



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 4, 2010**

#### **NATURAL GAS MARKET NEWS**

The CEO of Chesapeake Energy said his company has narrowed its global shale gas search with partner Statoil to now just 15 potential production basins, down from an initial 220 fields. He did not expect the world to be swamped by shale gas production in the next ten years, in part due to seeing oil majors having a hard time developing overseas shale gas acreage, due to the lack of infrastructure availability. He also noted that he has yet to see a formation overseas that has the potential to rival those found in the United States. He also noted the company should be able to increase its proved reserves by 2-2.5 tcf of natural gas equivalent each year for at least the next 5-10 years. He looked for the company's production to reach between 3.5-3.75 bcf/d by 2012. This would be a 40-50% increase over 2009 levels.

Gassco reported that it expects technical problems will likely limit gas export capacity at Norway's Kaarstoe and Kollsnes processing plants by about 10-13 million cubic meters for the next several days.

#### **Generator Problems**

**NPCC** – OPG's 490 Mw Units #3 and #7 at the Nanticoke coal fired power plant were shut early Thursday.

**MISO**- Exelon's 1043 Mw Clinton nuclear power unit was shut early Thursday to fix a feed water check valve leak.

**SERC** Progress Energy's 937 Mw Brunswick #2 nuclear unit was shut Wednesday and was not expected to return to service until early next week.

**ERCOT & SPP** –STP Nuclear Operating's 1280 Mw South Texas #1 nuclear unit is expected to return to service in the next day or two. Operators shut the unit on Wednesday after discovering a control rod was out of alignment during a test.

AEP's 528 Mw Welsh #1 coal fired power plant, which was shut yesterday, was expected to be restarted today.

LCRA's Sam Seymour Fayette Unit #3 tripped off line yesterday evening, but was restarted a hour later.

Entergy's 978 Mw River bend nuclear unit has slipped to 90% of capacity this morning, down 10%.

**The NRC reported today that 93,212 Mw of nuclear generation was on line this morning, down 1.6% from yesterday and up only 0.3% from the same time a year ago.**

NOAA's Climate Prediction Center reported this morning that the El Nino weather anomaly is beginning to slowly dissipate but the timing of its demise is still uncertain. Forecasters are expecting the warm waters of the equatorial Pacific Ocean to gradually cool during April through June. This would indicate a transition to neutral condition during the spring in the Northern hemisphere. The CPC noted that the current El Nino event could be categorized as a strong and mature El Nino. Typically El Nino winters bring above normal temperatures to the northern tier of states except for New England, while the south central and southeastern states see below normal temperatures. The El Nino pattern last year was noted as one of the causes for a less active hurricane season.

#### **EIA Weekly Report**

	01/29/2010	01/22/2010	Change	01/29/2009
<b>Producing Region</b>	796	807	-100	765
<b>Consuming East</b>	1251	1334	-146	1105
<b>Consuming West</b>	359	380	-20	337
<b>Total US</b>	2406	2521	-266	2207

\*storage figures in Bcf

The Ukrainian state oil and gas company, Naftogaz said Thursday that it has paid on time and in full for its January imports of Russian natural gas.

Reuters reported that according to port data today that the Al Ghashamiya LNG tanker was expected arrive in Britain on February 10<sup>th</sup> from Qatar.

Gassco announced today it was moving forward with upgrading the Norsesea gas terminal in northern Germany.

