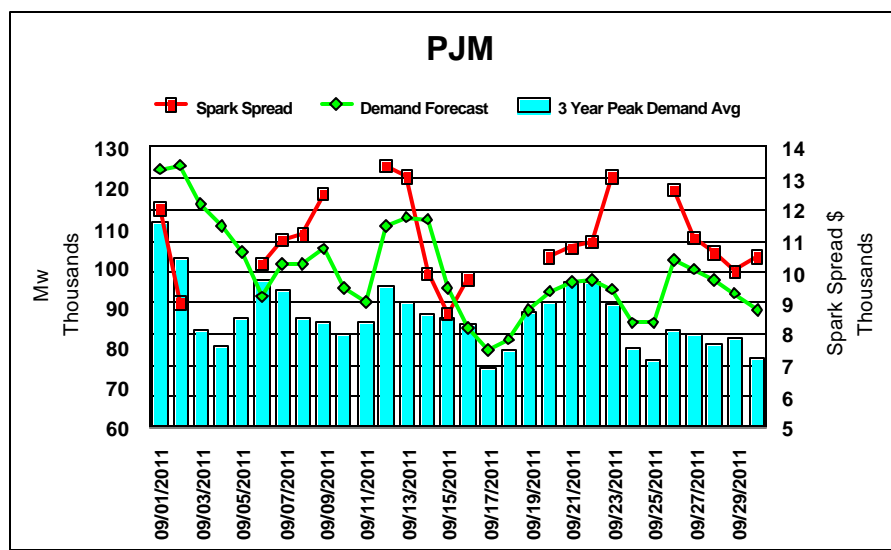
Qatar energy minister who is also chairman of the state-run energy company Qatargas said that Japan would be given preferential treatment in regards to exports of LNG because of the very long and successful relationship the two countries have with one another.

Japanese company Kyushu Electric has purchased a spot cargo for December delivery from Gazprom. Kyushu Electric officials needed to purchase the extra cargo after its No. 4 nuclear reactor at the Genkai nuclear power plant shutdown.

Inpex Corp has estimated that its Abadi floating LNG project in Indonesia has approximately 300 million metric tons in reserve.

The first phase of the project is expected to produce 2.5 million metric tons a year for 30 years. The output from the first phases is estimated around 25% of the total reserves.

Kenya plans to float a tender by February 2012 to construct a LNG import terminal in Mombasa. The country has been seeking to diversify its power supply as the country has experienced chronic blackouts and higher electric bills.



Eni and Repsol are waiting for Venezuela to approve a gas extraction project. The exploratory phase of Cardon 4 block showed that the area contains 15tcf. The government released a report saying it has the ability to produce 2,500 mcf/d to meet domestic demand.

ELECTRIC MARKET NEWS

NRG Energy Inc mothballed its 400mw Greens Bayou 5 natural gas fired unit on October 1st after receiving approval from the Texas electricity grid agency. NRG Energy will still have the option of bringing the plant online when it is needed or when it becomes economical.

Alstom won a \$150 million contract to upgrade American Electric Power's (AEP) biggest coal fired plants in Ohio, West Virginia, and Ohio. The contract requires Alstom to upgrade the low-pressure steam turbines in several of AEP's plants. The first upgrades are scheduled to be complete in 2013.

Projected water runoff at the Dalles Dam on the Columbia River in Oregon for the week ending on October 3rd for the upcoming waterflow season was 100 percent of normal down from 131 percent of normal for the week ending on September 27th. For the same week last year projected water runoff was 133 percent of normal.

