October 12, 2009

NATURAL GAS

RMI

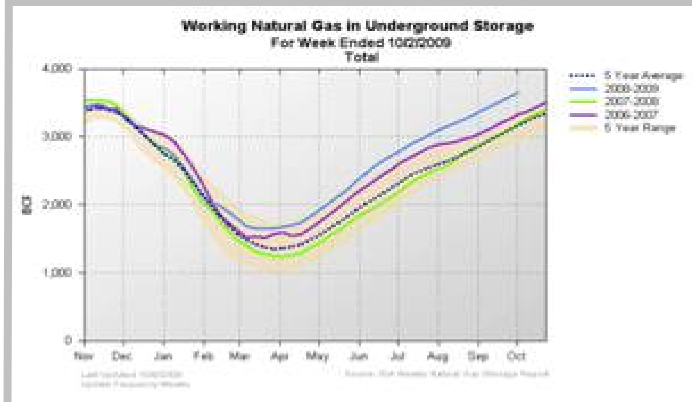
RISK MANAGEMENT INC.

Weekly Energy Market Update

GAS PRICES INCH SLIGHTLY HIGHER ON THE WEEK, UP 5.2 CENTS

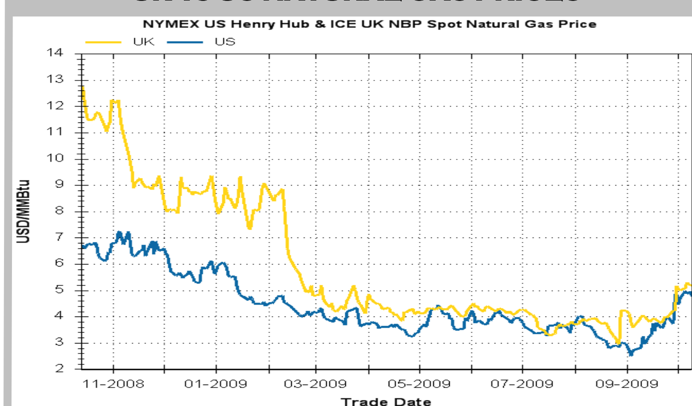
- Colder weather remained a supportive backdrop throughout the trading week as the change should create greater heating demand. Overall gains were limited though on weak demand and record high storage.
- Prices began the week higher as the market priced in forecasts for cold weather across eastern consuming regions. Throughout the week, forecasters predicted much colder conditions to envelop the eastern 2/3 of the US during this week. Widespread snow across the Rockies and Northern Plains last week is expected to bring the season's coldest weather so far to cities east of the Rockies Oct 12-16.
- The EIA released its latest STEO which showed a larger decline in 2010's gas production compared to last month. Production is expected to fall 3.8% in 2010, 0.3% higher than last month's projection. Total consumption is forecast to drop by 2% this year and 0.2% in 2010.
- For the week ended Oct 2, the EIA reported a 69 BCF injection. The build lifted stocks to a new all time high of 3.658 TCF with levels now 473 BCF above last year and 480 BCF above the 5 yr avg. While the number came in higher than expected, prices managed to rally on Thursday. Storage levels are forecast to approach capacity of 3.889 TCF before winter heating season begins.
- Prices reversed Thursday's gains on Friday amid pre-weekend profit taking and reaction to the new all-time-high amount of gas in storage.
- After rising the past 4 weeks, the number of gas drilling rigs stood at 726 rigs as of October 9. This is up 14 from the previous week and down 822 rigs from a year ago.
- Last week's natural gas report looked at past seasonal lows and the number of weeks that a seasonal low rally has lasted. Using the lows from 2004, 2006 and 2007, the average rally from the seasonal low was 8 weeks.
- This week, the seasonal rally will be looked at on a percentage gain basis. Percentage gain analysis can be misleading as the price is skewed upward due to the expiring October contract which is typically much lower priced than the following November contract. This year for example, the October 09 contract expired 1.100 below where the November contract was trading at the time. This price differential makes the rally on the weekly continuation chart appear much stronger than it really is.
- However, this is the case nearly every year so past history may still give some indication as to where this year's seasonal rally may top. On a weekly basis, the current rally from the low set on September 4th is now entering its sixth week of trade. With the average rally lasting 8 weeks, the market should have at least 1-2 more weeks of trade before topping.
- From a percentage basis, the 2009 seasonal rally has now reached 112% from the September low to last week's high. This compares with a rally of 102% in 2004, 123% in 2006 and 68% in 2007. So from a percentage gain comparison, this year's seasonal low rally may be the largest gain since 2004.
- A bearish doji cross Japanese candlestick was posted last week on the weekly chart. This is not an outright sell signal but an indication that the rally may be ending. There should be strong selling interest in the 5.200-5.400 level if reached.

