



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JULY 5, 2011

#### NATURAL GAS MARKET NEWS

##### North America

The U.S. Climate Prediction Center this morning said it estimated that for the week ending July 9, 2011 it expects some 90 cooling degree days for the nation on a population weighted basis, some 30% warmer than normal and basically 2% warmer than the same week a year ago. For the week ending July 2, 2011, there was some 68 CDD some 3% warmer than normal and unchanged from the same week a year ago.

##### Generation Outages

**NPCC** – OPG’s 490 Mw Nanticoke coal fired power plant returned to service over the weekend. The unit had been shut on June 28<sup>th</sup> for maintenance.

**PJM** – PSEG’s 1158 Mw Hope Creek #2 nuclear unit which was restarted Friday has continued to ramp back up and was at 50% power this morning.

**ERCOT** – AEP’s 675 Mw Pirkey coal fired power plant underwent online maintenance yesterday and today following a weekend lightning strike at the facility.

**MISO** – Xcel Energy’s 551 Mw Prairie Island #1 nuclear unit was shut late Friday afternoon in order to fix a oil leak on a turbine valve. The unit was back at full power this morning though.

The NRC reported this morning that some 94,177 Mw of nuclear generation was online, up 0.2% from yesterday and 2.3% below levels recorded a year ago.

Forecasting models appear to be point to a relatively quiet week for the tropical Atlantic basin as none of the current tropical waves or areas of low pressure are expected to move through areas that would be conducive for additional development.

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	726,900	\$4.404	\$0.074	\$0.096	\$0.176	\$0.031
Chicago City Gate	589,600	\$4.457	\$0.107	\$0.149	\$0.160	\$0.061
NGPL- TX/OK	809,500	\$4.342	\$0.086	\$0.034	\$0.139	(\$0.063)
SoCal	550,100	\$4.554	\$0.157	\$0.246	\$0.210	\$0.107
PG&E Citygate	754,400	\$4.686	\$0.090	\$0.378	\$0.143	\$0.269
Dominion-South	1,001,000	\$4.503	\$0.147	\$0.195	\$0.200	\$0.087
USTrade Weighted	20,228,700	\$4.450	\$0.123	\$0.142	\$0.18	\$0.031

A subsidiary of DTE Energy has signed a long term agreement with a unit of Southwestern Energy Company to build and operate a natural gas gathering system to carry

output from the producer’s Marcellus Shale operations to the Millennium Pipeline in Broome County, NY and the Tennessee Gas Pipeline in Susquehanna County, PA.

Analysts at Raymond James noted in their recent research note to clients that as a result of this past winter’s high demand and a stronger than normal cooling demand in June, much of the supply overhang in the natural gas market has been erased and as a result it was raising its 2011 gas price forecast.

Pipeline operator Energy Transfer raised its bid for rival Southern Union by 21% to approximately \$5 billion as it seeks to win its bidding war with Williams Companies for the pipeline company.

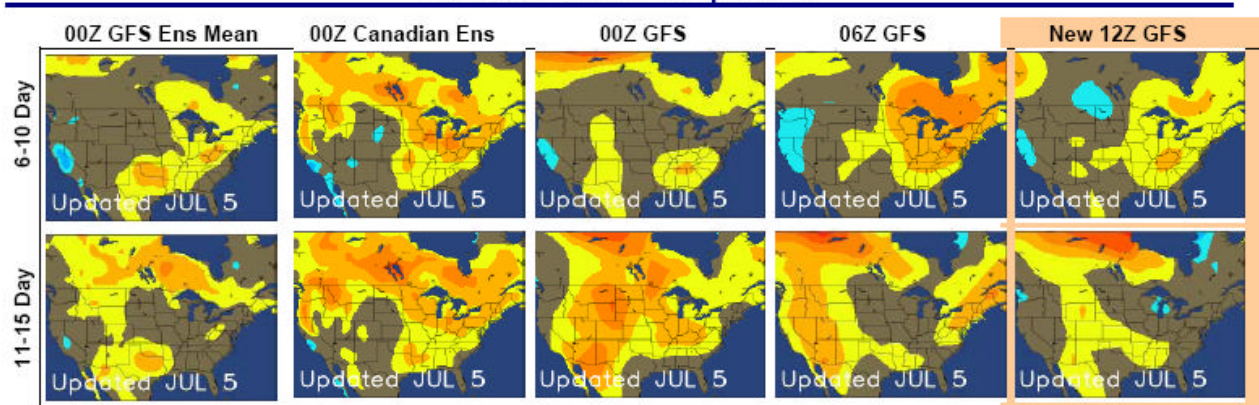
The Department of Energy reported today that U.S. imports of LNG fell 12% in May when compared to the same month a year ago. Imports in May were 32.3 bcf down from the 36.8 bcf imported in May 2010. Imports in April were estimated at 33.1 bcf, down 20% from a year earlier. Of the twelve cargoes imported in May, four were offloaded at the Golden Pass terminal in Texas, three at Elba Island and three at the Neptune terminal in Massachusetts. May natural gas prices in the U.S. averaged some \$4-\$5 lower than British spot natural gas prices. Also in May three cargoes were re-exported from the United States, with one going to Brazil, one to India and the third to Japan.

