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the DESK

Friday, March 2, 2007 Volume 10

Power Moves

Where Renewables Come From – And Don't

Original market commentary by Dr. Robert Michaels, professor of economics, Cal-State, Fullerton

At last week's West Coast meeting of the Energy Bar Association, roughly half of the presentations were about renewables. Only one speaker (a non-lawyer) had the nerve to call California's greenhouse policy an empty ges-

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PIRA Gas Chief Talks Price Trends

Ah, the trouble with long-term weather forecasts, PIRA's top gas analyst Greg Shuttlesworth opined recently. "The ambiguity of it all," he says. We were chatting with PIRA's gas meister and one of his senior analysts, Tom Devos, about the continuing Winter debate between forecasting firms and analysts of all stripes on how the season will ul-

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Energy Data Hub Update

A couple weeks ago we reported that the CCRO's nonprofit creation, the Energy Data Hub, had successfully cleared a major hurdle in its journey to finally becoming a living, functioning entity. Company chief Bob Anderson received a "no action" statement on antitrust from the Department of Justice for the data hub. While the DoJ blessing was a good thing in and of itself, the tacit approval also removes an obstacle to participating in the hub for a lot of energy companies and probable redistributors. Anderson tells us his new message to the market is essentially: "Cleared to launch."

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New Index Minds the Roll

Now here's a novel idea. ICAP Energy and MBF Holdings LLC – Mark Fisher's outfit – have just launched the MBF Alpha Commodities Index (MACI), designed to "diminish the volatility of rolling commodities forward." That's welcome news for all the macro (or micro) funds and others who are clamoring to increase their commodity

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Emissions Desk

It's time for businesses to turn climate change on its head and start focusing on the opportunities as well as the risks, Charles Bennett, senior research associate at The Conference Board, says in a just-released "Executive Action Report" on global warming. Says Bennett: "Businesses must prepare to minimize the risk and realize the opportunities that are rapidly emerging."

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LNG Insider

This weekly dose of LNG market intel is an exclusive to The Desk courtesy of the Waterborne LNG Report

US Gearing Up for Record-Breaking Imports

With little to no incremental demand throughout Western Europe, many European LNG import facilities are having trouble absorbing their contractual commitments. This, combined with lackluster demand throughout the Far East, has European traders attempting to push excess LNG as far forward as May into the US, where prices are far more attractive. Producer/traders like Sonatrach are joining in by sending four spot cargoes to the US in March, three to Cove Point and one to Lake Charles. Other unusual events, such as a Gas Nat-

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Around the Desk

Lots of News Around the Desk This Week. Whhhooooaaah. **Serious market correction this week, eh?** It's not all bad though. If you've read even a smidgen of the great tidal wave of editorials or commentaries this week on the big market dip, you'll note that everybody is suddenly a bona fide market genius. "As I said six months ago, it was only a matter of time…" Or, "we all expected this for over a year…or better still, "this was no surprise really…" *Yeah right.* **The sudden correction hoodwinked everybody, plain and simple, but by Wednesday morning some ana-**

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Weekly Gas Storage Lotto and Market Buzz

Weather, Weather Everywhere, But Not Necessarily the Cold Stuff. (Next week, however...) We noted that the weather services are more or less in sync this week, a nice change from this Winter's forecast bloodletting. MDA EarthSat's forecast for the six- to 10-day period showed warm temperatures throughout the Central Plains and Midwest, but said the American and European models were not in complete agreement. No change (from above normal) was forecast for the

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The TXU Takeover Deal

Can Private Equity Navigate These Troubled Waters?

By Diane Borska, president, The Borska Group

Take some large, well-capitalized, hungry, private equity dealmakers. Add to that a carefully assembled advisory board of statewide political heavyweights, the support of green community sophisticates NRDC and Environmental Defense, and a large IOU whose CEO has been roundly criticized for his new-build coal plant plans and what do you get? You get one of the

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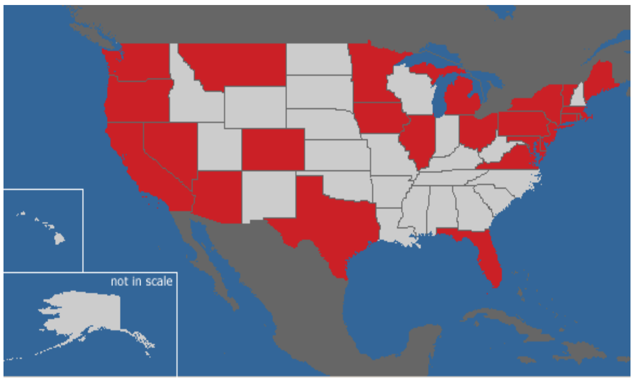
ture. He was, however, thoughtful enough to note that his firm looked forward to making a fortune by putting businesses into compliance with the new standards. Hey, Diogenes, here's your guy!

The best panel was three state regulators each trying to show that his state had a bigger and better renewable portfolio standard than the others. There was no one from a state without an RPS to explain or defend its absence, which made me wonder. Right now 25 states (and DC) have some sort of renewable energy requirement in place. The geography is interesting, with most non-RPSs in a swath of states that are mostly the bane of sophisticates. Check the map below, and then compare it with a map of states with some sort of retail competition. I wondered what actually distinguishes states with RPSs from those without them.



Mark Twain said it better: "There is something fascinating about science. One gets such wholesale returns of conjecture out of such a trifling investment of fact." Numerical facts are bargain-basement these days, as is the software to torture conclusions out of them. So I made the trifling investment and tossed it into the statistical software to see what variables affected the likelihood that a state will have an RPS. (For the inquiring, I used logit regressions and coefficient significance levels of 0.05 as my standards.)

The first important outcome is that money matters. Per capita income alone explains 30 percent (pseudo R-square) of the likelihood of an RPS, not bad for this sort of data set. Better yet, some things you would suppose affect it don't matter in reality. They include:

Politics: The likelihood of an RPS falls (at the 0.05 level) with the fraction of voters identifying as Republican, but adding income to the equation washes out that effect while leaving income significant. Counterintuitively, the percentage of Democrats is unrelated to RPS enactment.

Consumer hardship: A higher average kWh price for residential users by itself actually raises the likelihood of an RPS. As before, however, adding income to the equation drives the price effect to insignificance.

Consumer representation: States with elected utility commissioners are less likely to enact RPS than those with (more elitist?) appointed ones. Again, however, adding income to the equation leaves the selection method insignificant.

The composition of existing capacity resources does matter, but in only one way. The probability of an RPS is unrelated to the fraction of a state's capacity that is renewable, and states with the most vulnerability to gas prices are neither more nor less likely to institute one. The share of coal-fired generation, however, significantly cuts the likelihood of an RPS. Further, the effect of coal remains significant after we add income to the equation.

The conclusory conjecture: RPS is about politics. Citizens of higher income states, which usually have fewer environmental problems, like RPSs as gestures and apparently don't mind their higher bills. Where coal is important, it apparently has enough political presence to derail an RPS. All this brings up some conjectures about a federal RPS: It will be a way for wealthy states to impose costs on poorer states that would otherwise be able to attract businesses and residents from them. And it leads to a strong suspicion that there will be a safe harbor for both existing and future coal-fired generation.

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THE DESK

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lysts were calling the event "healthy." We noted that all sorts of new manufacturing or economic data flowed this week from countless obscure national and state associations and member groups we really only hear from when things are potentially extreme (up or down). They did not disappoint. But we did hear one voice in the crowd we thought made a bit more sense than most. **Market adviser Vinod Dar seemed bemused by the whole thing, which is sort of par for his course. "**It appears that the economy and energy have no relationship whatsoever. I guess the oil and gas markets have not heard about all this stuff in the other markets this week. So tell me, did oil prices crash to 20-year lows? *No*. Did power prices crash? *No*. Is gold now being handed out in packs of baseball cards? *No*. Did suddenly steel and aluminum and copper prices collapse, making power plants vastly more competitive? *No*. So you're telling me that none of the things that people use, when times are good, are responding to this market disruption? So all the stuff that people use when economies are booming isn't being affected, but the economy is shrinking? So what you're saying is the whole family has gone on a diet but the grocery bill hasn't changed. We're shutting off those unused rooms and turning down the thermostat, but our utility bills are unchanged. And we're also saying that while we're not going to drive as much this weekend, we'll fill up the tank anyway. Nothing that matters has changed, but that which doesn't matter has changed. It is a triumph of the trivial and the transient. **This is a triumph of volatile money over reality. Guess what: Volatile money will triumph over reality any day of the week, because for so many people today, volatile money is the reality.** I think it was a perfect week for the TXU deal to be announced; it is an incredibly bad deal for everybody except TXU management and the large shareholders. A perfect example of volatile money triumphing over reality. But I have a vague suspicion it won't happen… " We later discussed how suddenly Wall Street has seemingly jumped on the global warming bandwagon. "Well of course," Dar said. "Global warming became popular as soon as smart businessmen figured out how to monetize it. All of a sudden, these businessmen are speaking the gospel of global warming, and have all gotten out ahead of the environmentalists. Professional environmentalists are now simply tagging along. Smart businessmen will now drive the response to global warming. Look at GE. When wind power came into view, GE was nowhere. Now, they are number one. Actually, it would not surprise me in the slightest if GE partnered with somebody to counter the TXU deal"… **Standard & Poor's Equity Research continues to expect China 2007 GDP growth to come in around 9.5 to 9.9 percent, underpinned by healthy exports, investments and domestic consumption**. With recent economic indicators pointing to more sustainable growth levels, S&P said it believes "the government's focus will intensify on reducing excess liquidity and potential bubbles." … **The ghost of wars past seems to be back in town this month. The diplomatic channels seem to be holding sway so far this year as it appears the Bush administration is finally reaching out to the various regional players** to help smooth out the rough spots on the Iraq security issue. On the surface, this is good news for markets, to be sure. Secretary of State Condoleezza Rice recently confirmed to Congress that the US would be taking part in this month's regional security conference on Iraq. This week Iraqi officials confirmed that Iran too would be attending. Syria is next. If this is the case, it would be the first time ever that Rice has sat down with her Iranian and Syrian counterparts. Sounds like the Paris Peace Talks all over again. Recall that when that historic process occurred, the US Air Force stepped up its bombing of North Vietnam and the heavily enemy-infiltrated areas in Cambodia. So while all this current diplomatic stuff seems promising, we also note that lately all sorts of top secret reports and cables have been leaked, detailing various war plans for a loosely-defined joint US/Israeli strike(s) aimed at vaporizing Iran in the near term. On top of this, alleged agents of Iran have been arrested with great regularity lately throughout Iraq, and both the US and Iraqi militaries have become especially aggressive in finding bad guys or generally keeping the peace. All this sounds very familiar, although let's all remember that Iran is no Vietnam. **A quasi-domino theory can perhaps be prescribed in the Arab Gulf region – substituting Islamic fundamentalism with Communism. But unlike Uncle Ho's regime in Hanoi, the administration of President Mahmoud Ahmadinejad in Tehran seems to be much more fragile.** A sagging economy and lackluster employment figures among the under 30 crowd in Iran we think will spell "Goodnight Irene" for Ahmadinejad before next Winter. The nuclear thing in Iran seems to be spooking the locals as much as those anti-Iran Arab factions in the region and around the globe. Last time we checked, world public opinion was not behind Ahmadinejad, but for that matter, it isn't much

