



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 27, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center this afternoon was watching three low-pressure areas in the Atlantic. The first is some 1200 miles northwest of the Cape Verde Islands. This area of disorganized showers and thunderstorms has begun to show some surface circulation that became a bit better defined today as upper level winds appear to become a bit more favorable for development over the next day or two. Forecasters assigned a 30% probability it could become a tropical cyclone during the period as it remains basically stationary. But this system is seen as never being a threat to land as it will eventually move northward and remain at sea. The second system is an area of disorganized thunderstorms and showers associated with an upper level and surface trough some 650 miles east northeast of the northern Leeward Islands. Environmental conditions could become more favorable for development over the near term and there was a 20% chance it could become a subtropical or tropical cyclone over the next 48 hours. The third system is a

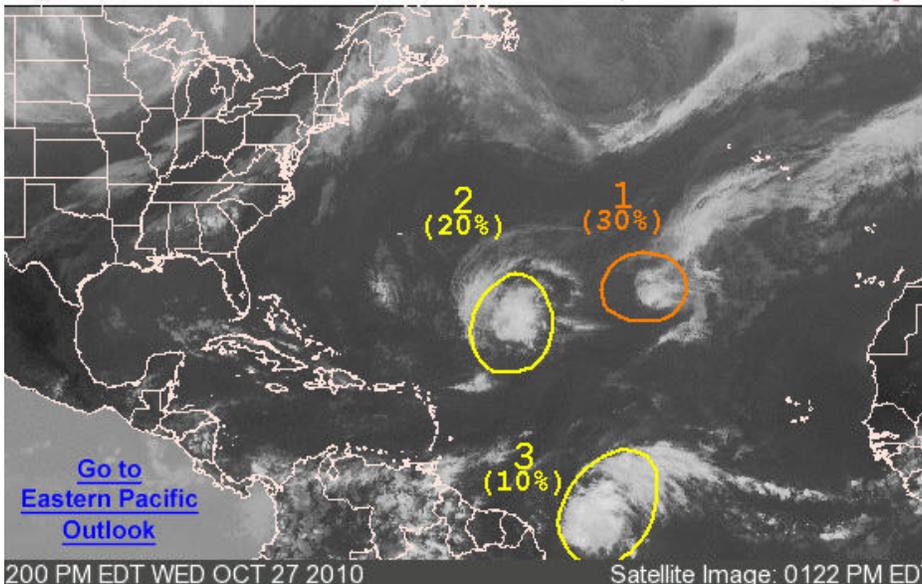
The NRC reported today that some 80,012 Mw of generating capacity was online today, up 0.7% from yesterday, but some 9.8% higher than the same day a year ago.

vigorous tropical wave located over the central tropical Atlantic some 1200 miles east southeast of the Windward Islands. Upper level winds are forecast to become more conducive for some slow development over the next couple of days as forecasters gave it only a 10% chance it could become a tropical cyclone during this time frame. But this is the system that forecasting models continue to point to as developing into a potential named storm next week. The system is seen tracking over Trinidad and into the eastern Caribbean during Saturday. The models though disagree on the path of this potential tropical cyclone after that.



Graphical Tropical Weather Outlook

National Hurricane Center Miami, Florida



200 PM EDT WED OCT 27 2010

Satellite Image: 0122 PM EDT

Outlined areas denote current position of systems discussed in the Tropical Weather Outlook. Color indicates probability of tropical cyclone formation within 48 hours.

Low <30% Medium 30-50% High >50%

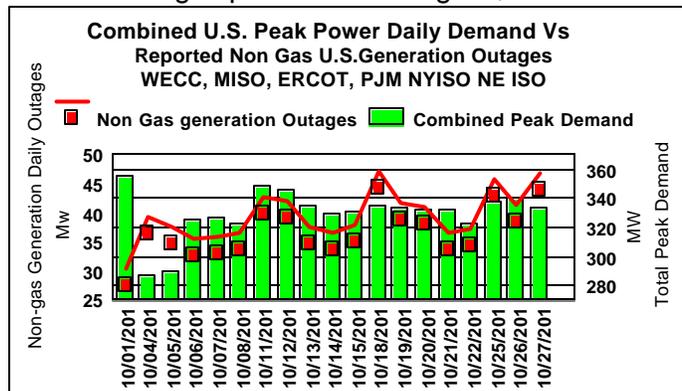
The GFS model has this system then tracking northward and becoming absorbed into an intense

coastal storm off the coast of North Carolina at midweek. The European model has the system moving between Jamaica and Panama and being in the southwest Caribbean by next Thursday, while the Canadian model has the system passing by Puerto Rico and Haiti before moving through the Bahamas and being absorbed into the coastal storm later next week.