**International**

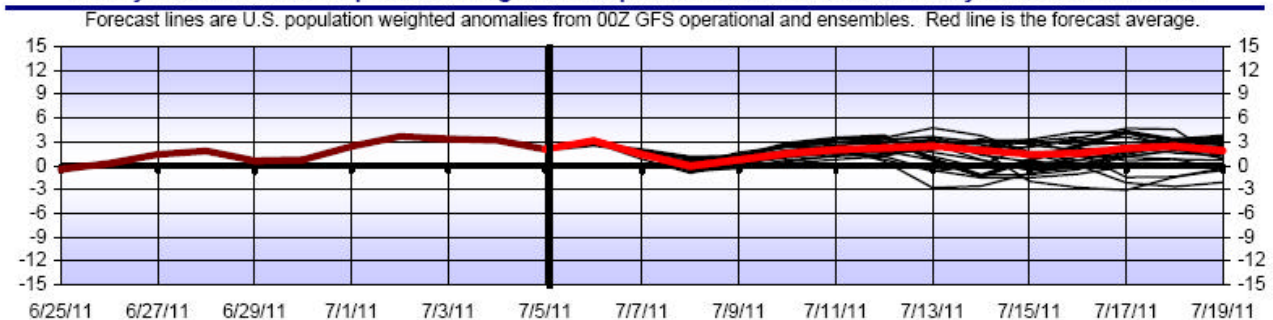
Planned maintenance work on BP's North Sea Bruce oil and gas field is expected to last a few more days. The field was shutdown on June 28<sup>th</sup> and was originally scheduled to be out of service for one week. Exports from the field move through the Frigg pipeline.

German industrial gas prices gained 24.1% to 4.07 euro cents (\$0.1589) a kilowatt hour in the 12 months to June 2011, an annual survey released by consultants NUS showed. Germany was the fourth most expensive survey of 16 nations, it noted. Prices in all countries except the US. and Canada were more expensive, with the Netherlands, Finland and Portugal reporting hikes by over 30 percent in the year. Prices in many markets in the previous 12 months had fallen as there was a supply overhang due to economic crisis. Suppliers to Europe, notably Russia, had to make concessions to customers to allow prices for big volumes to be set according to spot hubs, rather than being tied to the price of oil. But since then, the price of oil has increased, due to political crises, in North Africa and the Middle East—among other reasons—and this has impacted on gas.

**Forecast Model Comparison**



**10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast**



Qatari LNG tanker Al Areesh, which has a 152,000 cubic meters capacity, is expected to arrive at Belgium's Zeebrugge terminal on July 20, according to the port authority. The Al Huwaila LNG tanker, arriving from Qatar, is scheduled to unload at the terminal on July 23.

Centrica restarted production at its North Sea South Morecambe gas field on July 1, a spokesman said on Tuesday, more than two months after it was idled due to unprofitable margins following a rise in North Sea oil and gas tax rates. The UK Treasury announced on Tuesday it will boost tax support for North Sea oil and gas production.

The Russian Ministry of Economy suggests slowing down the growth in natural gas prices for industrial consumers between 2012 and 2014, the Interfax news agency reports Tuesday citing Deputy Economic Minister Andrei Klepach. In 2012, the gas prices may rise by 6% against the 15% approved earlier, Klepach said. In 2013, the rate may grow by 5.5% instead of 15% and in 2014 by 5% instead of 15%, the official said. Klepach said Russia's Economy Ministry is set to offer to cap domestic gas price rises at 12.5 percent in 2012.