EIA WEEKLY NATURAL GAS STORAGE



TROPICAL ACTIVITY

UK vs US NATURAL GAS PRICES



NATURAL GAS MONTHLY CONTINUATION

OIL PRICES RISE $1.82 FOR THE WEEK ON ECONOMIC OPTIMISM AND HIGHER OIL DEMAND PROJECTIONS

- Weakness in the dollar and strength in equities provided early week upside momentum in crude oil. The dollar moved lower in reaction to a UK newspaper report that said several major oil producers in the Middle East are moving toward pricing their crude in other currencies. News of some shutdowns and snags at US refineries also helped support oil prices despite current above normal inventory levels.

- Weekly inventory data from the EIA last week failed to display any rebound in oil demand. While demand typically drags in September, last week's figures showed consumption at its lowest level since records began in April 2004. Weak demand levels have led to bulging supplies. Gasoline stocks increased 2.9 mb to 214.4 mb while distillate stocks increased 700,000 barrels to 171.8 mb. Refining capacity increased 0.4% to 85% which helped bring down oil supplies. Crude stocks fell 1 mb to 337.4 mb.

- Optimism over the economy and upward revisions in oil demand from the EIA prompted late week gains in crude with prices hitting a 3 week high on Friday. The Commerce Dept reported a bigger drop in new jobless claims than expected. The number of initial claims came in at 521,000, its lowest since Jan 3.

- In the EIA's latest STEO, 2009 oil use is predicted to be the lowest since 1997 due to the weak economy. Consumption is expected to drop 3.7%, or 370,000 b/d from 2008 to 18.77 mbd. World demand for 2009 will average 83.67 mbd, down 2% or 1.78 mbd from a year ago. World use in 2010 will rise by 1.1 mbd to 84.77 mbd.

- The bearish two week breakout under 2009 trendline support came to a screeching halt last week as the crude oil market reversed back higher closing back over this support.

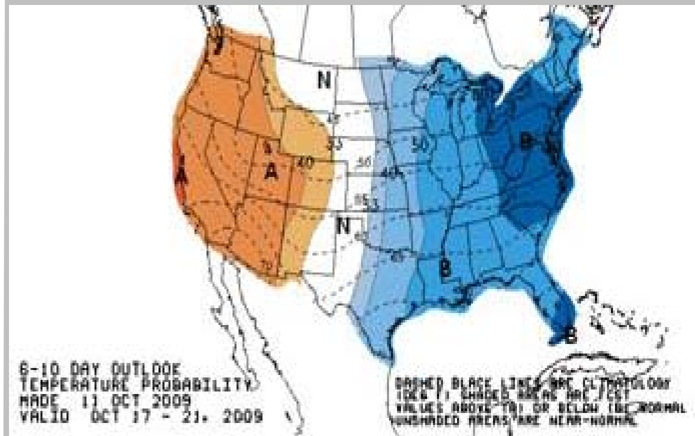
- With the market once again trading back over 71.50-72.00 trendline support, the trend turns back up again with 75.00-76.00 becoming upside resistance.

- 75.00-76.00 has been the highpoint for the market during all of 2009. If the spot contract, currently November, should trade over the 76.00 level, it should be a quick trip up to the next resistance area at the 82.00-83.00 level.

- Downside support to watch remains 71.50-72.00 which is a long term trendline dating back to the February 2009 low. While the past few weeks' breakout failed to hold, the next time this level is broken, the bulls might not be so lucky.

