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ENERGY RISK MANAGEMENT

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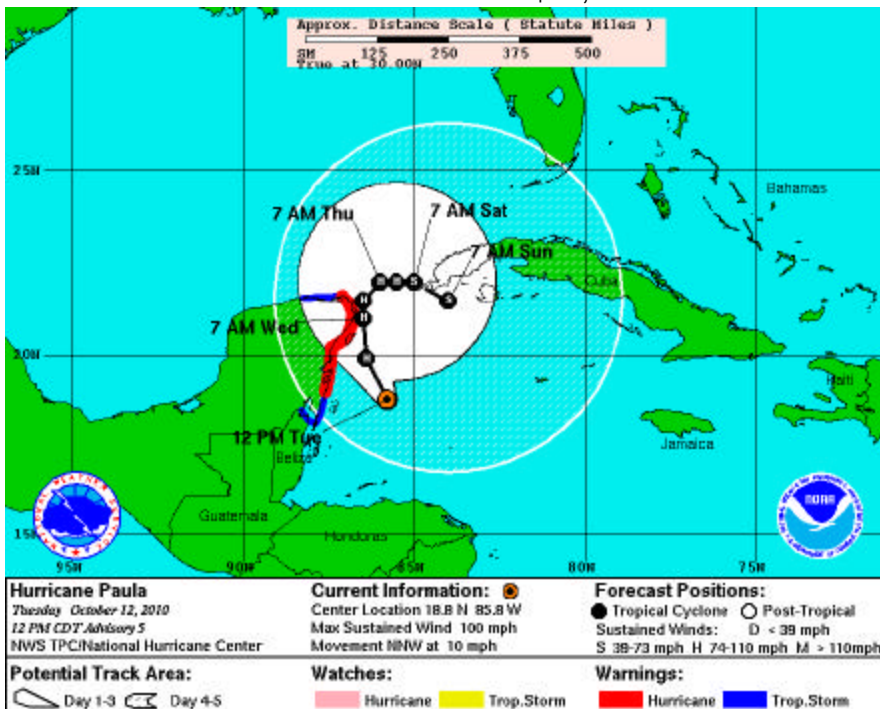
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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 12, 2010

NATURAL GAS MARKET NEWS

The Obama administration today lifted its ban on U.S. deepwater drilling weeks ahead of its November 30th deadline. The Interior Department made the announcement today saying drilling can resume in deep water areas once companies comply with new drilling rules and show they have adequate blowout containment resources. The lifting of the ban, which had been in place since May 27th, will not immediately lead to new drilling according to the director of the Bureau of Ocean Energy. He noted earlier that few drilling permits are likely to be issued in the month after the suspension is lifted as companies work to meet new requirements. The government estimates that the new rules will add \$183 million a year to the cost of drilling on the Outer Continental Shelf. Each new deep-water well that uses a floating rig will cost an additional \$1.42 million. Shallow water wells will see an additional cost of \$90,000.

The NRC reported this morning that some 80,319 Mw of generating output was on line this morning, down 1.1% from yesterday but some 6.7% higher than the same time a year ago.



Tropical Storm Paula was upgraded to a hurricane at midday, as forecasters were surprised to find much stronger than expected winds in the center of the storm when hurricane hunters passed through the eye of the storm. In fact by mid-afternoon forecasters estimated the storm had reached a Category 2 level hurricane. The forecast track of the storm continues to show little threat to the Gulf of Mexico as computer models have the storm drifting between the Yucatan and the western tip of Cuba for the next five days. Drier air and some wind shear just north of the present position of the storm appear will weaken the storm over the next couple of days.

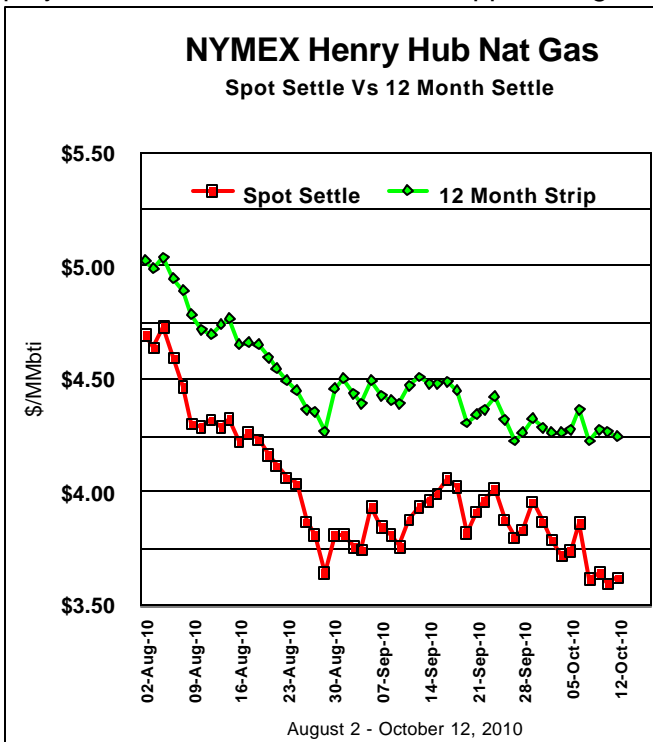
The CEO of Royal Dutch Shell said today the British government should divert investment from offshore wind power to natural gas exploration and production. He noted that "natural gas offers us a

cost effective pathway to secure and clean energy.” He noted it will be impossible to hit 2020 carbon dioxide emission reductions targets without increased use of natural gas in the U.K.. He also noted that using natural gas instead of coal is also a cheaper way to cut emissions than offshore wind. He noted even in the future, electricity from offshore wind will be three and a half times more expensive, for each metric ton of carbon dioxide abated, than natural gas fired electric generation combined with carbon capture and storage.

