



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 6, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center early this morning reported that sub-tropical depression 17 had formed some 270 miles north-northeast of San Juan, Puerto Rico. This system continued to strengthen throughout the day and by this afternoon had become Tropical Storm Otto but is still seen turning to the north and then northeast over the next 24-48 hours and out to sea. Computer models continue to point to the potential development of two tropical systems in the southwest Caribbean over the next couple of weeks. While significant development of both these systems appears to be a low probability at this time, the GFS operational model has one of these systems developing around October 17th and becoming a formidable storm in the northwest Caribbean around October 21st.

Generator Problems

The NRC reported this morning that some 82,519 Mw of U.S. nuclear generation capacity was online this morning down 13% from yesterday but some 6.7% higher than the same time a year ago.

Chevron's CEO said today that he believed the U.S. deepwater drilling moratorium will be lifted soon. He noted that his company has expectations that there will be a cost of carbon built into its long-term planning models. He noted that the company is not opposed to shale gas development but just has not yet found "economic" opportunity in the U.S. to develop this type of gas field.

Gazprom said today that it plans to bid on new exploration tenders for Algerian gas fields

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	944,600	\$3.556	\$0.049	(\$0.299)	(\$0.095)	(\$0.181)
Chicago City Gate	395,900	\$3.627	(\$0.003)	(\$0.228)	(\$0.128)	(\$0.095)
NGPL- TXOK	828,500	\$3.491	\$0.071	(\$0.364)	(\$0.054)	(\$0.268)
SoCal	474,800	\$3.596	\$0.049	(\$0.259)	(\$0.076)	(\$0.190)
PG&E Citygate	859,400	\$3.899	(\$0.031)	\$0.044	(\$0.156)	\$0.132
Dominion-South	561,900	\$3.750	\$0.048	(\$0.105)	(\$0.077)	(\$0.016)
USTrade Weighted	20,880,500	\$3.568	\$0.030	(\$0.287)	(\$0.09)	(\$0.181)

A spokesman for the Golden Pass LNG terminal in Texas said today that the Al Khuwair LNG tanker is scheduled to arrive at the facility on October 20th. It would be the

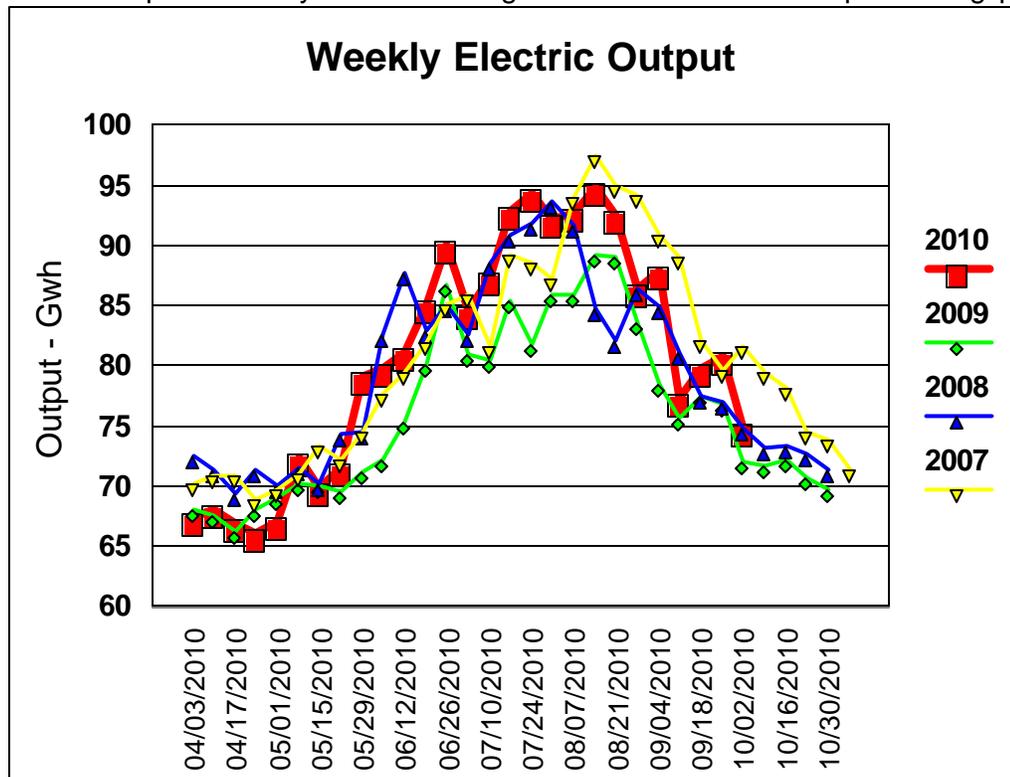
terminal's first LNG delivery.