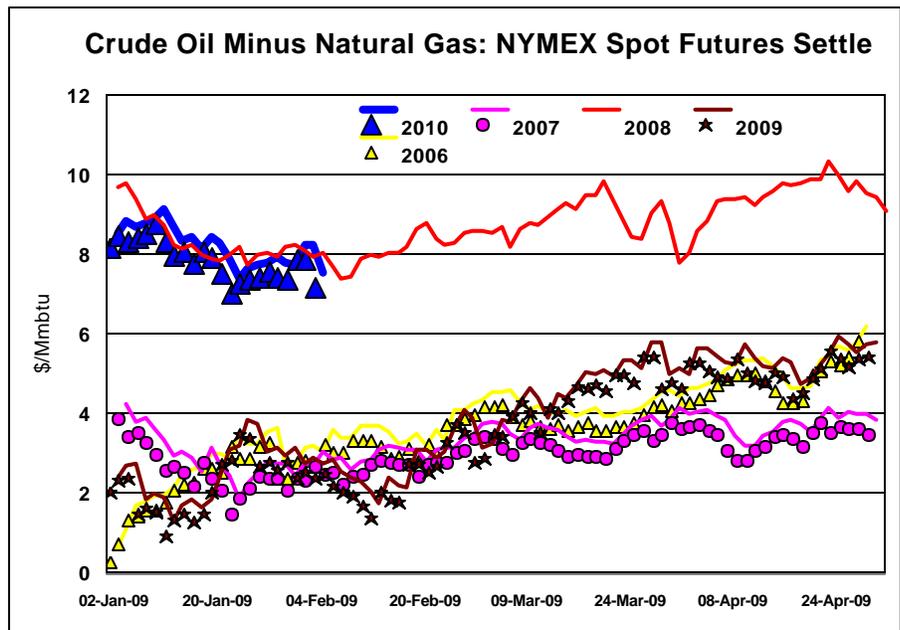
Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	612,000	\$5.465	(\$0.042)	\$0.173	\$0.189	\$0.131
Chicago City Gate	648,200	\$5.631	(\$0.048)	\$0.339	\$0.136	\$0.204
NGPL- TX/OK	489,400	\$5.364	(\$0.052)	\$0.072	\$0.132	(\$0.076)
SoCal	530,300	\$5.547	(\$0.057)	\$0.255	\$0.127	\$0.147
PG&E Citygate	681,800	\$5.729	(\$0.078)	\$0.437	\$0.106	\$0.340
Dominion-South	469,700	\$5.847	\$0.019	\$0.555	\$0.203	\$0.375
UTrade Weighted	20,216,100	\$5.585	\$0.005	\$0.293	\$0.19	\$0.131

Italy's Eni SpA is close to an agreement with the European Union over gas pipelines, in which it would sell its international Transitgas and TENP pipelines in order to avoid a hefty antitrust fine and regulatory pressure.