ECONOMIC NEWS

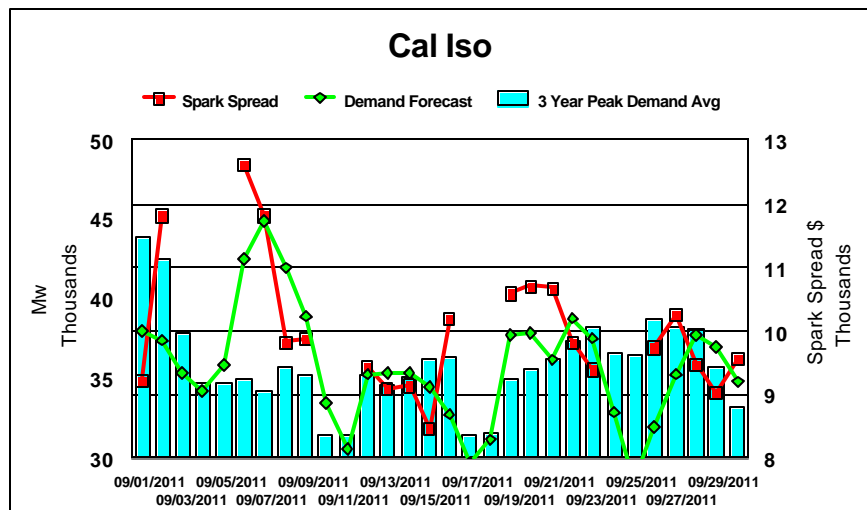
The US Commerce Department said new orders for US factory goods fell in August for the second time in three months. It said orders for manufactured goods fell 0.2% after a downwardly revised 2.1% increase in July.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales in the week ending October 1st increased 0.1% on the week and by 3.7% on the year to 516.8.

Federal Reserve Chairman Ben Bernanke said the Fed's latest step to help the US economy should bring down long term interest rates by about 20 basis points. He said its decision to increase its share of long term government bonds should provide some moderate support to the economy. The Fed is selling \$400 billion of its US Treasury securities maturing in the next three years and replacing them with longer term bonds. He called on Congress and the White House to do their part to help. He also told US lawmakers that Europe's ongoing debt crisis can significantly hurt the US economy even though US banks have a limited direct exposure to Greece and other troubled euro-zone countries. He added that China's undervalued currency is hurting the global recovery.

The European Central Bank abandoned plans to reduce troubled banks' dependency on its funding after it failed to find a suitable solution and due to fears it would reduce pressure on governments to resolve the problems. The ECB was working on plans for over 18 months in a bid to steer itself away from the emergency support of the banking sector. A source said the view is that as Emergency Liquidity Assistance money lent to banks is underwritten by national central banks rather than the ECB, it keeps the necessary pressure on governments to solve the problems rather than shifting the responsibility to the ECB.

The euro zone is on track to secure approval for modifications to its bailout fund by a summit on October 18th, although Slovakia, one of three countries in the 17 country bloc yet to ratify the changes, remains an obstacle. Slovakia's Finance Minister said its parliament will vote on extending the powers of the 440 billion euro European Financial Stability Fund next week, just days before European leaders meet in Brussels on October



17th. National leaders agreed on July 21st to give the EFSF the power to provide precautionary loans to countries at risk from financial market pressure and to buy sovereign bonds in the secondary market to help support struggling states. The EFSF, used to bail out Ireland and Portugal, will also be allowed to lend governments money to recapitalize banks. Apart from Slovakia, the Netherlands and Malta still have to approve the changes.

Bart Chilton, a commissioner at the CFTC said traders who use computer algorithms to buy and sell shares should be required to register with the US CFTC. He said most of the high frequency traders are not registered with regulators. He called on the CFTC's other four commissioners to move forward with a rule that would require these traders to be registered next year. He estimated that in the US more than 90% of the trading is done electronically and high frequency traders account for about half of the trades in Europe and about a third in the US.

Market Commentary

The natural gas futures market today ran counter to the rest of the energy complex today and finished higher for the first time out of the last five trading sessions. The market appeared to receive a technical inspired bounce as a result of the inability of sellers to breach yesterday's lows this morning. The rally though was rather limited and basically lasted only an hour before the rally ran out of steam and prices moved into a sideways pattern for the remainder of the day. Updated forecast models at midday appeared to point to a higher probability of above normal temperatures remaining in place over the eastern two thirds of the nation for the 6-15 day period and a limiting demand for natural gas. As a result the market ended the session posting an inside trading day, the first since September 23rd and setting up the possibility for tomorrow to be a much more volatile session, despite it being the day prior to a storage report.

We see resistance tomorrow \$3.665 followed by \$3.70-\$3.719, \$3.759, \$3.798 and \$3.985. Critical support will be the lows of the past two days at \$3.591 followed by \$3.50, \$3.463 and \$3.391.

In the March-April Spread volume remained active with over 6,000 spreads trading for the third time out of the last four trading sessions. Prices though remained mired in its nearly two week sideways trading pattern with a March premium of 1.5 cents acting as a key resistance point. If this resistance is finally breached we would look for the spread to widen out by another penny before resistance is found followed by a 3.5 cent premium.

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