Gulf of Mexico

PowerNews
Energy Update
July 19, 2010

Track Key Energy Trends Using PMC Charts:

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POWER MANAGEMENT COMPANY

PowerNews ENERGY UPDATE
POWER MANAGEMENT COMPANY
July 19, 2010
ENERGY MASTERED

Natural Gas Prices Stirring

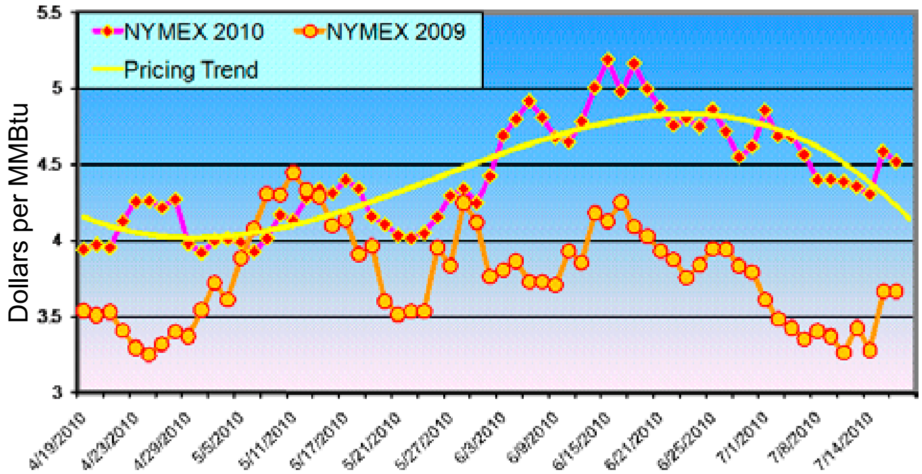
Hot weather is trying to stir the price pot on both the spot and futures markets for natural gas, while supply and demand is holding back.

Futures prices on CME/NYMEX were slightly up for the week but down for the month. The near term contract for August closed at $4.52 per mmbtu, up 12 cents for the week and down 53 cents over the past four. The September contract also finished at $4.52 per mmbtu on Friday, up 10 cents for the week and down 56 cents for the month. The 12 month strip settled at $4.94 per mmbtu on July 16, down 4 cents for the week and 41 cents since June 18. Last year, August and September contracts were selling at $3.67 and $3.82 at this time. The 12 month strip was earning $5.04 per mmbtu.

Prices on the spot market bounced around a bit before settling both up and down. The Henry Hub closed at $4.67 per mmbtu on Friday, up 32 cents for the week and down 50 cents over the past four. The New York citygate settled at $5.12 per mmbtu on July 16, up 32 cents for the week and down 40 cents since June 18. Last year, spot prices were selling at $3.39 and $3.65 per mmbtu.

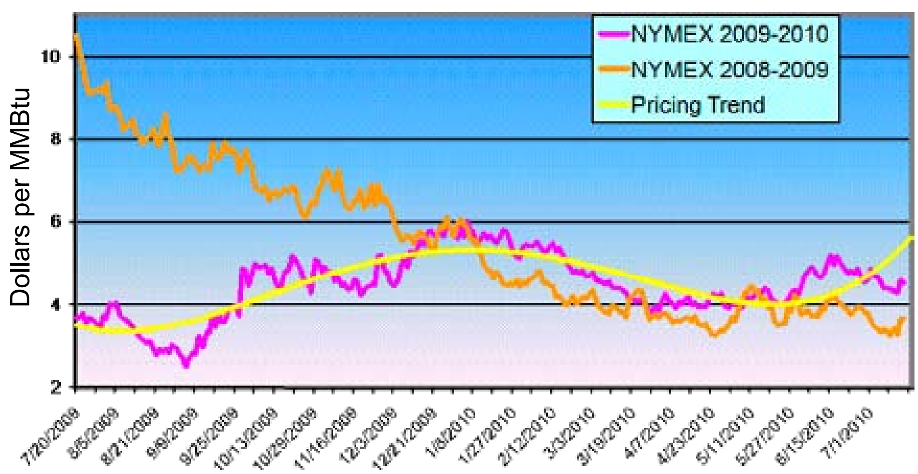
While pipeline imports from Canada are down, onshore production continues to hum along. When you couple that with large inventories, even hot weather is having a hard time moving the market steadily up. (Prices from bloomberg.com; nymex.com)

3-month View of NYMEX Natural Gas Futures vs. NYMEX Previous Year Historical Prices 4/19/10-7/16/10



Near term natural gas futures closed at $4.52 per mmbtu on July 16, $0.85 above last year at this time.