The CEO of ConocoPhillips said today that the current level of prices for natural gas in North America are unsustainable. The company announced it is

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	613,800	\$3.367	\$0.089	\$0.024	\$0.133	(\$0.026)
Chicago City Gate	623,700	\$3.608	\$0.105	\$0.266	\$0.107	\$0.144
NGPL- TX/OK	835,800	\$3.315	\$0.101	(\$0.028)	\$0.103	(\$0.124)
SoCal	420,200	\$3.369	\$0.218	\$0.027	\$0.220	(\$0.139)
PG&E Citygate	736,800	\$4.003	\$0.070	\$0.661	\$0.072	\$0.571
Dominion-South	534,100	\$3.532	\$0.118	\$0.190	\$0.120	\$0.060
USTrade Weighted	21,067,400	\$3.434	\$0.131	\$0.092	\$0.13	(\$0.026)

planning on natural gas curtailments of 20,000-30,000 boe per day in the fourth quarter. The company reported that late in the third quarter it had initiated production curtailments of approximately 180 million cfe/d in North America in response to continuing low natural gas prices. The company would look to make additional natural gas curtailments if they could but some partners want to grow production. But the company reported it has continued its focus on the liquids rich Eagle Ford, Bakken and North Barnett shale plays, further accelerating appraisal and development drilling programs, with production ramping up in the third quarter. In Eagle Ford the company has nine rigs currently active, with 15 wells successfully drilled and eight completed in the play during the third quarter. The company expects the pace of activity to continue to increase in the fourth quarter of 2010. Internationally the company has completed a second well in Poland testing a possible shale play there. The company next year also expects to increase spending on LNG projects in Qatar and Australia. The CEO said he sees natural gas prices recovering to \$5 mcf over time.



Russian Prime Minister Putin said today that Russia remains ready to continue in talks with the Ukraine on a new gas supply agreement, but no new gas deal was reached as the Russian prime minister met with his Ukrainian counterpart today. Russia will only agree to a price discount it appears for the Ukraine if the Ukraine gives it access to holding a stake in its gas pipeline network.

The Iranian News Agency reported today that Iran has resumed gas exports to Turkey after a 10 day halt due to repairs to the Bazargan gas export station which is located on the Iranian/Turkish border. This was the third time during the last four months that the export line has seen a disruption. Iran exports some 10 bcm of natural gas annually to Turkey.

The Iranian News Agency reported today that

Gassco reported today that capacity at the Norwegian Kollsnes gas processing plant would be limited to between 80-120 million cubic meters per day for an undetermined period. The firm since September 27th had limited capacity to 120 mcm per day, from a normal capacity of 143 mcm. The company again noted it hoped to restore capacity at the facility to normal levels but declined to give a fix date.

BP's joint venture TNK-BP is expected to sign a memorandum on shale gas exploration in the Ukraine shortly. The TNK-BP will explore for gas in Ukraine's eastern Donetsk region. The company reportedly