- Every asset market including crude oil continues to be influenced by a falling U.S. dollar. The dollar has been falling since last February but has since stabilized near .7600 index support. If the dollar does hold this support and move higher, it could put a quick end to the rally in the crude market.

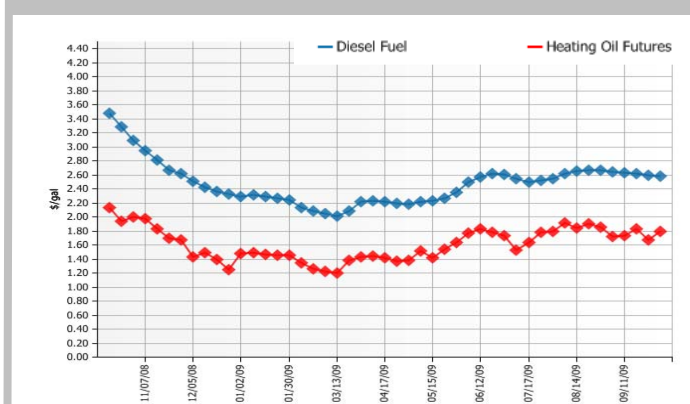
NWS 6-10 DAY TEMPERATURE FORECAST



EIA WEEKLY PETROLEUM STOCKS

As of 10/2/09 (Million Barrels)	Total Stocks	Change From Last Week	Change From Last Year
Crude Oil	337.4	(1.0) ⇩	34.8 ⇧
Gasoline	214.4	2.9 ⇧	27.6 ⇧
Distillate	171.8	0.7 ⇧	49.2 ⇧
Propane	72.9	0.0 ⇧	12.0 ⇧

ON-HIGHWAY DIESEL VS. NYMEX HEATING OIL



NOVEMBER CRUDE OIL

WEEKLY FORWARD ENERGY PRICES

NYMEX Futures

		NOV	DEC	JAN	FEB	MAR	APR	BAL `09	2010	2011
Natural Gas	*Close*	4.770	5.590	5.907	5.957	5.888	5.839	5.180	6.135	6.793
	Weekly Change	0.052	0.068	0.091	0.085	0.064	0.037	0.060	0.012	(0.050)
Crude Oil	*Close*	71.77	72.25	72.84	73.43	73.93	74.40	72.01	75.44	79.20
	Weekly Change	1.82	1.92	2.06	2.20	2.25	2.23	1.87	2.21	2.63
Heating Oil	*Close*	1.8528	1.8794	1.9102	1.9348	1.9504	1.9582	1.8661	2.0059	2.1710
	Weekly Change	0.0560	0.0536	0.0527	0.0531	0.0525	0.0505	0.0548	0.0536	0.0547
RBOB	*Close*	1.7680	1.7824	1.8101	1.8368	1.8620	1.9867	1.7752	1.9363	2.0216
	Weekly Change	0.0271	0.0298	0.0347	0.0386	0.0402	0.0401	0.0284	0.0437	0.0481

Natural Gas Basis

		NOV	DEC	JAN	FEB	MAR	APR	BAL `09	2010	2011
AECO	*Close*	(0.06)	(0.22)	(0.22)	(0.22)	(0.22)	(0.49)	(0.14)	(0.43)	(0.58)
	Weekly Change	0.14	0.11	0.11	0.11	0.11	0.07	0.12	0.07	0.03
PG&E Citygate	*Close*	0.53	0.51	0.27	0.27	0.28	0.31	0.52	0.28	0.20
	Weekly Change	0.11	0.10	0.05	0.07	0.09	0.06	0.10	0.06	0.03
Panhandle-OK	*Close*	(0.27)	(0.25)	(0.30)	(0.31)	(0.33)	(0.43)	(0.26)	(0.39)	(0.53)
	Weekly Change	0.07	0.02	0.05	0.05	0.04	0.01	0.05	0.01	(0.03)
Chicago Citygate	*Close*	0.22	0.23	0.24	0.20	0.13	0.08	0.22	0.11	0.05
	Weekly Change	0.08	0.06	0.06	0.06	0.09	0.04	0.07	0.05	0.02
TETCO M3	*Close*	0.49	1.02	1.86	1.82	0.86	0.45	0.76	0.77	0.76
	Weekly Change	0.04	0.02	0.07	0.08	0.07	0.01	0.03	0.03	0.01