12-month View of NYMEX Natural Gas Futures vs. NYMEX Previous Year Historical Prices (7/20/09-7/16/10)



Natural gas futures have been running about 75 cents above 2009 for the last six weeks.

Natural Gas Storage Still Grows

Even with sweltering temperatures across the US, natural gas inventories continue to expand.

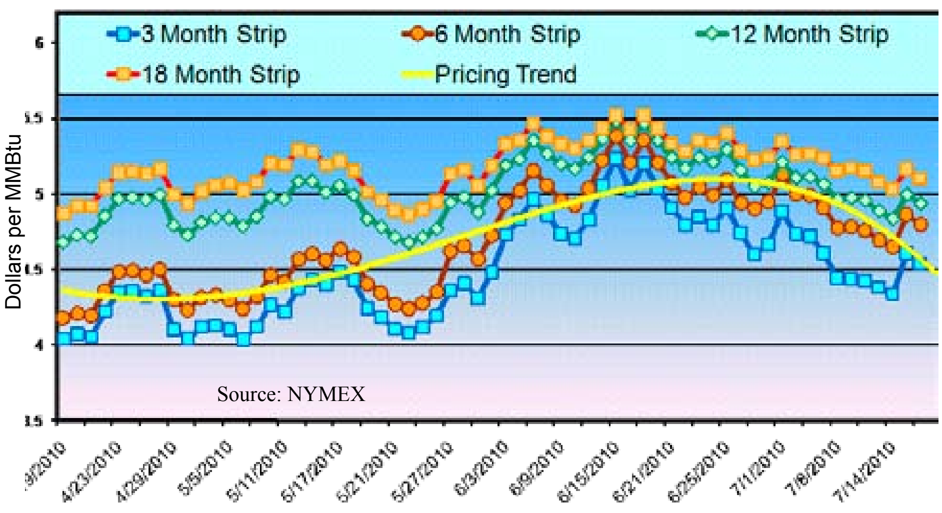
US working gas in underground storage stood at 2840 billion cubic feet (Bcf) on July 9, according to the latest Energy Information Administration (EIA) Weekly Storage Report. The net gain for the report week was 78 Bcf. The five year average injection is 89 Bcf. Last year, 88 Bcf were also added at this time.

The latest injection mirrors the 78 Bcf added July 2, putting inventories 10.7 % above the five year average and 1.1% lower than last year for the week. Expressed as volume, current inventories are 274 Bcf above the five year average and 33 Bcf lower than last year at this time. Overall, stocks have grown by 1225 Bcf since March 19.

Spot price at the Henry Hub closed at $4.67 per mmbtu on July 16, 13 cents above the August through October futures strip. High reserves will continue to