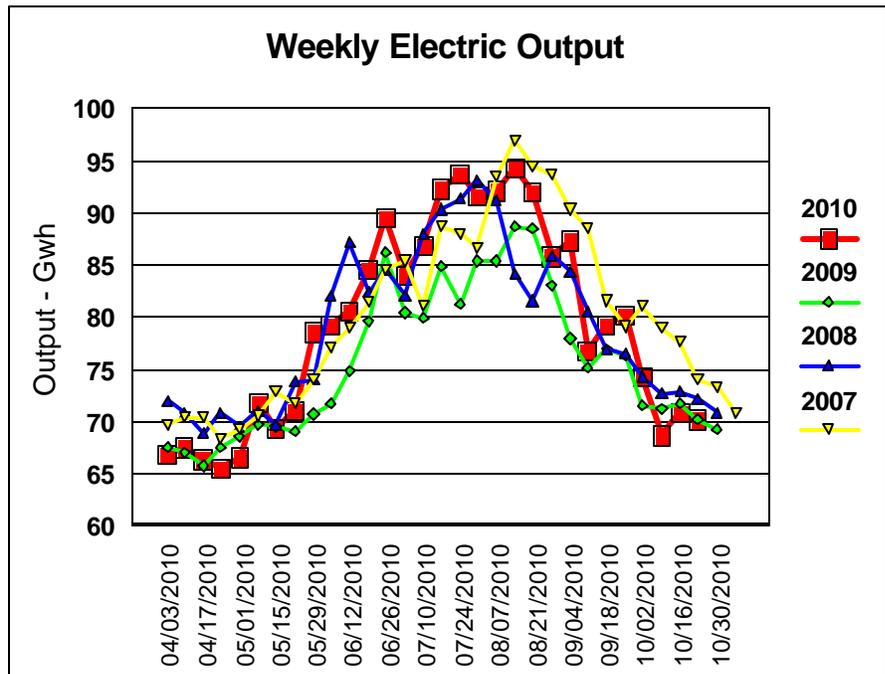
will invest between \$1billion and \$2 billion into the project over the next 25 years if conditions are "favorable". The company is hoping to produce some 5 bcm of shale gas in 5-7 years.

ELECTRIC MARKET NEWS

The Edison Electric Institute reported today that power production in the United States for the week ending October 23rd reached 70,093 Gwh down 1.1% from the previous week but only 0.2% less than the same week a year ago. For the first 43 weeks of 2010, electric production in the United States has average 4.1% more than the same time a year ago.

The NERC released a study on Tuesday that found four possible EPA rules could "accelerate the retirement of a significant number of fossil fuel-fired power plants." Utilities may have to replace or make efficiency gains

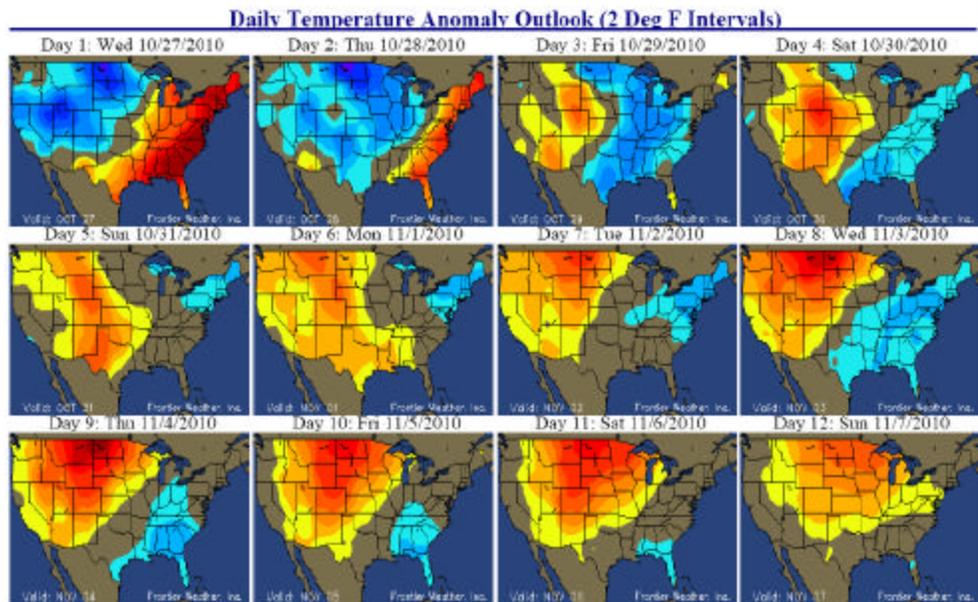
for up to 70 gigawatts or about 7% of U.S. power generation by 2015. The EPA Wednesday disputed these findings though saying the report by the industry group relied on faulty assumptions. The EPA noted that the two rules that the NERC said would have the most impact on utilities, cooling water intake structures and pollution from power plants, have not been officially unveiled by the EPA. The EPA said it would be "sensitive" on reliability issues as it developed rules.