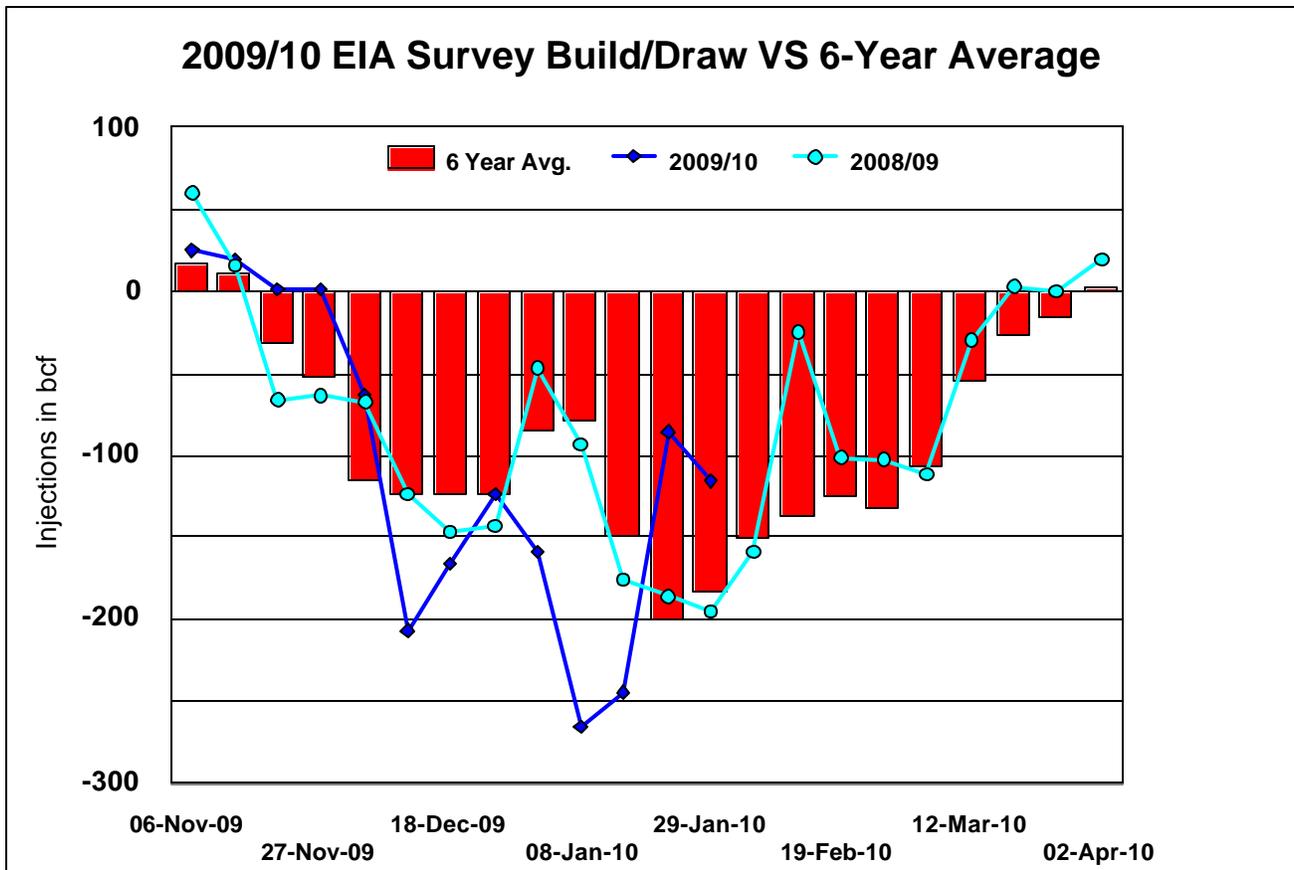
Cheniere Energy has asked the FERC for a four and a half year extension to construct the Creole Trail LNG terminal and the final portions of an associated pipeline. The company noted that the state of global LNG markets has slowed development of the project. The FERC approved the terminal and pipeline back in 2006, with the expectation that construction would be completed by June 2010. The company has asked for an extension until December 2014 to complete the Creole Trail LNG terminal as well as the remaining portions of the associated pipelines.

The head of the IEA said yesterday that the United States must adopt a carbon cap and trade system similar to the one President Obama has submitted to Congress or a carbon tax if the country hopes to meet its United Nations commitments to curtail greenhouse gases.

Sempra Energy reportedly is in talks to buy Royal Bank of Scotland's stake in the North American gas and power trading units of the two companies joint venture. RBS is being forced to sell its stake in the joint venture by the European Union after receiving a \$72 billion taxpayer funded bailout during the recent financial crisis.



The Malaysian minister for International Trade and Industries said Thursday that the Malaysian government would allocate more of its natural gas output to manufactures, some 100 million cf/d to



non-power industries until 2011. But the gas would be provided to existing manufactures not new manufactures since the country does not have enough supply. The additional supply would be taken out of allocations given to private power producers, since currently there is a surplus of electricity supplies. Gas in Malaysia is sold at subsidized rates. Power producers receive gas at \$3.21 per Mmbtu while manufactures receive a gas supply at \$4.49-\$4.60 per Mmbtu.

The US Commerce Department reported that US factory orders increased in December by 1% to a seasonally adjusted \$370.37 billion. Orders in November increased by 1%, revised down from a previously reported 1.1% increase. It reported that durable goods orders increased 1%, while non-durable goods also increased by 1%. Manufacturers' inventories fell by 0.1% in December.