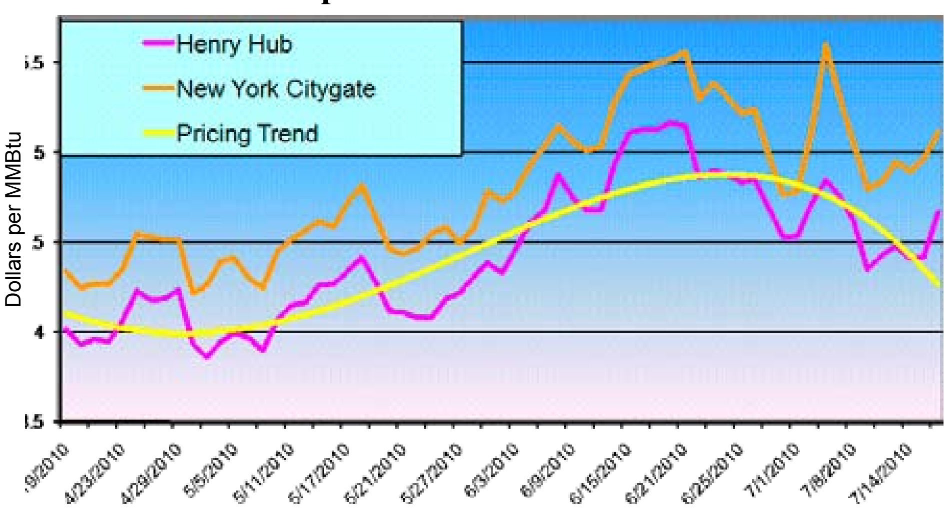
More on P. 3

3-Month Trend for Natural Gas Futures Strip 4/19/10-7/16/10



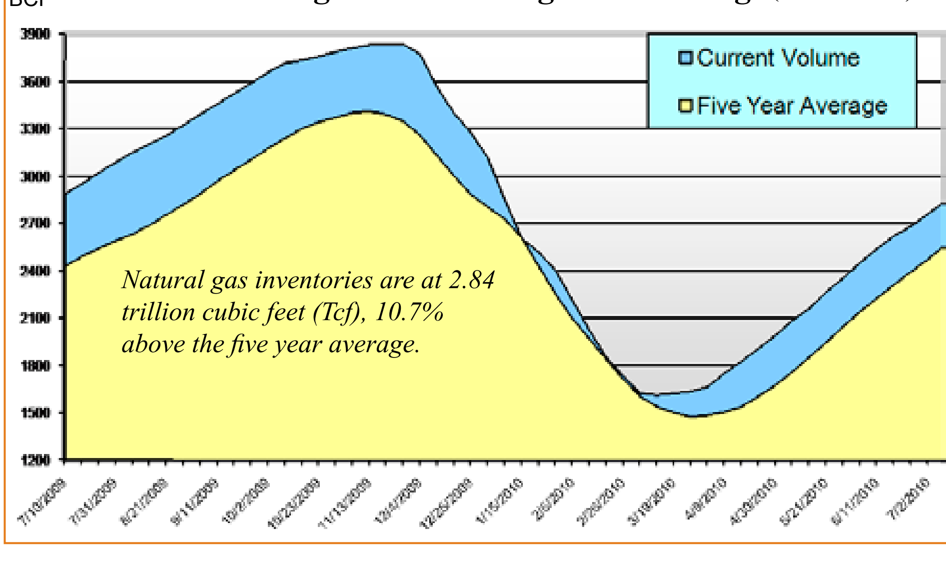
Natural gas futures strips show a net decline of 41 cents per mmbtu since June 18.

3-Month Trend in Spot Prices for Natural Gas 4/19/10-7/16/10



Natural gas spot prices show a net decline of 45 cents per mmbtu since June 18.

12-Mos. Working Gas in Underground Storage (7/10/09-7/9/10)



Natural gas inventories are at 2.84 trillion cubic feet (Tcf), 10.7% above the five year average.

be the key influence on price points until demand takes off.
(July 15, 2010 EIA Weekly Natural Gas Storage Report)

Day Ahead Electric Kinetic

The most volatile two week period of the year has bounced prices on the Day Ahead market for electricity in many directions.

Prices on the New York market show a net decline for the week and gain for the month. At NYISO A, peak daily prices averaged $53.66 per megawatthour (mwh) on July 16, down $10.97 for the week and up $6.44 since June 18. NYISO B averaged $57.09 per mwh on Friday, down $11.70 for the week and up $8.01 over the past four. NYISO C averaged $59.59 per mwh, down $11.72 for the week and up $9.08 for the month.

Prices at PJM and New England are up a little and a lot. PJM averaged $86.98 per mwh on July 16, up $1.07 for the week and $30.37 since June 18. New England averaged $97.09 per mwh on Friday, up $10.45 for the week and $39.97 for the month.