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behind the Bush administration either. Our global geopolitical crystal ball says no military strike on Iran this year, Ahmadinejad loses his job in the latter part of '07 and is replaced by a more moderate fellow, and oil will average a bit lower this year than last. How does that scenario match up with your model?… **This week Morgan Lewis' Energy Practice Group in DC (former FERC market oversight chief Bill Hederman leads the group) hosted its second annual seminar,** *Getting from Surviving to Thriving in the New Compliance Era*. The seminar was based on the recently updated **edition of its FERC Compliance Handbook.** Hederman tells us they had a full house, 50 or so folks from a bunch of energy companies. "It was a lively give-and-take discussion throughout. There was a lot of discussion about self-reporting to FERC, a lot of talk about frustration among compliance officers. FERC was clear about wanting companies to self-report, but they were seemingly unclear about the consequences," Hederman said. "Commissioner Moeller spoke to this point at the seminar actually, and told the audience that perhaps they (FERC) can clarify that a little better." The CFTC enforcement czar, Greg Mocek, also spoke at the event. "He said that your company's compliance shop should not merely be a bunch of people and paper shoved in a corner, but rather a proactive, living, breathing capable group," Hederman said. A partner from **Morgan Lewis'** white collar crime unit talked about crisis management. We hope to run a more in-depth story on the event next week… **The current level of research and development funding at the DoE and on the nation's current energy policies are not nearly good enough to develop and deploy advanced energy technologies over the next 25 years,** a GAO staffer told a House appropriations subcommittee this week. "Without sustained high energy prices or concerted, high-profile federal government leadership, US consumers are unlikely to change their energy use patterns, and the United States will continue to rely upon its current energy portfolio," said Jim Wells, GAO's director of natural resources and environment. "Government leadership is needed to overcome technological and market barriers to deploying advanced energy technologies that would reduce the nation's vulnerability to oil supply disruptions and (the) adverse environment effects of burning fossil fuels," he said. **Budget-wise, the DoE's heft in the area of R&D is pretty flimsy, dropping from about $5.5 billion in fiscal year 1978 to $793 million in fiscal year 2005**, Wells said… **On to Hillary TV. Have you been to www.hillaryclinton.com? It's worth the trip**. Lots of issue-specific mini videos of the senator being painfully sincere about just about everything. In this week's issue video, she called for a strategic energy fund to accelerate research and investment in clean energy technologies to promote job growth, energy independence and a clean environment. The four-minute bit is full of all sorts of memorable one-liners: "The sooner we can start protecting our planet, the better off we shall all be." Amen, sister. **She proposed an "Apollo-like effort" to make clean and alternative energy, "the energy of America."** (Cue fireworks and horn section). She's proposing legislation to create the strategic energy fund. "We can create this fund not by extra taxes on the hard-working Americans who are paying more at the pump, but from the windfall profits of the oil companies… We'll tell them to pay or play… Invest in alternative energy technologies themselves or pay a percentage of their excess profits from the spikes in oil prices… And do away with subsidies they don't need… this will wean us off foreign oil dependency and create new industries and jobs…" **We just hope that all the individual investors in all the big oil and gas companies, hard-working Americans**

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Event of Note

If the energy scene in China is of interest to you, block out April 27–29, 2007 for the first ever Sino-US Energy Market Development and Risk Management Symposium in Houston. If hobnobbing with execs and officials from a zillion major Chinese energy companies, government agencies and big universities is your idea of a good way to spend a couple days, don't miss this event. We recommend this event strongly – speakers from FERC, the CFTC, NYMEX, CCRO, bank execs and other risk glitterati from the US side will be joined by officials from Chinese oil firms such as CNPC, PetroChina, ChinaOil, SinoPec, CNOOC, CPC, and CAO, leaders from Shanghai Futures Exchange, energy researchers and more. The event is organized by Chinese Association of Professionals in Science and Technology with support from the US Dept of Commerce, the State of Texas, SunGard, Amerex and others. For more information, go to www.chinaenergyrisk.org or email the event's co-chair, Milton Liu at Milton.Liu@amerexenergy.com.

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and the like, won't mind the dip in their share values and dividends they've enjoyed in the past couple years. Bills like this one have a tendency to drive business offshore, and raise prices further. Sen. Clinton's plan to raise funds for the fund is quite silly, but her point about increasing investment in energy tech is quite valid. This administration's record in funding alternative energy technologies is abysmal, even worse than Bill Clinton's record on the same. Imagine where we'd be if the administration's recent $100 billion funding request for Iraq was partially steered to the DoE to invest in alternative energy research. The mind boggles. "As a nation, it is time we take the giant leap in energy innovation we desperately need, and that is exactly what the strategic energy fund will do," Clinton said. The bill would raise $50 billion to fund research, development and deployment of energy technologies to reduce America's dependence on oil and reduce greenhouse gas emissions. A key purpose of the fund would be to deliver clean coal technology, including $3.5 billion in tax incentives and grants to build five clean coal plants that can capture and store carbon dioxide. The fund also would move America toward the goal of producing 25 percent of electricity from renewable sources by extending the production tax credit for generating electricity from wind and other renewable sources for five years. **Sen. Clinton's screed did generate another positive: It means that all the other candidates have to actually think about how to solve this foreign energy dependency thing we have, since Clinton already covered the easy solutions, like taxing the big bad oil companies**… Rep. Bart Stupak, D-MI, had his 15 minutes this week. At a time when global oil stockpiles are unseasonably high, and gasoline prices have dropped dramatically from last year, **Stupak and 78 other lawmakers sent a message to all the would-be bad guys out there, by introducing a bill that would impose serious penalties on energy companies found guilty of price-gouging**. If passed, the new laws could impose penalties as high as $150 million for corporations and $2 million on individuals. Recall that the House passed a similar bill last year, but it was DOA once it made it to the Senate. We read some coverage this week on the anti-gouging bill that had FTC Chairwoman Deborah Platt Majoras saying last year that a federal law against oil company price gouging would "be difficult to enforce and could hurt consumers by causing fuel shortages." That was in reference to last year's version of the bill… **This too might pass muster in some watered-down version this year, according to some inside-the-beltway sources.** But your local gas station will likely have more to fear than any of the majors… **So, have you heard? Iran is now a nuclear power. This according to Iranian Vice President Parviz Dawoodi.** Of course, they've not really enriched much uranium, nor do they have a facility to turn the yellow stuff into a fuel, to boil a big vat of water to make steam to propel a turbine, but nonetheless, Dawoodi said this week that "Iran is now one of the seven established nuclear states and the big powers are now obliged to deal with Iran as a country which is insistent on pursuing its nuclear goals." Lots of nuclear scientists in the Iranian political hierarchy, it seems... **Lots of whispers and sidelong glances over at FERC this week: From the outside it appeared as though 22-year commission veteran and most recently chairman Kelliher's chief of staff, Dan Larcamp, suddenly up and left. A source told us he handed in his resignation on Monday and his desk was clean by Wednesday. Yikes. Last Saturday it was reported that** Larcamp, who was accused in a much publicized whistle-blower flap last year for allegedly crafting a "sweetheart deal" for Southern Co., has apparently taken a job with Southern Company's law firm, Troutman Sanders. Oops. According to a story in the *Atlanta Journal-Constitution*, "Larcamp was the focus of a whistle-blower complaint to US Rep. Henry Waxman, D-CA, last March, prompting a series of letters between Waxman and Kelliher and accusations that Southern Co. was getting special treatment. The whistle-blower, FERC analyst Rich Heidorn, said Larcamp had inappropriately inserted himself into an ongoing case to hammer out a friendly settlement with Southern…" The case was finally closed, but not before FERC investigators reviewed the Southern settlement and later changed the terms of the deal – terms that Larcamp had helped to hammer out. In a 20-page order, FERC repeatedly called that earlier deal "severely deficient" in protecting consumers against the possibility that Southern was using its system of affiliates to thwart competition inside its territory, the *Atlanta Journal-Constitution* story said. We reckon Rep. Waxman will be swinging out a missive on the subject before too long. **As for Larcamp's seemingly hasty exit, FERC spokesman Bryan Lee said it was nothing of the sort, that Larcamp and the chairman had discussed his "retiring" over the past couple months.** "He's been recused for some time… most of this year," Lee said. Hmm. A couple people we spoke to at FERC told us Larcamp's exit was

