



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 9, 2011

NATURAL GAS MARKET NEWS

North America

The CEO of Chesapeake Energy said that government and industry leaders need to adopt policies targeted at developing demand for natural gas to take advantage of the country's shale plays. He said that he expects demand for gas to increase as the US exits the current recession and industrial demand increases as coal-fired plants are retired. The CEO also estimated that the cost to build a nation wide network of natural gas fueling stations would be about \$2 billion.

Generation Outages

SERC - The 860MW Southern Co's Unit 2 at the Farley nuclear power plant began to exit a refueling outage and increased power to 3% early on Wednesday. The plant had been shut since October 9th.

The NRC reported this morning that some 82,631 Mw of nuclear generation was online, up 0.01% from yesterday and up some 4.06% from the same day a year ago.

The Senate Energy Committee held its first hearing on LNG since 2005 on Tuesday to discuss the risks of rising domestic natural gas prices as it considers allowing more exports. Some lawmakers fear that an increase in exports of the natural resource will have a detrimental effect on the domestic consumer.

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	1,016,800	\$3.551	\$0.133	(\$0.117)	\$0.087	(\$0.189)
Chicago City Gate	705,300	\$3.816	\$0.097	\$0.148	\$0.119	(\$0.062)
NGPL- TX/OK	829,300	\$3.483	\$0.087	(\$0.185)	\$0.109	(\$0.370)
SoCal	516,800	\$3.793	\$0.031	\$0.125	\$0.053	(\$0.010)
PG&E Citygate	926,100	\$4.025	\$0.020	\$0.357	\$0.042	\$0.273
Dominion-South	594,300	\$3.691	\$0.127	\$0.023	\$0.149	(\$0.191)
USTrade Weighted	23,034,800	\$3.639	\$0.065	(\$0.029)	\$0.09	(\$0.189)

The IEA said that long-term gas supplies will start to be tied to the spot gas price instead of a pricing system based on the indexation of oil prices. The IEA said the reasoning for the shift in payment structure that dates back to the 1960's

can be attributed to an expected increase in oil prices while gas prices face downward pressure. The move will also allow for more flexible pricing for customers.

International

Shell formed a partnership with Britain's SSE to install carbon capture and storage (CCS) technology at the SSE's 385MW Peterhead gas-fired plant. Shell plans to then store the CCS at its Goldeneye offshore gas field. The move comes as Britain is attempting to cut greenhouse gas emissions by 34% below its 1990 levels by 2020.

Gazprom announced that it has increased its estimate for gas sales to Europe next year by 8% to 164 bcm. The company expects to ship 152 bcm to Europe this year up from 138 bcm in 2010 when it supplied Europe with a quarter of its gas needs.

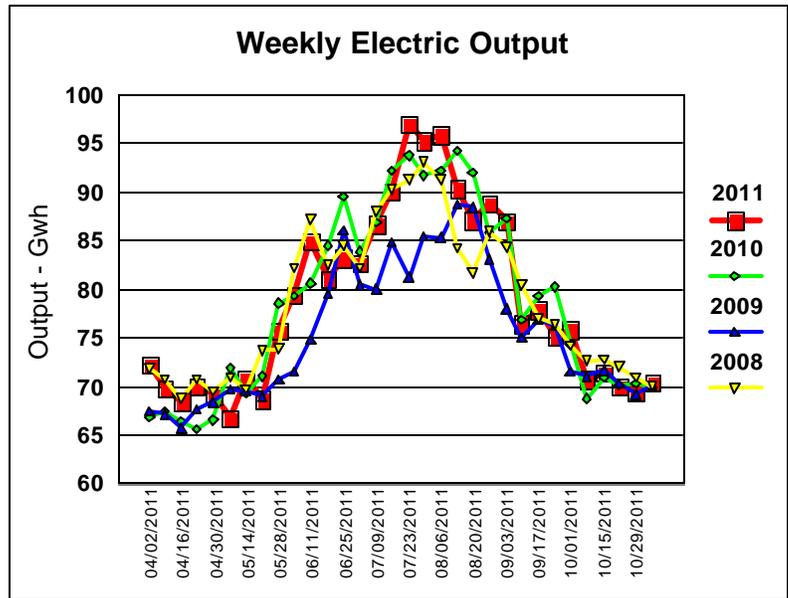
Gazprom officials said a supply agreement will not be signed with China this year. The announcement may delay Russian plans to ship 68bcm a year to China by 2016. In another report it was announced

that Russia will be the world's largest gas producer in 2035 and gas exports should increase to 330 bcm a year.

The State Oil Company of Azerbaijan Republic announced that it is ready to export gas to Iran when Iran is ready. Azerbaijan currently exports 400 million cubic meters of natural gas per year.

Iran's gas output is expected to reach 1.47bcm/d by 2015 from its current output of 630-650 million cubic meters per day. Iran will boost production capacity from its jointly owned fields with Saudi Arabia and Qatar.