Poland's competition authority UOKiK will investigate whether the country's gas delivery monopoly PGNiG is not abusing its position in the retail market, the watchdog said on Tuesday. UOKiK said that its analysis of PGNiG, which controls 98 percent of the gas retail market in Poland, showed that the state-controlled company may make it difficult for its largest clients to cancel delivery contracts.

Thailand's PTT said on Tuesday it planned to import a fifth and sixth shipment of LNG totaling a combined 140,000 tons in August to help ease a gas shortage caused by a leak in the offshore pipe. Each shipment will contain 70,000 tons of LNG according to the company's senior executive VP for its gas business. Earlier, state-controlled PTT said it expected its offshore gas pipelines to run as normal in the middle of August.

### **ELECTRIC MARKET NEWS**

Nuclear reactors at the Kyushu Electric's Genkai nuclear power plant are expected to be the first nuclear reactors to be restarted since the March earthquake. The restart is awaiting only the final approval from the local prefecture's governor. Currently only 19 of the country's 34 nuclear reactors are operating. Meanwhile on Friday the Japanese Meteorological Agency said that they expect most regions in Japan are likely to experience above-average temperatures through July.

US energy regulators have agreed with power grid operator Midwest ISO's (MISO) contention that an agreement with neighboring grid Southwest Power Pool (SPP) allows MISO to use SPP transmission lines to integrate Entergy Corp's Gulf Coast utilities into MISO. Over the past year or so, MISO and SPP have competed to convince Entergy utilities in Texas, Louisiana and Mississippi and Arkansas to join their grids. In April, Entergy picked MISO even though the two systems have only a few transmission links. MISO said a joint operating agreement with SPP allows MISO to use some lines in SPP to integrate Entergy. SPP, which currently oversees Entergy's Gulf Coast transmission system under an independent coordinator of transmission contract, disagreed. On Friday, the US Federal Energy Regulatory Commission (FERC) issued a declaratory judgment agreeing with MISO's interpretation of the joint operating agreement. "FERC's confirmation of our understanding of the joint operating agreement is consistent with past practices and daily operations on our seams. This also eliminates confusion concerning connectivity issues related to Entergy's planned integration into MISO's market operations," said John Bear, president and CEO of MISO.

### **ECONOMIC NEWS**

The US Commerce Department said US orders for manufactured goods increased by 0.8% on the month to \$445.29 billion in May. The increase was slightly less than expected amid a sluggish economy.

European services growth slowed in June in the face of sluggish new orders and increasing interest rates. The euro zone service sector grew at its weakest pace since October with an unexpectedly deep contraction in Italy and smaller euro zone countries. Markit revised down sharply its June PMI to 53.7 from 54.2, which is down from 56 in May. In Britain, the Markit services purchasing managers index showed growth was still not strong enough to generate any meaningful increase in employment. The Markit/CIPS headline services PMI index increased to 53.9 in June from a three month low of 53.8 in May.

The European Union's statistics office Eurostat said month on month volumes of retail sales fell by 1.1% in the euro zone in May.

Moody's said China's local government debt may be 3.5 trillion yuan or \$540 billion more than auditors estimated. There are concerns that slower growth in China's economy could set off a wave of loan defaults and impact its banking system.

Moody's Investors Service cut Portugal's credit rating by 4 levels to Ba2, two levels into junk territory. It said there is great risk the country will need a second round of official financing before it can return to capital markets.

### **MARKET COMMENTARY**

The natural gas market posted an outside trading session today as buyers returned to the market this morning supported by a stronger cash market as industrial demand returned following the three day holiday period. Buyers also found comfort in weather forecasts that showed the prospects for stronger than normal cooling demand and a stronger oil market as well. But the upside potential for the market seemed to be limited as nuclear generation levels continued to return to more seasonal levels and the tropics appeared would remain quiet this week. As a result the price rally from the morning seemed to stall by midday and prices retraced about half of the day's gains and by the close settled up only a nickel for the day.

This market appears to once again be settling into a trading range that was first demonstrated back in May, with the August contract basically trading between \$4.20-\$4.45. This is a price range that again has been demonstrated over the last two weeks and unfortunately we do not expect this market has the momentum to break out of this trading range without a significant tropical threat to the Gulf of Mexico.

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