The Saudi-Kuwaiti joint venture, Al-Khafji Joint Operations, said today that it has delayed once again the closing date for bids on a project to construct gas and natural gas liquids distribution facilities at the Khafji oil field. The new closing date will be November 1st. The zone currently produces between 60-70 mcf/d of associated gas.

BP and Azerbaijan's SOCAR are expected to sign a deal later this week to develop the Shafag-Asiman Caspian gas field. The field has estimated reserves of 300-500 bcm.

Italy's industry minister said on Wednesday it expected gas supplies to Italy to be safe this winter unless some other critical event occurred, such as the recent disruption of the Transitgas pipeline due to rock slides this summer. The government expected gas storage to reach 95% of capacity, up 5% from current levels. The minister said that meetings with Swiss authorities and the Transitgas operator were continuing with a goal of getting the pipeline repaired as soon as possible, hopefully by the end of the year.

Gassco reported today that a small gas leak at the Kollsnes processing plant was discovered on



Wednesday, but that it did not expect the event to have any impact on gas deliveries.

ELECTRIC MARKET NEWS

U.S. Interior Secretary Salazar today formally signed the nation's first lease for a major offshore wind project. The lease is for the \$1 billion Cape Wind wind farm off the coast of Massachusetts.

The Edison Electric Institute reported that they estimate U.S. power production for

the week ending October 2nd reached 74,316 Gwh, some 7.5% less than the prior week but 3.8% higher than year ago. Year to date power production has been running some 4.5% ahead of last year's levels.

ECONOMIC NEWS

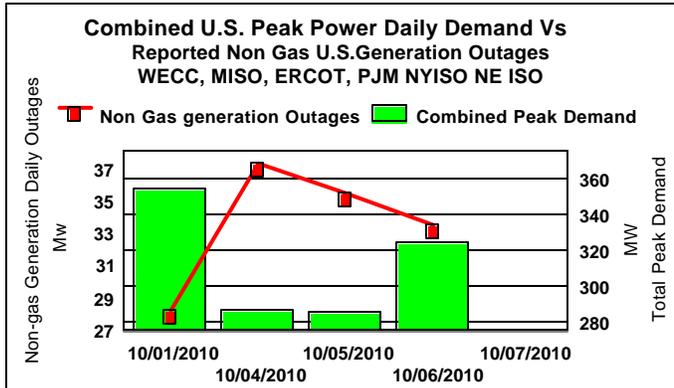
The ADP Employer Services report showed that US private employers unexpectedly cut 39,000 jobs in September after adding an upwardly revised 10,000 jobs in August. The report was expected to show that the private sector added 24,000 jobs in September.

Germany's Economy Ministry said the country's manufacturing orders increased more than expected in August due to strong foreign demand. Orders increased by 3.4% on the month. The data showed a 6.6% increase in orders from abroad.

The IMF's World Economic Outlook said developing Asia is projected to grow by about 9.4% in 2010 and 8.4% in 2011. It said Asia's emerging economies, led by China and India, are leading the global recovery but added that they need to allow currency appreciation and under structural reforms to ensure long term growth. The IMF forecast China would grow 10.5% this year and 9.6% in 2011, driven by domestic demand. India's GDP is expected to grow by 9.7% in 201 and 8.4% in 2011.

MARKET COMMENTARY

The natural gas market at the start of the morning session breached the highs of the past two days at \$3.788 and promptly rallied some 10 cents higher. It appeared that talk of the potential of a “significant” tropical system on the doorstep of the Gulf of Mexico in two week’s time once again has prompted some short covering along with continued large amount of nuclear and coal generation being taken off line for maintenance. The market though failed to maintain this bullish pulse past mid morning and as a result remained contained in a rather modest sideways trading range for the remainder of the session.



Market expectations for tomorrow’s EIA natural gas storage report appear to be running between a 70-90 bcf build in working gas stocks, with most estimates centered on a 77-80 bcf build. For the same week a year ago stocks rose an adjusted 68 bcf while the five year season average is a 67 bcf build.

We continue to look at this market in a bearish light and would look for any rally back above \$4.00 as an excellent selling opportunity. We

see resistance tomorrow starting at \$3.92, followed by \$3.992 and \$4.062. More distant resistance we see at \$4.154. Support we see at \$3.80-\$3.788 followed by \$3.65, \$3.62 and \$3.50.

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