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	878,600	\$3.397	(\$0.032)	(\$0.163)	\$0.069	(\$0.216)
Chicago City Gate	603,100	\$3.439	(\$0.031)	(\$0.121)	\$0.030	(\$0.167)
NGPL- TX/OK	626,700	\$3.331	(\$0.016)	(\$0.229)	\$0.045	(\$0.286)
SoCal	380,300	\$3.461	\$0.038	(\$0.099)	\$0.099	(\$0.210)
PG&E Citygate	770,500	\$3.836	\$0.009	\$0.276	\$0.070	\$0.157
Dominion-South	550,200	\$3.620	\$0.039	\$0.060	\$0.100	(\$0.051)
USTrade Weighted	19,004,400	\$3.433	\$0.008	(\$0.127)	\$0.07	(\$0.216)

The Qatari LNG tanker Al Dafina appears to be headed toward Brazil rather than the United States despite earlier reports by Reuters that the Q Max tanker was headed toward the United States.

Korea Gas Corp told national legislators it aims to acquire stakes in Australian and Indonesian LNG projects in order to secure stable supplies of gas. The world’s largest LNG buyer said it was in talks to acquire a 15% stake in Santos’ coal seam gas project and a 9.8% stake in Indonesia’s Senoro Toili project. The company is seeking governmental approval for such deals.



Polish gas monopoly PGN1G has completed building a new natural gas mine in Wielichowo in western Poland. The mine will increase Poland’s domestic natural extraction by about 200 million cubic meters to 300 million cubic meters.

Prompt British gas prices firmed today as a result of a significant drop in gas flows into Britain along the Langeled pipeline along with stronger European demand for power and natural gas due to colder weather and strikes in France.

ELECTRIC MARKET NEWS

Coal stockpiles at U.S. power plants rose 2.5% this week but were 18.5% smaller than the same week a year ago.

The Green Exchange announced today that six new firms would provide clearing services for the exchange’s international customer base. Credit Suisse Securities USA, Goldman Sachs, JP Morgan Futures, Morgan Stanley and Newedge USA were all approved as new clearing members. The exchange’s first approved clearing member was BNP Paribas Commodity Futures back in August of this year. The new memberships will take effect upon migration of environmental products from the NYMEX designated contract market to the GreenEx designated contract market January 24, 2011. GreenEx’s largest equity holder is CME Group, with other owners including Evolution Markets, Morgan Stanley, Credit Suisse Group and Goldman Sachs. The new exchange platform will include such products as futures and options contracts on emissions

allowances and credits trading in North American markets, such as those based on nitrogen oxide, sulfur dioxide, the Regional Greenhouse Gas Initiative and the Climate Action Reserve.

ECONOMIC NEWS

The Conference Board said its Employment Trends Index fell to 97 in September from a revised 97.3 in August. The index is up more than 9% from a year ago.

The US Federal Reserve said Fed officials in September believed that further help for the recovery may be needed soon. Fed officials discussed several approaches to aiding the economy but focused on buying additional longer term Treasury securities and ways they could make the public expect higher levels of inflation in the future.



MARKET COMMENTARY

The natural gas market today saw its biggest trading range out of the last three trading sessions but not what one would expect for a day following an inside trading session. Overnight the contract set yet another new contract low before rebounding back toward the \$3.60 level prior to the start of the morning floor session. While the market remained under pressure throughout the morning, the \$3.55 level held which appeared to prompt some profit taking and short covering in the afternoon. While prices settled on either side of unchanged the inability to break above the highs from late last week appear to confirm that this market will remain in its bearish erosion pattern up until Thursday's EIA Storage Report. The 12-month natural gas strip settled at \$4.2482, down 2 cents but still above its lows of last week.

Despite the low risk of Hurricane Paula threatening the Gulf of Mexico, its presence in the region may be sufficient to support this market and prevent bears from summoning sufficient selling pressure to threaten and test the \$3.50 support level before Thursday's EIA Storage report is released. While we continue to look for a breach of the \$3.50 level in the next couple of weeks as a result of bears seeking to touch off a selling spree as naked sellers of the November \$3.50 puts are forced scramble to cover

those positions, we are closely watching the March April spread as it appears to be approaching a break out situation from its recent descending triangle formation, which if it breaks to the upside might lend enough technical support to flat prices to get to expiration day without a serious challenge.

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