Last year at this time, day ahead electric was selling in the $27 to $46 range. Warm weather for the coming week should keep this market unsettled. (NYISO)

Short Term Outlook Stable

As we move into the second half of 2010, the Energy Information Administration (EIA) projections for the year remain about the same.

In its Short Term Energy Outlook of July 8, EIA projects total natural gas consumption to average 64.7 billion cubic feet per day (Bcf/d), down a slight 0.2 Bcf/d from the June number. EIA forecasts a healthy

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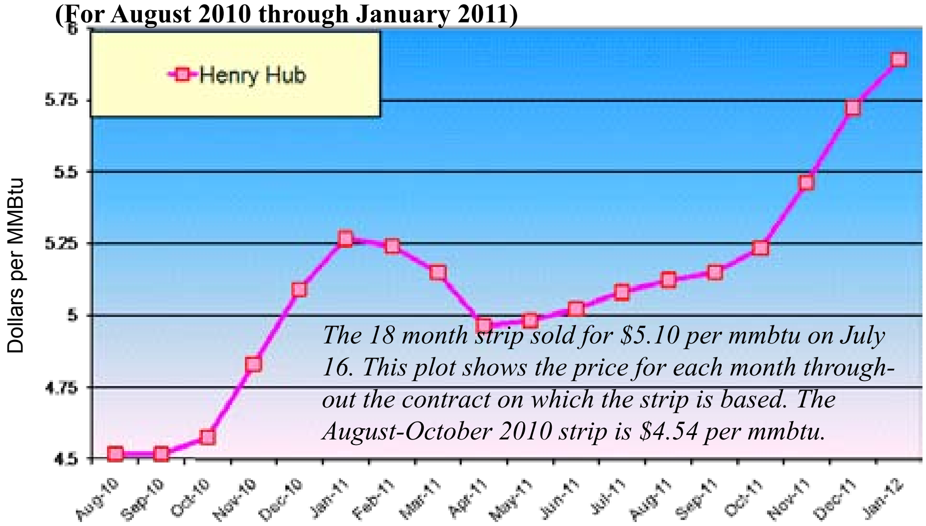
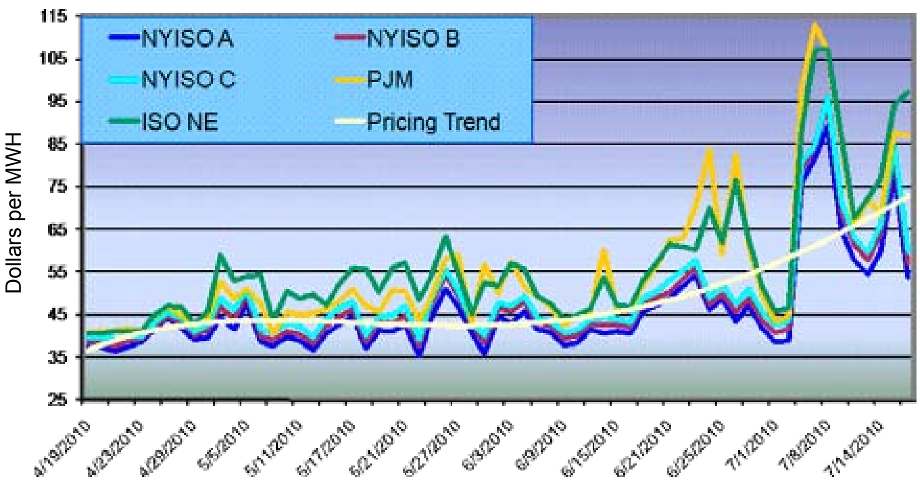
See The 8-14 Day Forecasts On Page 5

Natural Gas Futures Snapshot on July 16, 2010
(For August 2010 through January 2011)



