



Eye On ENERGY

A periodic publication of American Energy.[®]
Providing insight for making better energy decisions.



COMMODITIES UPDATE

By *Mike Granstaff*

December 09 Natural Gas Report

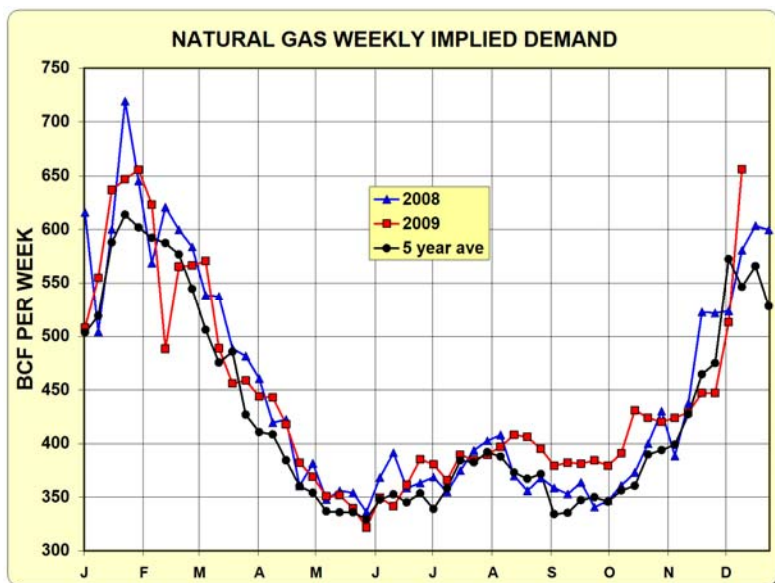
This fall and winter continues to confound weather forecasters. An active hurricane season forecast was a bust; a mild October forecast turned out to be much colder than normal; a cool November forecast turned out very mild; and, a much warmer than normal December forecast has turned out to be much colder than normal. To top it off, the mighty 'Noreaster of December 2009 dropped 1 - 2 feet of snow from the Smoky Mountains to Massachusetts. Weather Underground reports that Philadelphia has already recorded more than an entire winter's worth of snow--a ridiculous 23.2 inches from this storm, the second heaviest snowfall in Philadelphia history. The all time record is 30.7 inches, set during the January 1996 blizzard. The normal winter snowfall for an entire season is 19.3 inches. December 2009 is now the snowiest December on record in Baltimore, with 22.2 inches. The previous record was 20.4", set in 1966.

Temperatures are forecast to stay cold for the balance of Dec and into the first week of Jan especially for the Midwest and South. The West Coast and Northeast will be normal. There are some early signs that the northern half of the US could warm up the second week of Jan while the coldest anomalies remain in the southern tier states. If traders see warmer temps showing up in the 11-15 day forecasts you can be sure they will sell into this strength.

Implied Demand

The December forecast was a huge miss and the natural gas market has rallied \$1.50 in reaction. The December 17th EIA working storage report showed a whopping 207 Bcf withdrawal for the week ending December 11th. This is a record withdrawal for this reporting period. It was definitely cold during that reporting period but based upon the national population-weighted heating degree days, as high as they were, still did not justify such a large withdrawal. As the chart below depicts, implied demand for natural gas has been exceptionally strong and

particularly so since the beginning of August. You would think, by looking at this chart that we were in the midst of an economic boom not the worst recession in decades.



One factor at play, which we have discussed in previous newsletters is coal-to-gas fuel switching. The growing demand of electricity in China is boosting the international coal market and pushing up the price of coal. In Qinhuangdao, a major port for coal transport in north China, the volume of freight coming in and going out exceeded 700 thousand tons for six days during the first ten days of December. The average daily volume rose nearly 18% from the same period the previous month. According to JP Morgan analysts, demand for thermal coal from China and India may boost prices of the fuel to \$80 a metric ton next year amid reduced supplies and lower inventories. China imported about 41 million tons last year and imported about 97 million tons in the first 10 months of this year. Lack of supplies and an increase in demand may result in global thermal coal inven-

tories declining from 40 million tons this year to 22.7 million in 2010. This strength in international coal markets has not caused a huge rally in US coal prices, currently around \$55/short ton, but it has at least provided a supportive base as the recent global downturn took its toll, particularly on US operations. Total US electricity demand is down 4.9% in the first eight months of 2009, and coal generation declined 12.6%. Coal-fired generation was off more than total US electricity demand due to the precipitous drop in natural gas prices. Natural-gas fired electric generation, normally utilized for peak demand, has apparently displaced some base-load coal-fired generation. Still, I find it hard to believe that fuel switching accounts for this large of an increase in implied demand for natural gas. Either there is something else at play in the natural gas market that has not revealed itself or we are in store for some large revisions in upcoming reports. It will be interesting to see how the EIA accounts for this in subsequent reports.