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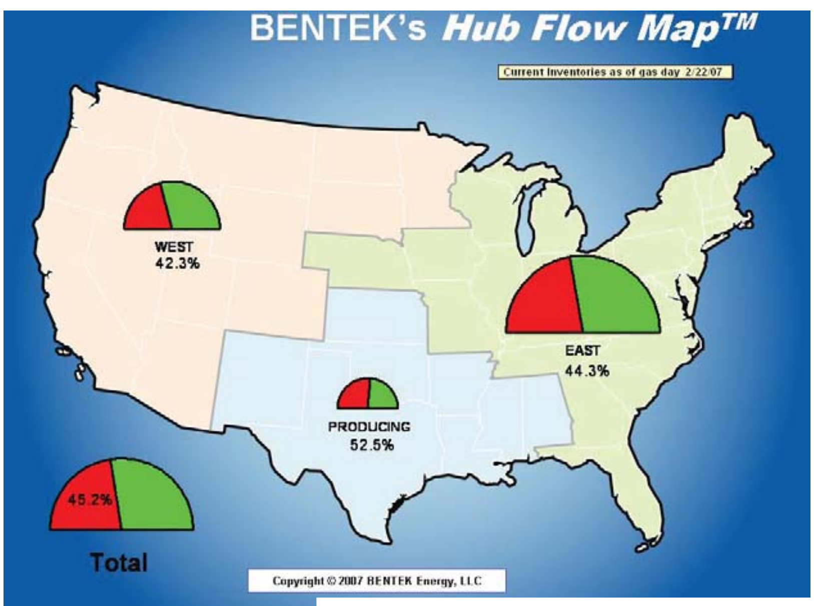
news to them, although one other source said she was aware Larcamp had been aggressively looking for a position at a private law firm for quite some time. Lee says it wasn't that Larcamp gave notice on Monday, rather that "his leaving became public on Monday." **"He did not resign, he retired," Lee says**. Hmm. We also hear that the chief of staff position will not be filled. Scuttlebutt has it that enforcement chief Susan Court doesn't want it, nor does her deputy, Ann Cochrane. **We heard that Kelliher, Court, Cochrane, John Moot the GC, and Executive Director Thomas Herlihy (among others) were huddling someplace off-site on Thursday – interesting group. Was it damage control? Dunno**. But spokesman Bryan Lee tells us that to not fill the chief of staff position is actually nothing extraordinary at FERC. "Some chairman have them, some don't. When Pat's (former FERC chairman Pat Wood) chief left, he didn't replace her either. Chairman Kelliher made Dan his chief of staff at the outset of his term, to help him get his sea legs. At the same time, EPAct passed and Dan helped the chairman navigate those waters as well. Now, I think the chairman feels comfortable to move ahead without a chief of staff," Lee says. **As for Larcamp, we won't see him around FERC for exactly one year, according to federal guidelines**. He faces a lifetime ban on dealing with matters he worked on at FERC. We're not sure what that leaves, but we imagine the folks at Troutman Sanders know what's what… and so, there it is…



Fill Zone Analysis: Data Released 02/27/07 for Storage Week 02/22/07

Storage Region	Inventory (Bcf)	Capacity (Bcf)	Utilization Rate
East	650	1,466	44.3%
Producing	173	330	52.5%
West	164	386	42.3%
US TOTAL	987	2,182	45.2%

The total US utilization rate for storage facilities traceable by Bentek, decreased to 45.2 percent, down -4.4 percent from last week's 49.6 percent. The U.S. is 274 BCF below the same week last year. This time last year, storage utilization was at 56 percent.

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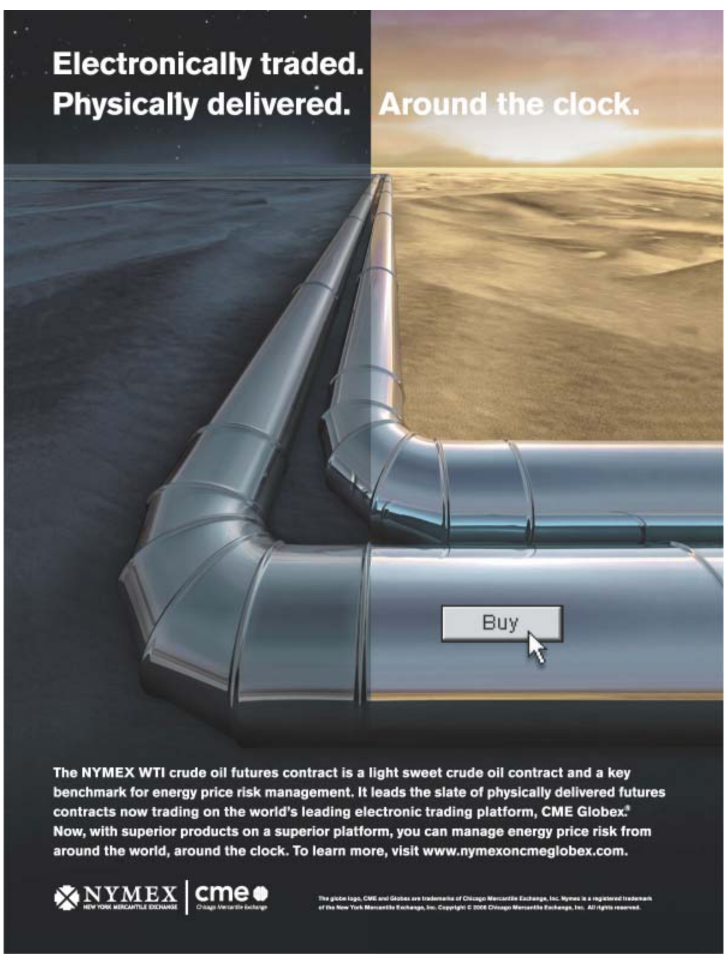
timately shape up. This late in the season and it's still unsure whether it will be colder or warmer than normal, leaving in doubt what this might mean for Summer gas prices. Shuttlesworth summed up his Weather Forecasting Conventional Wisdom for the 2006-07 season in less than 50 words: "If I see a forecast that's five days forward, it won't be so bad… if it's five days beyond that, I'm a bit more circumspect… and if it's 10 to15 days out or more, I'm flat-out not going to give it a lot of credence…"

But we didn't call the PIRA folks to talk immediate weather. Rather, in light of the crazy weather we've seen over the past three months, what does PIRA think it means for the Summer fill season? Shuttlesworth says a mid-January weekly report they sent out to clients with a relatively bearish view on gas prices – they define bearish as "seeing more downside risk than upside to the NYMEX forward curve" – suggested they go back and look at a Spring 2005 report when PIRA held an opposite view. "PIRA had been bullish at the time and ironically we were the sort of lone wolf out there, no one else was as bullish we were," Shuttlesworth says. "And fortunately we turned out to be right and not simply because of the huge hurricane activity that followed (Katrina and then Rita). Our price forecast was definitely helped before the hurricane activity by the hotter-than-normal weather in July in particular and in August prior to the hurricane activity. But most importantly, our view at that time was that we were at a level of storage going into the injection season that raised, I thought, some fairly serious questions as to whether or not the industry would be able to bring storage more or less up to a maximum capacity."



He says he and PIRA developed a different take on things that year. "We were looking at it more from the standpoint of demand for inventory as opposed to the more traditional concept of, 'Well, you have a certain amount of supply and a certain amount of demand and the amount of supply that is not consumed goes into storage.'" While there was nothing necessarily wrong with the more traditional view, Shuttlesworth says, what they found is that the people in the storage game had a very different collective view of what their storage objectives should be in 2005 than they had in the previous years.

"And there are two reasons for that: First, look at the gas utilities. They control at least somewhere between 60 and 70 percent of gas and storage, depending on the time of the year. But in the Spring of 2003, recall all those drastic curtailments, the removal from base gas and the fact that working gas collectively got down to a mere 700 billion cubic feet. And the frightening thing to gas utilities at that point was that the last month of that heating season (specifically March of that year) was milder than normal. Had that been 15 or 20 percent colder than normal, it would have led to shortages on a pretty large scale."