ECONOMIC NEWS

The U.S. Commerce Department this morning reported that overall orders for durable goods jumped by more than expected, rising by 3.3%, the largest increase since January, lifted by a surge in aircraft orders. But if transportation orders are excluded the index would have declined by 0.8% after increasing by 1.9% in August and there had been a market expectation of a 0.5% gain on the month.

The Commerce Department also reported sales of new single-family homes rose a seasonally adjusted 6.6% in September

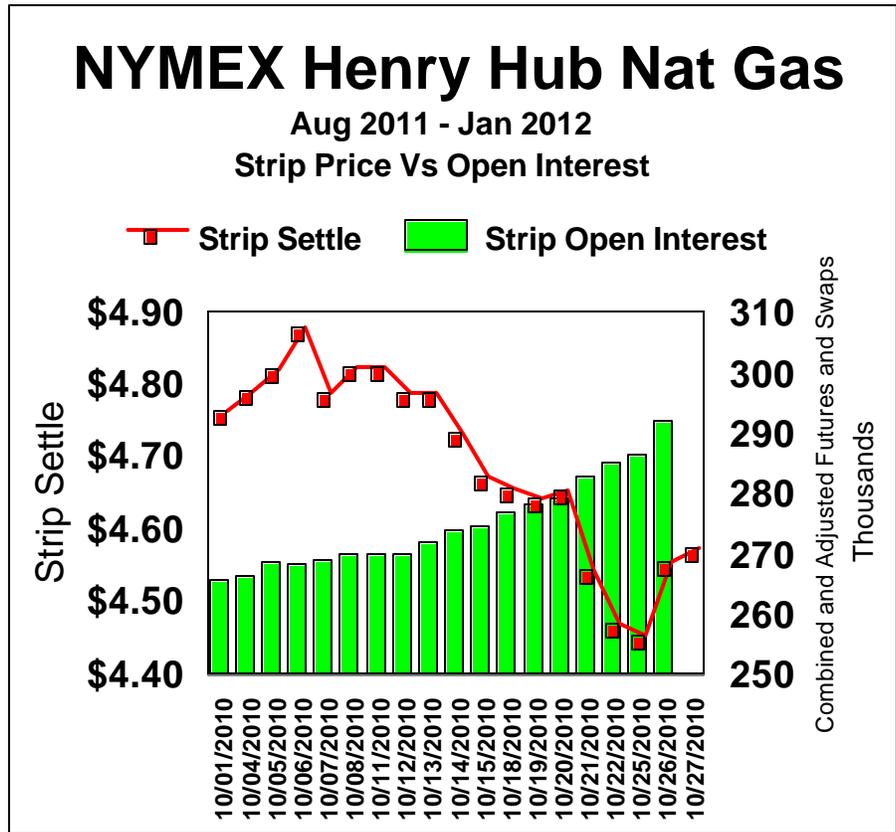


MARKET COMMENTARY

It appeared that the expected uptick in heating demand for the next seven days was counter balanced by the 8-14 day forecast, which called for moderate temperatures for much of the nation. As a result the expiring November contract spent a relatively quiet session for most of the day. While prices spiked lower at the start of the closing session by nearly a dime setting yet another new contract low, prices did rebound and the contract went off the board settling at \$3.292 down 6.2 cents on the day. The other contract months saw a mixed session with the December contract down just 0.3 cents while the back months were up anywhere from 0.1 to 2.7 cents. As a result the 12-month strip was able to settle up for the second straight session at \$4.131.

With December starting out tomorrow as the new spot contract there may be a bit of a tug lower on prices to back fill the gap in the spot continuation chart caused by the rolling to a new contract month. We would see initial support starting at \$3.711, \$3.671 and \$3.63. Additional support we see at \$3.50, \$3.391 and \$3.301. Resistance we see at \$3.87-\$3.88, \$3.954, \$4.093, \$4.144 and \$4.207.

It is interesting to note that the August 2011-January 2012 strip has attracted what appears to be buying interest over the past couple of days as the strip value has gained over 12 cents in the past two days and has also seen growing open interest in the futures and swap contracts on NYMEX. Open interest in the contracts has grown by nearly seven thousand contracts over the first two days this week.



Market expectations for tomorrow's EIA storage report appear to be running between a 65-80 bcf build with most expectations centered around 72-75 bcf build. For the same week a year ago stocks built by an adjusted 24 bcf while the five year seasonal average shows a 45 bcf build.

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