Working Storage

The EIA reported that 207 Bcf was withdrawn from working storage the week ending December 11th. We would normally expect to see a withdrawal of 110 Bcf for this reporting period. Working storage is now 3,566 Bcf which is 474 Bcf greater than the 5 year average and 399 Bcf greater than last year. We set an all-time record high storage level with the Nov 27th report of 3,837 Bcf. This obliterated the previous record high of 3,545 Bcf set back in 2007.

El Nino

The waters in the Tropical Pacific continue to warm. The key ENSO region 3.4 is now at 1.9C above normal but this El Nino has not produced the expected results. El Nino and La Nina produce the most significant weather phenomena in North America and meteorologists will make forecasts with a fairly high degree of confidence when under its influence. As we described in our October newsletter, a strong El Nino will typically translate to a warm winter in North America. Despite the currently strong El Nino, temperature patterns in December have been the exact opposite as upper latitude blocking has held the dominant hand. This blocking pattern is starting to weaken so the thinking is January will warm up.

Bottom-line, the market has experienced a strong rally since the low set on December 3rd. This is in reaction to the unexpected cold December temperatures. Should January turn warmer as is now expected, the market will likely calm back down. I wouldn't expect to see new lows set as February is still forecast to be cold.

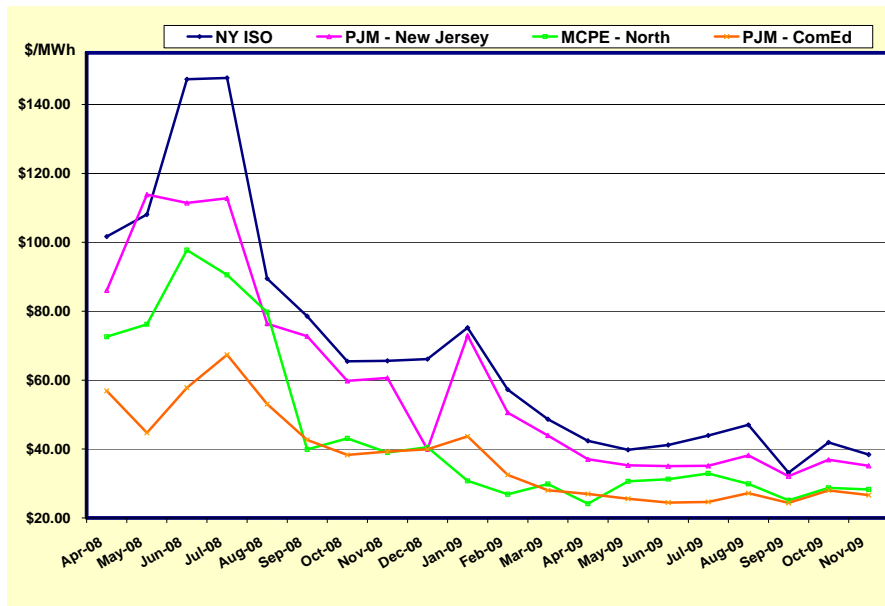
Technical Analysis NYMEX February contract - Upside resistance is \$6.50, \$6.75, 8.05
Downside support is \$5.35, \$4.52, \$3.50

By Sean Franke

December 2009

As we end 2009 it is a good time to look back at some of the markets that drive electric pricing for a majority of our customers. With the pullback in commodity prices from the highs in 2008 American Energy has identified a number of opportunities for customers to extend competitive electric agreement.

The chart below identifies the average monthly index price for electric service for various specific pricing points within the states of New York (NY ISO), New Jersey (PJM-New Jersey), Texas (MPCE-North) and Illinois (PJM-Com Ed).



The decision to extend an electric agreement for a substantial period into the future is not always the best decision but with the current market conditions, American Energy is recommending that all customers should be doing an analysis of their long term options.

If you would like to discuss your specific electric accounts please feel free to contact Sean Franke at 913-433-7800.



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