He says what the gas utilities had collectively done wrong is they had lost sight of how differently storage had become managed, due to "the pervasive role of the mega-marketers like Enron. And ironically, Enron and the mega-marketers per se, most of them were not completely off the scene yet by 2003, but their legacy remains. It was like a cold splash of water I think; it certainly wasn't something you're going to read about in an American Gas Association publication. You know how close the industry came to not dodging a bullet? At that moment, I think the heavyweights of the industry understood that storage management had to change.

"Then there was the second, far more visible event (Hurricane Ivan) in 2004 which set whole new parameters on risk with regard to loss of supply toward the latter part of an injection season. So with those two things in mind, it told us that we wouldn't have to get into sort of a guessing game of how much storage capacity might or might not be remaining come mid-September to late-September that would drive prices as we would look at it in the months preceding that," Shuttlesworth says.

Fast-forward: They looked at the price action of mid-February of last year to mid-June of last year and what they saw were three cycles. There was a spike in February, a spike about a month and a half later and the final spike in June. And in each of those spikes and the valleys that occurred between, PIRA saw that the value of gas relative to No. 2 oil at that time was significantly less.

"In other words, the highs got lower and the lows got lower in an absolute sense. But the price of gas relative to No.2 oil declined progressively throughout. And that we thought was a correct view because we certainly were very bearish last year throughout the injection season. It was a correct view that the storage problem was not going to get better; it was going

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to get worse. And the severity of that problem we thought the market was appreciating; it was recognizing it far more in June than (it) had been back in February, March or April. So, what we think looking at 2007 is much more of a 2005 analog year where, thanks in part and clearly without the help of this cold weather, would have been an academic issue. But thanks to the severity of the cold weather correction this Winter, the storage deficits that we see accumulating relative to last year are looking like this: Where we thought we might be at the end of March, we think we'll now be at the end of February."

He says that PIRA tends to use – in the case of heating degree-days – the past 15 years as opposed to the 30-year normal that the National Weather Service uses. For better or for worse, using a sort of weather-normalized, forward-thinking assumption, PIRA's view currently would be that the deficits we saw occurring in February would be sustained through the early part of the injection season, and will create a storage environment much as we had in 2005.

"Last year everybody was trying to figure out what that meant; did full mean 3.5 Tcf or 3.6 Tcf? I think we all collectively have a better idea today than we had a year ago of just what that potential end-point is. The idea is if that end-point looks like it's going to be potentially more difficult to reach than not to reach, there shouldn't be fundamental weakness."

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Bennett details the various forces that have converged to raise the profile of climate change over the past year, from hurricane damage to high energy costs to increased demand for fossil fuels in China and other emerging nations. He reviews the impact of changes in the political landscape that have businesses concerned about a fragmented regulatory regime for carbon. But most pointedly, he looks at the potential negative effects of emissions issues on investment values. He cites a recent Lehman Brothers report that says climate change will be a new influence that helps to determine whether a company "survives and prospers or withers and quite possibly dies."

Taken together, all these elements are quickly transforming the climate change landscape in the US. Faced with the kind of dire rhetoric heard in the Lehman Brothers report – not to mention the rhetoric during hearings on Capitol Hill – businesses have to take a long, hard look at the issue, he says. Not the least because the building political pressure could lead to a "dramatic and disruptive change" that may raise costs and hurt competitiveness, especially if the resulting regulation creates an uneven playing field.

"Companies must objectively assess their exposure to these risks and realistically consider alternative fuels, materials, technologies and business processes that will enable them to adapt to changes," Bennett says. Companies need also to seriously consider participating in public policy discussions to be part of whatever 'solutions' or 'rules of the road' are being designed now."

Major emitters of greenhouse gases should go beyond this involvement and explore the upside of of responding to climate change. Alternative fuels offer new potential revenues streams for energy and agriculture companies. US manufacturers can find new business lines by responding to the growing demand for "green building" materials. And software companies "are seeing increasing opportunities in energy management, traffic flow planning and other areas of potential efficiency improvements," Bennett says.

And, he says many companies are taking the plunge into carbon trading, "despite the absence of a mandate to do so or an organized global market which many would consider ideal."

The current market certainly is less than ideal, as the UK lawmakers took pains to remind everyone this week. The UK government's environment audit committee issued a report that says Britain will miss its 2010 emissions reduction target by 50 percent unless it takes "great action" on climate change today. The lawmakers want the UK's climate change legislation to be strengthened by requiring an annual report to Parliament on the country's progress in emissions reductions.

The committee report slammed the EU Emissions Trading Scheme, saying that while its ability to administer the trading program has been impressive, its track record for reducing carbon emissions is "far less impressive." The committee reiterated that overly generous initial allowances have artificially suppressed the market price of carbon in the EU ETS and hobbled the program.

Not everyone in the British government agrees with the audit committee. UK Trade & Investment, which is the

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(EMISSIONS DESK from page 8)

British government's international business organization, said the country is a world leader in environmental solutions and has attained a competitive advantage over other countries in terms of climate change.

Among the UK's differentiators, the group highlights its market-friendly regulatory climate, especially the "much-admired Renewable Obligation that requires electricity supply companies to source a percentage of energy sales from eligible renewable sources." Britain's finance industry is the top financier of international environmental projects and its universities lead the world in environmental sciences, "with pioneering work on climate change," the study says. UK businesses have created a range of advanced environmental technologies across the value chain, creating a market valued at $25 billion, it says.

Using business relationships to foster technological solutions for environmental problems won't just be good for the planet, the report says. "With a $548 billion market up for grabs, it can be good for our economy."

But if the UK is the current leader, many want the US to step up to the plate. This week, new UN Secretary-General Ban Ki-moon, who has cited climate change as a priority for his tenure, said he hopes the current climate change debate in Congress will push the United States to become a major player in the global warming arena. "This kind of active debate has helped raise (the Kyoto Protocol's) profile and public interest in climate change," Ban said Thursday at a gathering held by the UN International School. "I hope that the United States, while they have taken a role in innovative technologies as well as promoting cleaner energies, will also take lead in this very important and urgent issue … I am encouraged to know that, in industrialized countries from which leadership is most needed, awareness is growing."

Meanwhile, scientists from 63 countries this week launched a major new climate change study called the International Polar Year. The project will pool the resources of 50,000 different polar researchers to track the effects of global warming on the Earth's poles. The scientists will use everything from satellites to submarines to study the impact of solar radiation on the atmosphere, wildlife and indigenous peoples of the polar regions. The last "polar year" study was conducted in 1957.

The project, sponsored by the UN World Meteorological Organization and the International Council for Science, will devote about $1.5 billion to the one-year study in hopes of gaining a better understanding of climate change. Look for the results of the new effort sometime in 2009.

(ENERGY DATA HUB UPDATE from page 1)

While the policy stuff is now behind the effort, the tech side is the next major milestone to reach. Anderson says a modest operation called HP is doing most of the database programming and Ernst & Young is helping to ensure all the bits meet the necessary compliance requirements. Anderson says they are using the widely accepted program of American Institute of Certified Public Accountants (AICPA). "This is a five-star approach to data submission, data storage, how the data is handled within the hub itself and how the data is ultimately redistributed to the redistributors."

He says the group now hosts biweekly development calls, involving a range of people involved in the process, data submitters (energy companies),and redistributors, HP, E&Y and others.

Anderson said the process of building from the ground up provides CCRO with the freedom to develop its thinking as the project moves ahead. "It's all very intuitive," he said.

(NEW INDEX MINDS THE ROLL from page 1)

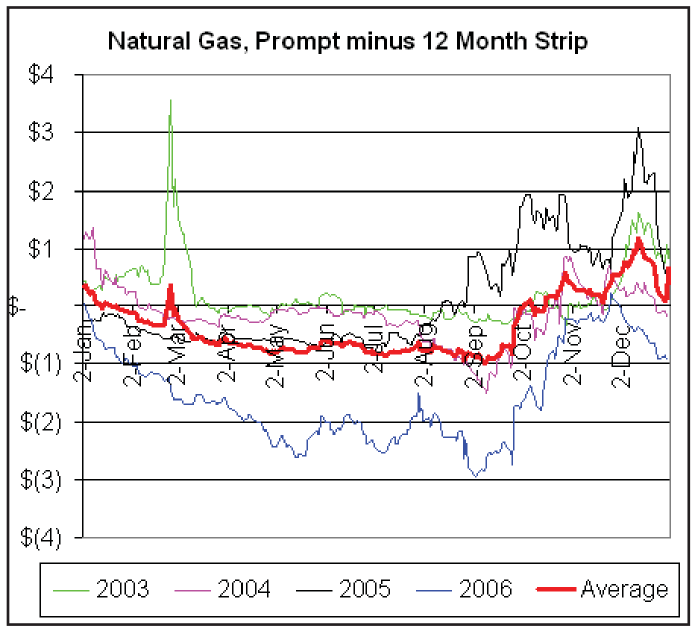
exposure by a couple points – or couple hundred million dollars or so – but would rather not trade the stuff.

"By limiting the effects of contango and backwardation, the MACI provides a benchmark closer to the pure 'alpha' return of the underlying commodity/commodities instrument(s) in the index," the Index materials say. Sounds like a good trade to us, on the surface anyway. We received a 10-page white paper on the Index this week that fleshed out the details a bit better, and what we found were some fairly decent design characteristics – the sort of thing we would expect to crop up elsewhere. We recommend you ping the ICAP folks for a copy of the index's prospectus or for more information generally.