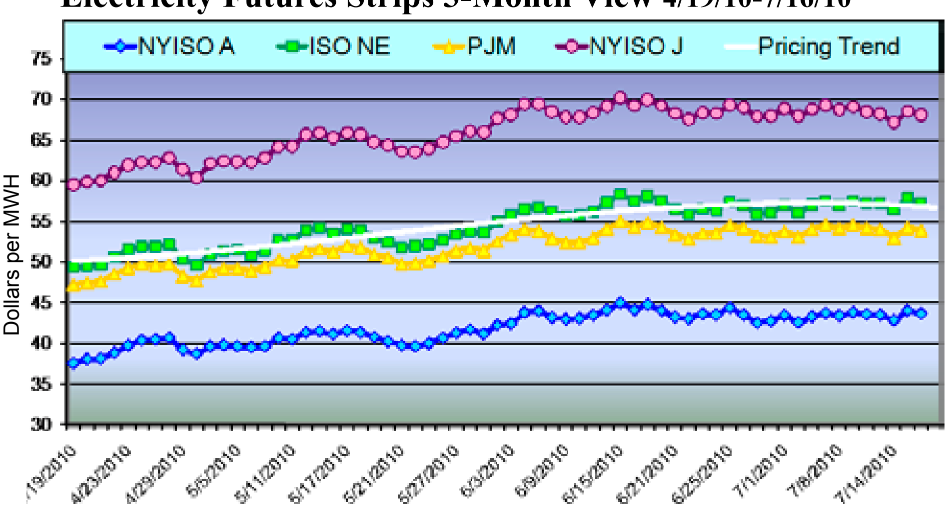
The 18 month strip sold for $5.10 per mmbtu on July 16. This plot shows the price for each month throughout the contract on which the strip is based. The August-October 2010 strip is $4.54 per mmbtu.

Electric Day Ahead Market 3-Mo. Trends 4/19/10-7/16/10



Prices on the Day Ahead Market for electricity are up an average of $18.77 per mwh since June 18.

Electricity Futures Strips 3-Month View 4/19/10-7/16/10



These futures strips are down an average of $0.54 per mwh the past four weeks.

7.5% growth in the industrial sector, up 1.0 Bcf/d.

EIA expects the spot price of natural gas at the Henry Hub to average $4.68 per mmbtu for the second half of 2010, 32 cents higher than the June forecast. Actual spot price for June averaged $4.80 per mmbtu.

Total marketed production of natural gas is projected to average 61.3 Bcf/d, up 0.1 Bcf/d from last month. This reflects a 1.3 Bcf/d increase over 2009. Onshore shale production will continue to make up for Gulf of Mexico declines.

Imports of liquefied natural gas (LNG) are expected to average 1.37 Bcf/d for the year, down 0.14 Bcf/d from June. Europe and Asia continue to attract cargoes with higher prices.

Warmer weather has raised the projection of total electricity consumption to 3.5% for the second half of 2010, up 0.4% from last month. Average residential electricity price for the year remains at 11.6 cents per kilowatthour (kWh). (8 July 2010 EIA STEO)

Will BP's Gulf of Mexico's Blowout Accelerate Shale Gas Production?

We have reported in previous issues that there has been a general migration away from offshore exploration to land-based shale exploration. It is safe to say that BP's deepwater production problems will accelerate the development of onshore shale projects.

More Stories and Weather on P. 5

US Natural Gas Production

Total US Gas Rigs: 979
+314 compared to previous year (8/18/09)
+15 compared to previous week (7/9/10)
(Source: Baker-Hughes)

KKR, a leading buyout specialist that is closely associated with Silicon Valley, has already profited from the sale of East Resources to Royal Dutch Shell. In 2008 it invested $350 million in the company and reportedly made $1 billion in the buyout 11 months later. It is currently investing in Hillcorp Energy's Texas shale project.

Some analysts project that shale gas will account for 64% of all natural gas produced by 2020. Currently, the companies that own the rights do not have the capital to fully fund the exploration and production phases.

Recent drilling accidents in Pennsylvania, plus environmental concerns in New York State have slowed the anticipated wave of new shale exploration in the Marcellus structures.

New state regulations and increased enforcement are inevitable and the sooner the exploration companies embrace the new regulations, the sooner the Northeast will benefit from the Marcellus premium. The engineering issues are surmountable and not worth quibbling over.