The US Labor Department reported that initial claims for unemployment benefits increased by 8,000 to 480,000 in the week ending January 30<sup>th</sup>. The previous week's level was revised up to 472,000 from 470,000. It reported that the four week moving average increased by 11,750 to 468,750 from the previous week's revised average of 457,000. The number of continuing claims increased by 2,000 to 4,602,000 from the preceding week's revised level of 4,600,000. The unemployment rate for workers with unemployment insurance for the week ending January 23<sup>rd</sup> was 3.5%, unchanged from the prior week's unrevised rate of 3.5%.

Separately, the US Labor Department said nonfarm business labor productivity increased by a seasonally adjusted annual rate of 6.2% in the October to December period, after increasing by a downwardly revised 7.2% in the third quarter of last year. Overall, productivity has increased by 5.1% over the last four quarters.

### PIPELINE RESTRICTIONS

NGPL reported that for February 4<sup>th</sup> and until further notice it has limited capacity for northbound flow through through Compressor Station 309 (Segment 27) located in Missouri. Limited interruptible transportation service/authorized over and secondary out of path firm transports are available.

Southern Natural Gas said today that due to pressure differential between Southern Natural Gas and the Texas Eastern-Kosciusko Interconnect, effective today and until further notice, Southern will approve nominations for a delivery to Texas Eastern based on demonstrated flow at the interconnect point.

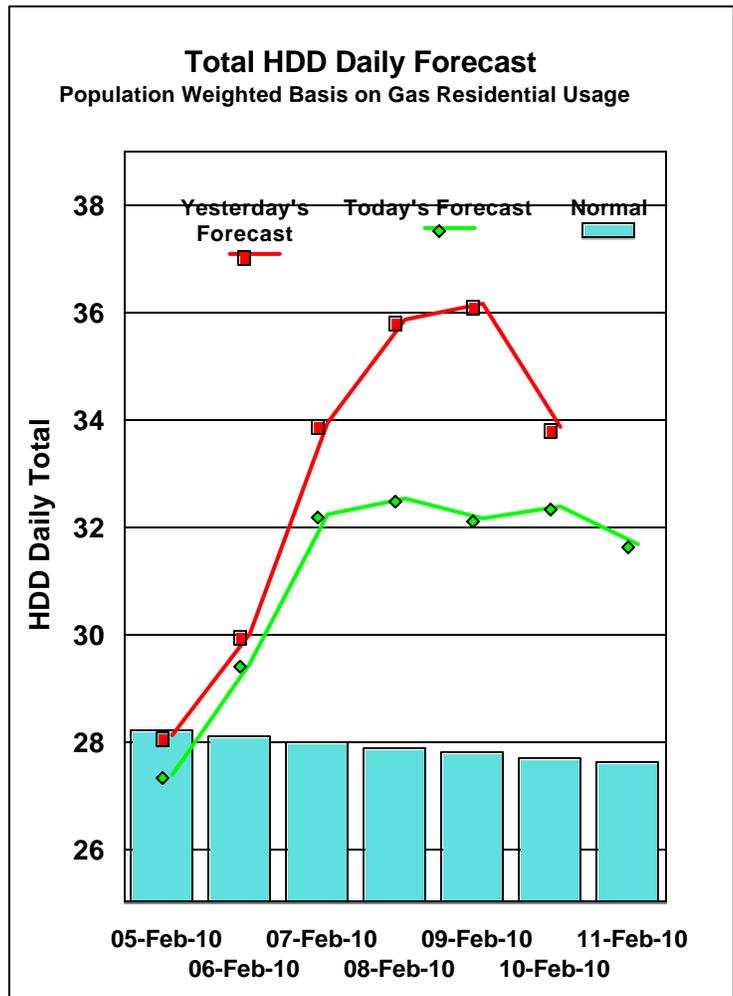
**PIPELINE MAINTENANCE**

Centerpoint Energy Gas Transmission has filed an application with the FERC to construct a new compressor station in Richmond Parish, Louisiana to ensure the pipeline system maintains the appropriate pressure to deliver existing contract volumes to Columbia Gulf Transmission and other interconnects on CEGT's Line CP.