"For the first time, an index will be brought to the marketplace that makes the roll itself a separate tradable item." It's much better than a simply clever idea, it's the one thing that's been lacking in similar offerings since the get go. Separating out the roll from the index is actually quite brilliant. It's a bit like IOs and POs in the bond market. We think Fisher's financial skunkworks has a real winner.

Utilizing strips instead of simple prompt contracts reduces the effect of rolling contracts. For contango markets, price differential between the rolled out of front month contract and the rolled-into back month contract, averaged over the strip, is less than the first and second month differential as used in a prompt month roll. This dampens the effect of the roll on the return of an index. "Dampening the roll effect is especially important in today's rising commodities markets in contango. Indices like the family of the former GSCI have been increasingly under fire because they are subject to a 'heavy' negative roll that has been substantially offsetting the gains of rising commodities markets. Typically the longer the strip, the lower the negative roll under these conditions, but increasing strips to their maximum lengths produce a diminishing benefit and an increased exposure to illiquid futures contracts. Generally speaking, using a basket of longer strips instead of prompt or near month strips will improve returns," Index material says.

Basing an index around a strip has of course been done before, but in the current example, it's a pretty decent match. When you're dealing with any commodity with seasonality, the 12-month strip index is in several ways a much better estimate of value than a prompt-only index – this feature was a very good call. The general assertion that the strip reduces the roll cost and reduces volatility is quite valid. But, isn't the trade-off that the index no longer completely represents prompt market prices/fundamentals? Seemed so to us. So we asked some folks close to the wizards who gave life to this thing.



This is why prompt month indexing doesn't work for commodities with seasonality. As you would expect in the Winter, the prompt month is above the strip price and in the Summer it is below the strip. Hence the prompt month price is as much a function of seasonality as it is price movement!

"Well, sort of," was the answer. "You watch CNBC nowadays and you rarely see the spot price referenced. They just show the strip. I really don't think people much care about the spot anymore; it's all about the strip. So sure, there is a trade-off of sorts, but we think the emphasis is on the correct reference." Fair enough. "Anybody can trade a strip, or year-on-year spreads, but what the market doesn't yet trade is the roll of the strip. If somebody called you and said, make me a

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market in a strip, you'd say sure. But if they said, make me a market in a four-month strip and roll it for five years – you won't get any takers. Nobody does that. What we have here is a rolling strip over a finite period of time. This allows you to have a rolling strip and also allows you to segregate out the return of the actual strip from the return of rolling that strip." In a word, it's a much better mousetrap.

Marketers of the index point out that among other things, the MACI should also create some potentially robust secondary markets for swaps, ETFs and other derivatives "yet to be conceived." While true, secondary markets will very likely emerge, we also note that the current crude ETF has not exactly been a breakaway success. As for more OTC products flowing out of this new animal, we'd actually be surprised if they didn't, though the market is already littered with the stuff: The market already trades strips and year-on-year spreads. The Dec/Dec spreads are probably the most liquid non-spot spread you can find in crude.

Will an already crowded field in the secondary derivatives market make market acceptance of this new stuff a little more gradual? It's hard to say at this point. But the broad appetite for this sort of OTC diet doesn't seem to be slacking presently, nor will it any time soon.

"Regarding the current crude ETF, the reason it hasn't been completely successful, we think is because the United States Oil Fund ETF, is a commodity pool," a source close to the MBF Alpha Commodities Index says. "Accounting-wise, it's just very complicated. At the end of the year you get a K-1 with all sorts of complicated stuff. The way our index is set up, there is no pool. Actually, we're aggressively looking for the right issuer, right now, so we can make this ETF-able. So basically how it works is this: you'd own interest in the trust, the trust goes out and buys units from an issuer. In a year and a day, you have long term capital gains. If you hold it les, you have short term capital gains. It's a lot more simple, and as such, much more ETF-able."

Sources tell us the folks behind the MBF Alpha Commodities Index are "actively in discussions with several would-be issuers."

For more information, call Rich Rosenberg or Drew Wozniak of ICAP at 502/327-1400 or email Drew.Wozniak@us.icapenergy.com.

Choice Bits

Report Says PA Market a Success

National economic consulting form Bates White, LLC, released a new study this week that reviews Pennsylvania's competitive power market. Bottom line: Competitive power markets in Pennsylvania are a success.

"The results of the Bates White report clearly demonstrate the success of competition, even as it continues to evolve, and helps cast significant doubt on what competitions detractors have been saying in support of rolling back restructuring and returning to cost-plus regulation," said John Shelk President and CEO Electric Power Supply Association (EPSA).

According to the report, Pennsylvania consumers pay 12 percent less for electricity today than they paid in 1996 (adjusted for inflation). While some states with traditional rate regulation, such as West Virginia, Kentucky and Tennessee, have lower electricity prices than in Pennsylvania, this is not the result of restructuring in Pennsylvania, the report says, but rather of the predominance of coal-fired generation in Appalachia and other macroeconomic factors. Moreover, the price difference has narrowed. Between 1998 and 2005, electric rates in the Appalachian states rose 13 percent, while rates in Pennsylvania rose only 5.6 percent over the same period.

In New Jersey, where electric restructuring was also undertaken, and where retail rate caps expired in 2003, prices have also risen more slowly than in Appalachia, and more slowly than in traditionally-regulated southern states Alabama, Georgia, Louisiana, Mississippi, and South Carolina often viewed as low-cost.

The study authors argue that the competitive market model holds the best promise for meeting future energy needs at lowest cost.

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MA Governor Wants to Attract Clean-Energy Industry

The debate over clean energy is getting rowdy: Last week Colorado Gov. Bill Ritter challenged Massachusetts Gov. Deval Patrick to an arm-wrestling match over which state can provide better incentives for clean-energy businesses.

The good-natured ribbing took place at the Apollo Summit, a conference in Washington, DC, that brought together 200 community leaders to discuss a strategy for developing clean energy industry jobs in the US. In his speech to the group, Patrick said he would support the controversial Cape Wind power project off the coast of Cape Cod, which was opposed by his predecessor and many prominent figures in the state. Patrick said he wants to bring both renewable power and the companies that create renewable energy technology to Massachusetts.

"I don't just want wind farms. I want companies that build turbines. I want hybrid vehicle companies to consult us on conservation strategies. I want companies that design solar panels. The whole integrated industry can have a place in Massachusetts and in the US," he said. "If we get this right, the whole world will be our customer." Colorado Gov. Ritter, whose speech followed Patrick's, said his state plans to compete with Massachusetts for those same clean-energy jobs.

"Gov. Patrick talks about bringing jobs to Massachusetts. We're going to arm-wrestle you for those jobs because we want those same manufacturing plants," Ritter said. "We want to be the vertical part of the industry. It's a good thing to have two governors competing for those jobs, competing in this industry to build out the turbines, competing to have the wind farms located in their state. That's the right way for us to think about it."

(THE TXU TAKEOVER DEAL from page 1)

fastest-moving stories on utility M&A in recent years.

I'm speaking, of course, about the announcement which riveted industry watchers around the globe, the KKR-TPG deal for TXU. Extensive press coverage initially focused on transaction details such as commitments from the buyers to significantly scale back the coal build and offer "price to beat" consumers a modest price cut. Further, management and the buyers informed the investment company that the traditional spoiler of these sorts of deals, the state PUC, in this case had no transaction approval authority because this was a deal done at the holding company level. For about an hour, it looked like the private equity guys had finally figured out how to get a deal done in this sector. Speculation began to run rampant about "who will be next?" and names from NRG to Constellation to PSEG to Entergy were floated. And then reality set in.

Almost viscerally reacting to comments from TXU management and the buyers regarding the Texas PUC's lack of authority to weigh in on the deal, the Texas statehouse was galvanized. In a matter of days, if not hours, the Senate Business and Commerce Committee, led by Chairman Troy Fraser, quickly drafted, proposed and approved new language to pending bill SB 896, giving the Texas PUC utility merger approval authority. As one of my industry colleagues, a seasoned veteran of the M&A wars, put it, the Texas legislature appears to be "hopping mad" about this proposed deal. Reuters quoted Sen. Fraser on Tuesday as saying, "We are concerned about the TXU transaction and the attempt to circumvent the regulatory process." Local North Texas press reports indicate the Senate could vote as soon as March 8 on SB 896, which appears to have broad support. The Texas House expects to receive the bill within two weeks. The chairman of the House Committee on Regulated Industries, Phil King, is apparently not enamored of the TXU deal either and has already had extensive discussions with Fraser.

Add to this the fact that there is no love lost between the legislature and TXU. The lawmakers question the company's market power designs and the potential for wholesale market price manipulation. Against this backdrop, consumer electric prices have been rising. In response to higher prices and resource adequacy questions, a joint House and Senate committee has been working for the last six months on new legislation to address rising prices and consumer choice, inviting industry to come forward with proposed solutions. Rep. King, who apparently felt sandbagged by the deal's announcement, was quoted in the press saying, "We spent five or six months working hard assuming TXU would remain a publicly traded business and suddenly, six weeks into the legislature, somebody says, 'Oh, we're changing things this coming Sunday.' It made the legislature waste a whole bunch of time."