With well funded partners such as KKR and CONSOL, the development trend will accelerate over the next three years. As we reported in the past, CONSOL paid $3.5 billion for Dominion Resources' shale properties, making CONSOL the largest shale gas producer in the region. Other coal companies may want to hedge against the risk of global warming policies. Energy-related risk capital will follow KKR's lead and move away from offshore projects toward safer, less costly shale projects in the US. (Reference: BusinessWeek, July 12, 2010)

PJM Becoming RTO of Choice for Energy Giants

Ten months ago, First Energy opted out of the Midwest ISO in an effort to access the purchasing and transmission benefits of the PJM Regional Transit Organization. Last week, Duke Energy also made the same move for its Duke Energy Ohio and Duke Energy Kentucky business units. This trend should benefit our customers in the PJM markets by expanding the size of the market and increasing energy production options. Duke Energy's Commercial business segment operates 7,600 megawatts of wholesale generation, primarily in the Midwest. Six of those plants are co-owned with Dayton Power & Light and American Electric Power, both of which are members of PJM.

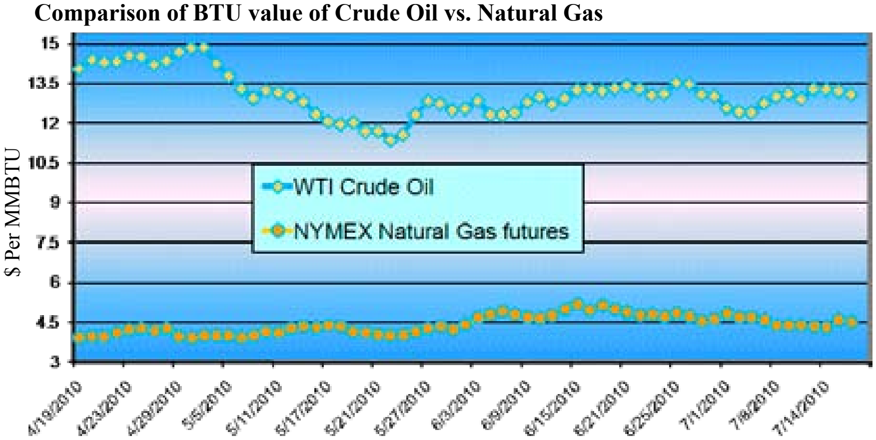
The fluid nature of the energy marketplace surrounding Pennsylvania continues to evolve. One could speculate that Duke's shift to the PJM would simplify a takeover of First Energy by Duke. Stay tuned. There is never a dull moment in the energy Fun House.

Tuesday Will be Energy Crunch Day

All of the Regional Transmission Organizations in the Northeast will be keeping their fingers crossed tomorrow. PJM, NYISO and ISO-NE anticipate peak or above peak demand due to the combination of heat and humidity. So far, the young summer is on track to be the hottest ever. Remember, that a LightSavers Efficiency program could help your company cruise through next summer's hot weather. Click here to view our case studies.

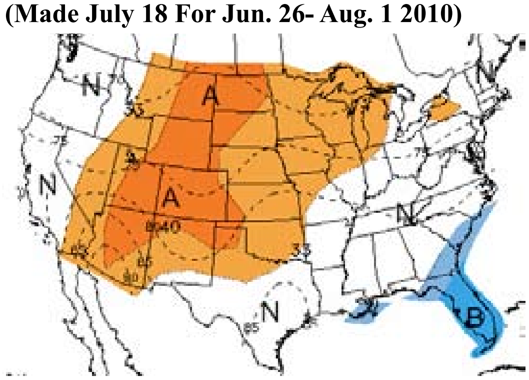
For purchasing and lighting efficiency solutions, call us at 585-249-1360 in New York; or 508-830-3876 in New England.

Oil vs. Natural Gas "Real Value" Chart (6/15/09-6/11/10)
Comparison of BTU value of Crude Oil vs. Natural Gas



Crude oil is selling 190% above natural gas on an mmbtu basis.

NOAA 8-14 Day Forecast
(Made July 18 For Jun. 26- Aug. 1 2010)



The intense heat is projected to dissipate throughout the Eastern US over the next two weeks; no break for the Rockies and the Plains States.