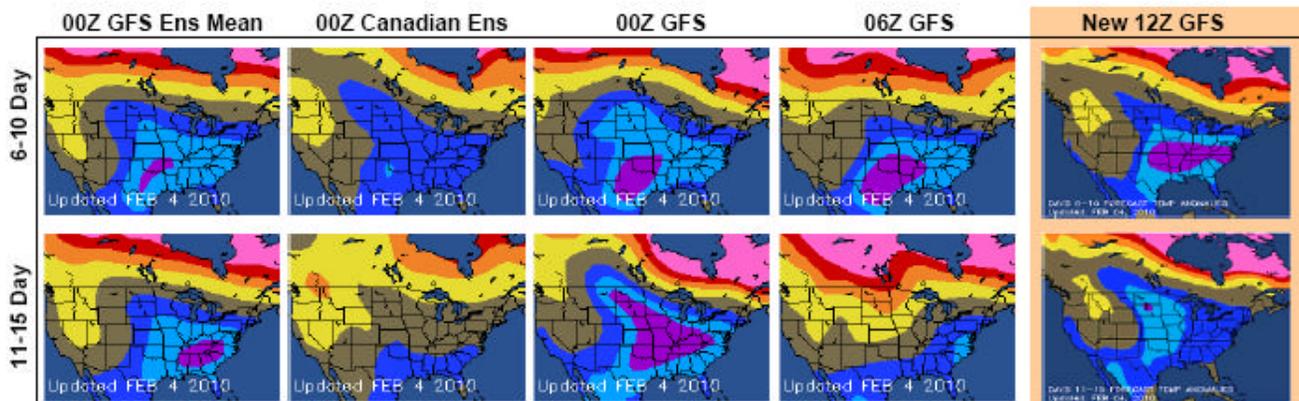
**ELECTRIC MARKET NEWS**

The head of the IEA said yesterday that the United States must adopt a carbon cap and trade system similar to the one President Obama has submitted to Congress or a carbon tax if the country hopes to meet its United Nations commitments to curtail greenhouse gases.

NRG said yesterday that the Delaware Department of Natural Resources and Environmental Control is reviewing a proposal to shut down a third coal unit at the company's Indian River generating station. The company has previously agreed to shut two units at the facility, Unit #2, with 89 Mw of coal generation by May and Unit #1, with 90 Mw of coal-fired generation by May 2011.



**Forecast Model Comparison**



Calpine has obtained the final permit from federal regulators needed to build its proposed 600 Mw gas fired power in Hayward, California.

### **MARKET COMMENTARY**

The natural gas market this morning started out on the defensive as the bearish mood of the global commodity and equity markets spilled over into the gas market. Prices received an additional shove lower at mid morning as the EIA released its weekly storage report which came in slightly less than market expectations and as a result showed working gas stocks of gas had moved back out to nearly 200 bcf more than last year and 150 bcf more than the five year seasonal average. But this market after a sell off down to within a penny of this week's lows saw buyers return as the midday computer forecasting models appeared to show temperatures for the 11-15 day period being a bit colder than those from earlier in the day. Prices continued to rebound through the afternoon and by the end of the day had retraced all of the morning's sell off, despite the continued heavy selling pressure in the oil and other commodity markets.

Open interest reported at midday by the CME appeared to support our belief that yesterday saw some light long liquidation in front of today's storage report. After open interest had grown by over 26,300 lots in the prior three trading sessions, yesterday saw the combined and adjusted Henry Hub futures and swaps open interest decline by 1661 lots. Given today's price rebound after the report, we would think those buyers returned to the market by the end of the day supported by supportive weather forecasts.

We would look for prices to probably grind higher as long as there is not another significant sell off in the equity and commodity markets. We would look for resistance at \$5.535-\$5.558 followed by \$5.645-\$5.655, \$5.804 and \$6.027. Support we see starting at \$5.39 followed by \$5.26, \$5.108, and \$5.06. More distant support we see at \$4.99 and \$4.937.

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