While much of the press coverage has focused on politicians' concerns about leveraging up TXU's regulated T&D business, the issue is really TXU's genco and the legislature's ongoing concern about TXU's market power in North Texas. Recalling that NJ market power concerns ultimately derailed the Exelon-PSEG merger, the reality is that the TXU buyers might be forced to divest or swap assets. According to the deal structure as described by TXU management on Monday, any forced asset divestiture would lead to the deal's demise. In fact, Sen. Fraser told Reuters on Tuesday that his committee has approved several other bills that potentially impact the TXU deal, including one that would limit asset ownership in the market. During a House hearing on Monday, a KKR partner, Fred Goltz, testified that if SB 896 passes, the buyers would likely need to reconsider the deal. Further, under questioning by House Speaker Sylvester Turner, Goltz admitted that while the buyers had committed not to build eight of the 11 coal plants that were a part of the contentious TXU construction plan, they could and would likely seek to build other plants in the future, coal notwithstanding. Turner's reaction? "I see prices going sky-high if we allow this deal to happen and I see other companies coming in and doing the same thing… I don't believe we intended this result to occur when we deregulated the market in 1999 and I regret my vote."

So with the legislature "hopping mad" and deal potentially in jeopardy if the legislature gets punitive, what's likely to happen? One of the most interesting aspects of the deal is its "go-shop" provision. TXU has the right to solicit and entertain competing offers until April 16 and it has already acted publicly to solicit such offers. CEO Wilder announced that a special board committee has been convened to contact as many as 60 entities from all walks of life – energy and non-energy – to solicit rival bids. Numerous press reports suggest that Blackstone Capital and Carlyle Group are finalizing an alternative proposal. Credit Suisse stepped up to the bar, stating publicly it was prepared to offer financing for a rival deal. We think it is inevitable that at least one, if not more, alternative

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(THE TXU TAKEOVER DEAL from page 12)

proposals will surface, although there is no universal agreement on this front. But what will an alternative deal need to include to soothe the ruffled feathers over at the Statehouse?

For one, state lawmakers and regulators might find a deal with a more strategic buyer more palatable, meaning one fronted, if you will, by another utility or power company. The perception may be that only another utility or power company can contribute meaningfully to discussions on the future power market in Texas and be sensitive to the market power concerns expressed by legislature. With this in mind, a couple of candidates spring quickly to mind. Constellation tops the list. Already a significant player in Texas as both a generating asset owner and an active retail energy provider, Constellation is likely a known and respected player in the market. CEO Mayo Shattuck is not only a veteran dealmaker, but has already experienced firsthand the punitive power of an angry state legislature. He probably has learned some valuable lessons. Perhaps a deal including Constellation along with a Blackstone or Carlyle would resonate. PNM also comes to mind. Also a Texas presence because it owns distribution company Texas-New Mexico Power and retailer First Choice Power, PNM comes with a ready-made private equity partner in the form of Bill Gates and its Cascade Investments entity. And let's not forget the only player to successfully pull off a private equity deal in the sector, Mid American, which is backed by Warrant Buffett's Berkshire Hathaway. Buffett's made no secret of his interest in the sector, although his March 1, 2007, shareholder letter was strangely silent on the issue of expanding his utility holdings. Likely by the time this column hits your e-mail box, the situation will have morphed again. One thing is sure, this story has legs.

Diane Borska can be reached at dborska@borskagroup.com.

(LNG INSIDER from page 1)

ural vessel that loaded in Trinidad last month actually reached Gibraltar before being redirected back to Lake Charles to finally discharge, provide further evidence of today's limited global options for excess LNG.

It is now evident that Cove Point will pull in more than 17 Bcf of LNG in March with six cargoes scheduled for delivery. Of those, BP will bring in two cargoes, Excelerate will deliver one (partial) cargo to Shell and three Algerian cargoes will deliver to Statoil. Market intelligence is also indicating that Cove Point is now booked solid for April with seven cargoes, or 20 Bcf expected. And May is filling up quickly. Meanwhile Elba Island appears full in March with an estimated 13.5 Bcf expected to consist of one Egyptian delivery and four Trinidad-sourced cargoes. April imports at Elba Island are being estimated at a similar level. Everett imports in March and April are expected to be status quo and will total 13 to 16 Bcf each month. Based on our estimates there is little to no room for imports through the end of April which ultimately leaves Lake Charles as the only North American LNG import facility with excess capacity. At present, through a process of elimination, we estimate that of BG's own fleet, it can bring in three Egyptian cargoes during March. This, in addition to the two standard Nigerian deliveries and at least two Gas Natural/RepsolYPF deliveries from Trinidad, we see the potential for a 20-Bcf import month at Lake Charles in March.

April Lake Charles imports are difficult to assess, but it is understood that because of the forward price differentials favoring the US market, it is likely that April volumes will comfortably exceed those anticipated in March.

After the most recent terminal expansion at Lake Charles, the facility can now accommodate 18 to 22 cargoes in one month, the only constraint at Lake Charles is traffic on the Calcasieu Channel, which is likely to hinder the number of cargoes to some degree.

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Middle East Spot Volumes to Mexico

Since its startup the first Mexican LNG import terminal at Altamira has pulled in a steady stream of spot cargoes from sources including Egypt, Nigeria, Trinidad and the Middle East. With a premium to Henry Hub of roughly 20cts/MMBtu, Mexico is one of the most attractive netbacks for spot cargoes in the world. It was recently reported that Shell was loading a cargo in Qatar during early March that was expected to discharge at Altamira. This will represent the second Qatari cargo to discharge at Altamira.

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Shipping May Have Slipped Further

Adding to our previous report regarding declining shipping rates, rumors suggest that perhaps another lower benchmark has been achieved with the most recent voyage charter. It was reported that Shell has chartered the "Golar Spirit" for a one-way charter from Qatar to Mexico at the equivalent of $39,000 to $43,000 per day. This rate has not been confirmed.

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FERC Approves LNG Projects in Mississippi

This week the Federal Energy Regulatory Commission (FERC) approved two LNG-receiving facility projects slated for construction at the port of Pascagoula, MS: Chevron's Casotte Landing LNG project and the LNG Clean Energy Project, which is being developed by Gulf LNG Energy, LLC. The terminal will have an initial processing capacity of 1.3 billion cubic feet of natural gas per day. The Casotte Landing LNG facility is to be situated alongside Chevron's Pascagoula refinery and the gas will be distributed within both Mississippi and Florida. The LNG Clean Energy Project will serve the gas needs in the Southeast US and in Florida as well. The proposed site is located on the Pascagoula Bayou Casotte Ship Channel, which is 42 feet deep and 350 feet wide. The two storage tanks at the Bayou Casotte site will have a combined capacity of about two million barrels (about 1,006,400 barrels each).

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Golar LNG Sells Newbuilding

Golar LNG announced an agreement to sell its existing interest in newbuilding DSME hull number 2244 to Maran Gas , which is part of the Angelicoussis Shipping Group, for the gross consideration of approximately $92.5 million, representing an implicit vessel price of $201 million. Golar estimates

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that its book cost of investment in this vessel at completion of the sale will be approximately $51.5 million, which represents a significant return on investment for shareholders. In view of the fact that Golar LNG has a number of open vessels exposed to the spot market and its investment plans in respect of its various LNG infrastructure projects, this transaction is seen as an opportunity to strengthen the company's balance sheet as well as realize a significant profit while not significantly reducing the company's future business potential. Meanwhile, it was suggested that Maran Gas has taken on the newbuilding in an effort to submit it against the latest GdF tender shipping tender for a four-year charter the bids for which are due by Feb. 23.

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Repsol to Bring Cargo to Lake Charles?

Recent rumors suggest that RepsolYPF may have sold a 40,000 mt cargo ex-ship cargo to BG at Lake Charles as part of a swap agreement against an FOB Trinidad sale earlier in the month.

For more information or for a free trial subscription to the Waterborne LNG Report or the European or Asian Waterborne LNG Reports, go to www.waterbornelng.com or contact Steve Johnson at sjohnson@waterbornelng.com. We find these three publications to be the most accurate source on LNG developments and statistics available. –the editor

Total U.S. Monthly Waterborne LNG Import Volumes By Source (Bcf)

	Apr 06	May 06	Jun 06	Jul 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07
Algeria	2.80	0.00	2.80	3.03	2.88	0.00	0.00	0.00	0.00	2.60	0.00	8.55
Egypt	13.53	19.79	11.44	14.90	5.85	5.90	2.74	11.26	8.89	8.41	5.67	11.53
Nigeria	5.98	3.09	5.93	6.12	6.13	8.89	8.94	5.91	3.08	5.91	5.76	5.81
Trinidad	36.38	44.26	41.40	33.35	37.12	26.67	24.48	29.93	39.15	32.92	29.14	39.60
Month Totals	58.69	67.14	61.57	57.40	51.98	41.46	36.16	47.10	51.12	49.84	40.57	65.49

Total Annual Waterborne LNG Imports (Bcf)

1998	1999	2000	2001	2002	2003	2004	2005	2006	ytd 2007
85.95	148.74	214.62	233.74	226.32	511.38	653.42	630.38	582.52	99.26

1997-2002 and Jan - May 2003 data is sourced from the EIA

Typical Heat Content Chart of LNG Exporting Countries
(Btu per Cubic Feet)

Exporting Country	LNG Heat Content	Exporting Country LNG	Heat Content
USA (Alaska)	1,030	Oman	1,128
Trinidad	1,082	Malaysia	1,120
Nigeria	1,145	Australia	1,143
Algeria (Skikda)	1,078	Brunei	1,150
Algeria (Arzew)	1,090	Indonesia (Arun)	1,110
Libya	1,190	Indonesia (Bontang)	1,112
Qatar	1,116	Abu Dhabi	1,160

(WEEKLY GAS STORAGE LOTTO from page 1)

11- to 15-day period.