Ruhrgas discovered oil and natural gas reserves in the Rhourde Yacoub field in Algeria. The company bought a 49% stake in the field during a bid round in 2009, the remaining stake is owned by Algerian state energy firm Sonatrach.



The first-phase of PetroChina's LNG project in the Jiangsu province has come online and is supplying 4.8 bcm of gas to both industrial and residential users in the Yangtze River Delta region. The first phase of the project will be able to provide 2.2 mpta to consumers and could replace coal consumption by 6.4 million tons and reduce emissions of carbon dioxide by 15.7 million tons. The project has so far cost 6.3 billion yuan. The second phase is expected to increase gas supply to 8.7 billion cubic meters.

Electric Market News

The Dalles Dam on the Columbia River in Oregon's projected water runoff at 98 percent of normal for the January through July period as of November 8th.

Economic News

The US Commerce Department reported that wholesale inventories declined in September for the first time since 2009 as sales slowed. It reported that inventories of US wholesalers declined by 0.1% to a seasonally adjusted \$462.05 billion, the first decline since a 0.8% decline in December 2009. In August, inventories increased a revised 0.1%. The inventory to sales ratio remained at 1.15.

China's official Xinhua news agency reported that the country's industrial output increased by 13.2% in October from a year earlier, falling from September's 13.8% increase. It reported that retail sales increased 17.2% in October while fixed asset investment increased 24.9%.

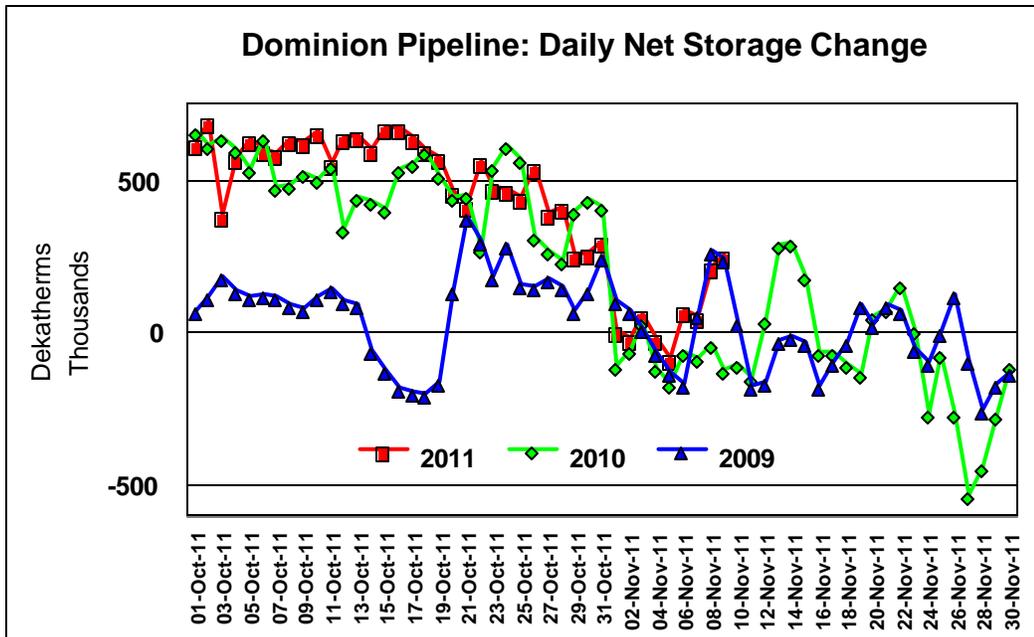
Greece's statistics service reported that industrial output in September fell by 1.7% on the year following a 11.7% decline in August.

European Commission President Jose Manuel Barroso warned about the economic costs of any splits in the euro zone and urged Germany to show leadership in solving Europe's escalating debt crisis. He said Germany's GDP could contract by 3% if the 17 member euro zone lost a few members. He said any push towards deeper economic policy integration in Europe should not come at the price of creating new divisions among EU member states.

Market Commentary

The natural gas market remained mostly range bound ahead of the release of the EIA natural gas storage report release on Thursday. The market's gains remain limited by the weather forecasts calling for above normal temperatures in the East Coast and continued concerns over rising inventories. The market posted a high of \$3.763 in overnight trading and traded mostly sideways. The natural gas market however erased yesterday's gains as it sold off to a low of \$3.648 in afternoon trading.

It settled down 9.3 cents at \$3.652 amid expectations of increasing natural gas inventories.



Market expectations for tomorrow's release of the EIA natural gas storage report is for a build of 32 bcf. Natural gas inventories built by 26 bcf in the same week last year and built by 23 bcf on average over the past five years.

The natural gas market is seen remaining pressured by signs of increasing oversupply and lingering warm weather impacting demand. Resistance is seen at \$3.675, \$3.71, \$3.727, \$3.759 and its high of \$3.763. Further resistance is seen at \$3.803 followed by \$3.842 and \$3.863. The market is seen finding support at its low of \$3.648, followed by \$3.612, \$3.573 and \$3.497.

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