OTC On-Peak Electricity

		NOV	DEC	JAN	FEB	MAR	APR	BAL `09	2010	2011
NP-15	*Close*	49.50	56.75	57.25	56.00	56.00	55.00	53.13	59.68	67.01
	Weekly Change	1.50	1.25	2.00	1.50	1.50	1.25	1.38	1.10	0.50
SP-15	*Close*	47.00	54.00	54.50	53.25	53.25	53.25	50.50	57.94	65.76
	Weekly Change	1.75	1.50	2.00	1.50	1.50	1.00	1.63	1.09	0.50
ERCOT - SC	*Close*	36.97	42.20	45.19	45.57	52.40	51.97	39.59	54.97	61.48
	Weekly Change	(1.01)	(0.18)	(0.18)	(0.23)	(0.74)	(0.98)	(0.59)	(1.00)	(1.64)
NI Hub	*Close*	34.31	37.31	43.81	43.81	42.06	42.06	35.81	43.18	45.10
	Weekly Change	1.50	1.25	1.16	1.16	1.60	1.60	1.38	0.82	0.24
Cinergy	*Close*	35.17	37.71	44.50	44.50	44.50	42.00	36.44	44.60	47.82
	Weekly Change	1.79	1.17	1.22	1.22	2.50	1.00	1.48	0.88	0.24
PJM West Hub	*Close*	44.18	49.94	59.54	59.54	57.50	54.00	47.06	59.69	63.89
	Weekly Change	1.59	1.31	1.69	1.69	2.50	2.00	1.45	1.38	0.59
Mass Hub	*Close*	50.36	61.50	74.24	74.24	64.35	64.35	55.93	67.10	72.96
	Weekly Change	2.69	2.67	2.95	2.95	3.27	3.27	2.68	2.02	1.14

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DAILY OPTION STRIP PRICES

	Strip Period / Settlement	Winter 2009/2010 $5.62	Summer 2010 $6.03	Winter 2010/2011 $7.02	Summer 2011 $6.54	Winter 2011/2012 $7.30	Summer 2012 $6.69	Winter 2012/2013 $7.39	Summer 2013 $6.78
Calls	5.00	0.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	5.50	0.62	1.13	0.00	0.00	0.00	0.00	0.00	0.00
	6.00	0.42	0.89	1.59	1.26	0.00	0.00	0.00	0.00
	6.50	0.28	0.70	1.33	1.04	1.56	1.15	0.00	1.23
	7.00	0.18	0.55	1.12	0.85	1.33	0.96	1.42	1.04
	7.50	0.12	0.43	0.94	0.70	1.14	0.81	1.23	0.89
	8.00	0.08	0.34	0.78	0.57	0.97	0.68	1.07	0.75
	9.00	0.04	0.21	0.55	0.39	0.72	0.48	0.82	0.55
	10.00	0.02	0.14	0.40	0.27	0.53	0.35	0.63	0.40
	11.00	0.01	0.09	0.30	0.19	0.40	0.26	0.50	0.30
	12.00	0.00	0.06	0.22	0.14	0.31	0.20	0.41	0.24

	Strip Period / Settlement	Winter 2009/2010 $5.62	Summer 2010 $6.03	Winter 2010/2011 $7.02	Summer 2011 $6.54	Winter 2011/2012 $7.30	Summer 2012 $6.69	Winter 2012/2013 $7.39	Summer 2013 $6.78
Puts	3.00	0.00	0.02	0.01	0.02	0.00	0.00	0.00	0.00
	3.50	0.02	0.06	0.03	0.05	0.04	0.00	0.00	0.00
	4.00	0.05	0.13	0.07	0.11	0.08	0.11	0.00	0.12
	4.50	0.13	0.24	0.14	0.20	0.16	0.20	0.17	0.21
	5.00	0.27	0.39	0.25	0.33	0.26	0.34	0.27	0.34
	5.50	0.50	0.60	0.39	0.51	0.40	0.51	0.41	0.51
	6.00	0.79	0.86	0.59	0.73	0.58	0.72	0.59	0.72