Joe Bastardi of AccuWeather tells *The Desk* he currently sees a warmer-than-normal March centered over the Mississippi and Ohio valleys and thinks it may try to come back colder at the end. "I am trying to nail the cold shot into your backyard next week. I have Boston hitting 10 to 15 degrees and NYC in the teens Wednesday morning. US models are starting to see it now. Let's see if they see the warmth coming for most of the nation, after…"

On Thursday, Steve Gregory tells us the above-normal temps back East will continue through the next five days on average. And most will see temps average one degree above normal in the populated areas of the Northeast during the next five to seven days. "The week ahead looks reasonably dry too, until late in the week as the next storm approaches by the weekend and a possible backdoor cold front slips south over New England by the end of the week as well. Elsewhere across the nation, near-normal temps prevail, with a strong warmup for the SW and most of the central and southern Rockies next week."

NOAA has forecast above-normal temperatures for most of the nation March 6-10, with normal temperatures expected in the northern Midwest and East those days followed by above-normal temperatures in later days.

Together, what does all this weather stuff say? It says that this week's 132 pull will be the last 100+ Bcf draw for the year.

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In other NOAA news, a report released this week by the Climate Prediction Center noted that as the 2006-2007 El Niño faded, surface and subsurface ocean temperatures rapidly decreased, which coupled with the recently cooler-than-normal water temperatures in the east-central equatorial Pacific, indicates a possible transition to La Niña conditions. And, La Niña episodes often do have an effect on Atlantic and Pacific hurricane activity. NOAA noted that while other factors also affect the frequency of hurricanes, there are generally a greater-than-normal number of Atlantic hurricanes during La Niña events. La Niña generally develops between March and June, reaches peak intensity during December through February, and then weakens during the following March through May.

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On the general hurricane theme, the one guy who has managed to get it right for the past year or so, in large part because he spent more time than anybody we know tracking and analyzing the dust storms off the coast of Africa, tells us this week there are strange things happening once again off the coast of Africa and elsewhere. Dust storms, baby, and lots of them, unseasonably so. "Although many of the other storms had more to do with mid-latitude weather systems, which very well may be reacting to climatic changes, a similar storm in January generated a huge volume of SAL over the Cape Verde's and westward. And those that have read my reports for the last few seasons realize by now that the SAL is the No. 1 item that totally shut down the production of cyclones in 2006. In January (the second North African dust surge that was seen this season) led me to voice concern that a repeat of the massive, nonstop SAL two years in a row would be far more than coincidental. But if it were to happen three years in a row it would leave no doubt that this is part of our new climate change, and would presumably suppress hurricanes in the years ahead – and many assorted but highly correlated events that could hasten the development of very cold weather in Europe, and shake the very foundations of the eco-system."

Working gas in storage decreased to 1,733 Bcf as of Friday, Feb. 23, according to the EIA. Storage levels are currently 179 Bcf, or 11.5 percent, above the five-year average, and 263 Bcf, or 13.2 percent, below the storage level at this time last year. The implied net withdrawal of 132 Bcf is 3 Bcf, or about 2 percent, above the five-year average net withdrawal of 129 Bcf and 33 Bcf, or about 20 percent, below last year's net withdrawal of 165 Bcf. This week's net withdrawal is the smallest withdrawal in six weeks and marks the first time since the end of December that the weekly net withdrawal has been less than last year's net withdrawal. For the week ending Feb. 22, temperatures were significantly colder than normal for all eastern and southern census divisions as measured by the National Weather Service's heating degree-days. Temperatures in these areas, which ranged between 7 to 24 percent colder than normal, likely influenced withdrawals from storage as home heating needs continued to maintain strong demand for natural gas. Since the beginning of the heating season (Nov. 1, 2006), cumulative net withdrawals have totaled about 1,719 Bcf. If net withdrawals from storage over the remaining weeks of the heating season match the five-year average, then cumulative net withdrawals for the heating season will exceed the five-year average heating season net withdrawal of 1,921 Bcf by almost 5 percent. This would leave end of heating season working gas stocks at around 1,440 Bcf, which is about 15 percent above the five-year average level of 1,256 Bcf.

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(WEEKLY GAS STORAGE LOTTO from page 15)

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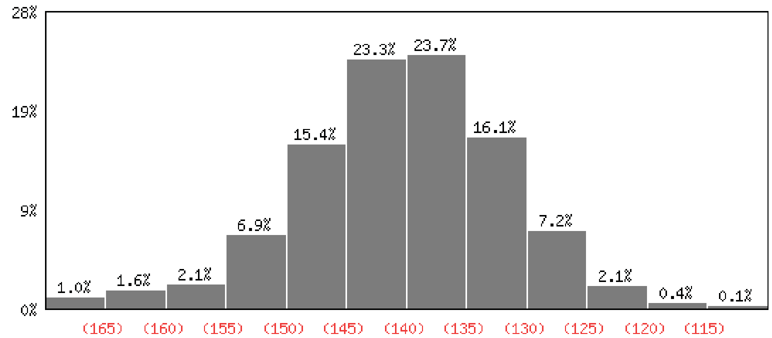
Looking closer at the Gas Lotto picks this week, the big surveys were as a group about 10 Bcf off the mark, which for this time of year is a bit odd. Reuters said -143 Bcf, Bloomie said -142 Bcf, Dow Jones said a high of -144 Bcf and BNP Paribas, best among the surveys this week, said -140 Bcf.

Independent analysts were also a bit high this week. Gabe Harris of WoodMac called a -143 Bcf pull, Robry825 called a -145 Bcf draw, PIRA said -140 and Weather Insite called a -142 Bcf draw. Analyst Andy Weissman called a very respectable -139 Bcf pull, Ron Denhardt of SEER – this year's overall champ by a couple percentage points – called a high-ish -146 Bcf draw and Marshall Adkins of Raymond James called a Haltingly Highball 163 Bcf draw, or 31 Bcf off the mark. And Bentek, with a forecast of 138 Bcf, was this week's Belle of The Ball among independents, and most other categories for that matter. It's Bentek's first overall win of the 2007 season. The Woz was also high this week at -151 Bcf.

Among the big banks, JPMorgan Chase said -139 Bcf, Fimat said 138 Bcf and Morgan Stanley said 141 Bcf. Wachovia called a 145 Bcf draw, as did UBS, Citi said a very good 130 Bcf, Lehman Bros said 141, BoA said 151 Bcf and Jefferies & Co also did not disappoint – a whopping -165 Bcf forecast make them the Painful Highballer award winner this week.

In ICAP/EIA Auction action this week, the market forecast settled on a draw of -141 Bcf.

Auction distribution for Feb. 28, 2007, (Feb. 23 change)
Market Forecast: -132 Bcf.
For more information, go to www.eiadprices.com.



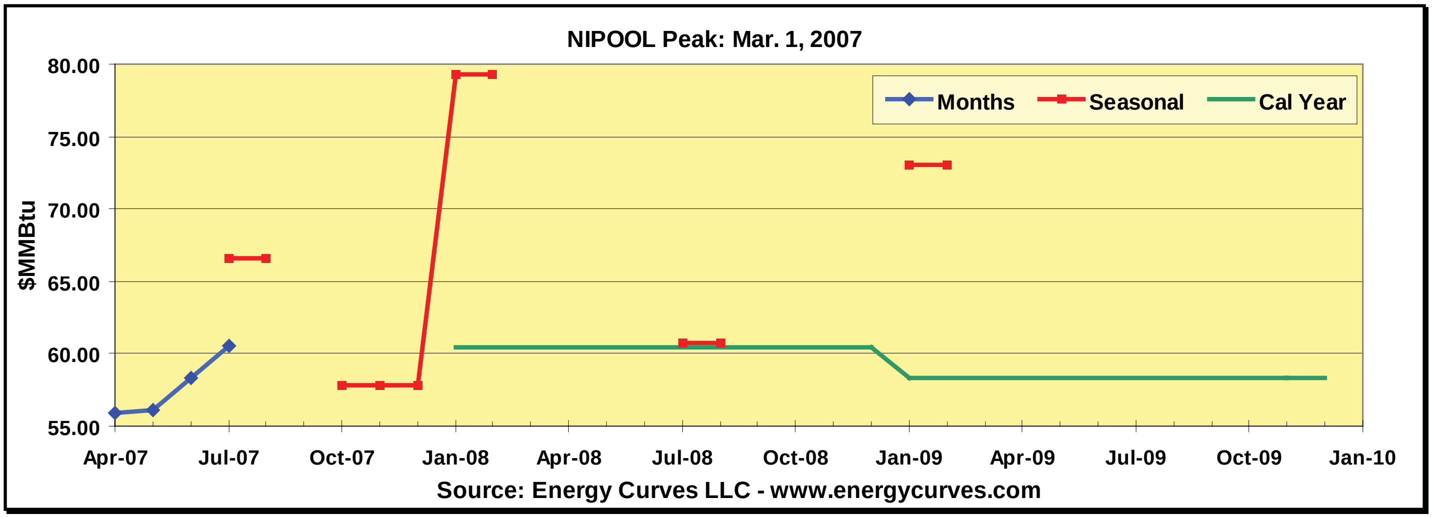
Natural Gas Storage Forecast

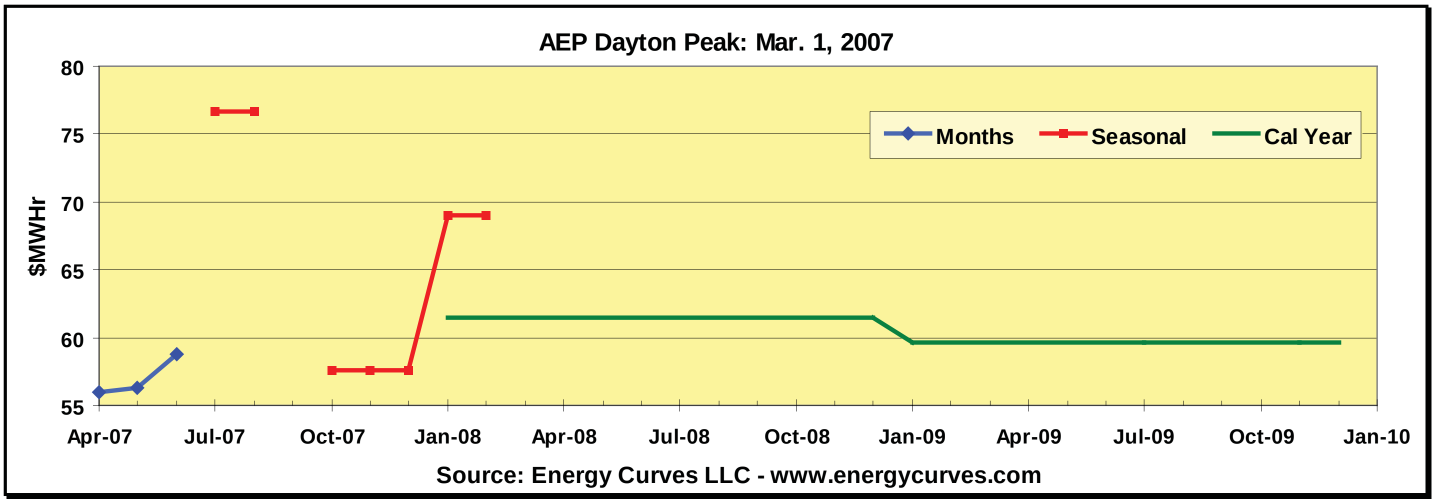
Weekly Gas Lotto Box Scores 2007

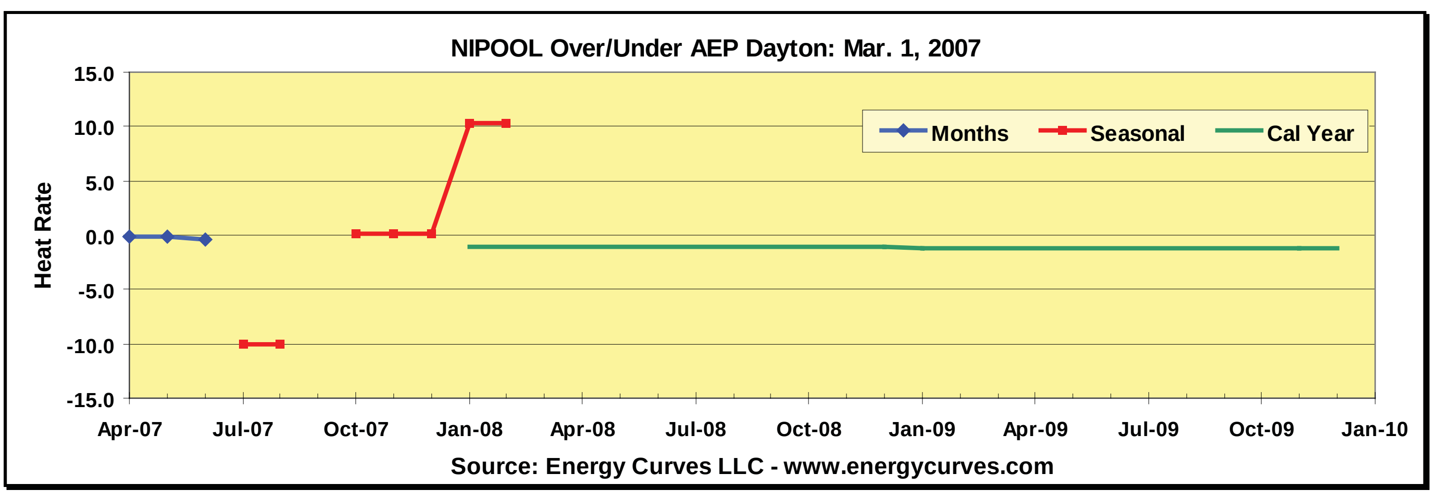
Natural Gas Weekly Storage Forecast Comparison 2007

Storage Forecasts	4-Jan	10-Jan	17-Jan	24-Jan	31-Jan	7-Feb	14-Feb	21-Feb	1-Mar	Stocks (BCF)	
EIA - 2007	-47	-49	-89	-179	-186	-224	-259	-223	-132	-1,733	-
EIA - 2006	1	-20	-46	-81	-88	-38	-102	-123	-171	-1,996	-
EIA - 5 Yr Avg	-100	-94	-119	-160	-166	-148	-149	-142	-134	-1,554	
Storage Forecasts	**4-Jan**	**10-Jan**	**17-Jan**	**24-Jan**	**31-Jan**	**7-Feb**	**14-Feb**	**21-Feb**	**1-Mar**	**% Correct**	**Weeks #1**
SEER	-47	-49	-88	-174	-182	-220	-264	-225	-146	97.5%	3
Reuters	-56	-46	-80	-176	-200	-218	-252	-223	-143	95.5%	1
Bentek - Flow	-45	-53	-80	-173	-207	-214	-261	-229	-138	95.2%	1
Weissman	-29	-53	-71	-181	-194	-218	-260	-225	-139	95.2%	2
Bloomberg	-59	-46	-79	-172	-201	-217	-256	-224	-142	95.1%	0
ICAP Auction	-50	-52	-80	-174	-215	-216	-260	-229	-141	94.7%	1
BNP Paribas	-41	-55	-77	-175	-207	-217	-254	-228	-140	94.7%	0
Pira	-52	-40	-73	-171	-202	-224	-264	-230	-140	94.7%	1
Weather Insite	-43	-42	-80	-171	-204	-216	-250	-225	-142	94.6%	0
Dow Jones	-55	-48	-81	-170	-205	-217	-253	-230	-144	94.5%	0
WoodMac	-47	-48	-91	-175	-214	-210	-257	-238	-143	94.5%	1
Robry825	-52	-63	-87	-174	-194	-206	-275	-230	-143	93.8%	0
ICAP Forecast	-42	-38	-86	-166	-207	-211	-275	-226	-151	93.5%	0
Bentek - S/D	-33	-51	-71	-165	-195	-215	-270	-228	-147	93.0%	0
Raymond James	-60	-45	-74	-178	-195	-220	-247	-224	-163	92.5%	1

Special thanks to Bentek Energy for its contribution to this feature.
www.bentekenergy.com







For information about subscribing to the EnergyCurves service, contact Niall McCarthy of Logical Information Machines, Inc. at 312-456-3462, or e-mail to Niall@LIM.com.

Front Month Basis (April 07) Select Hubs For Power and Gas (Source: *EnergyCurves LLC*)

Gas Gulf Coast ANR LA	-0.083	**Gas West Malin**	**-0.486**
Gas Gulf Coast Columbia Gulf	**-0.058**	Gas West NW Rockies	-1.857
Gas Gulf Coast Houston Ship Channel	-0.368	**Gas West PG&E Citygate**	**-0.110**
Gas Gulf Coast TETCO East LA	**-0.070**	Gas West SoCal	-0.506
Gas Gulf Coast TETCO South TX	-0.440	**Gas West Sumas**	**-0.768**
Gas Gulf Coast Tenn LA 500	**-0.058**	Gas West Waha	-0.685
Gas Mid Continent ANR OK	-0.908	**Power Central CINERGY**	**56.25**
Gas Mid Continent Chicago	**-0.171**	Power Central NIPool	55.88
Gas Mid Continent Demarc	-0.622	**Power East AEP Dayton**	**56.00**
Gas Mid Continent MichCon	**0.128**	Power East NEPool	72.88
Gas Mid Continent NGPL MidCon	-0.923	**Power East NY Zone A**	**60.50**
Gas Mid Continent Panhandle	**-0.953**	Power East NY Zone G	77.13
Gas Mid Continent Reliant	-0.800	**Power East NY Zone J**	**86.91**
Gas North East Dominion	**0.386**	Power East PJM West	63.11
Gas North East TCO	0.299	**Power ERCOT Seller's Choice**	**61.25**
Gas North East TETCO M3	**0.523**	Power West Mid Columbia	42.25
Gas North East TRANSCO Z6	0.578	**Power West Calif. Oregon Border (COB)**	**50.75**
Gas West AECO	**-0.855**	Power West North Path 15	60.50
Gas West CIG	-1.855	**Power West South Path 15**	**61.25**
Gas West El Paso Permian	**-0.775**	Power West Palo Verde	56.47
Gas West El Paso San Juan	-0.870	**Power West Mead**	**58.00**